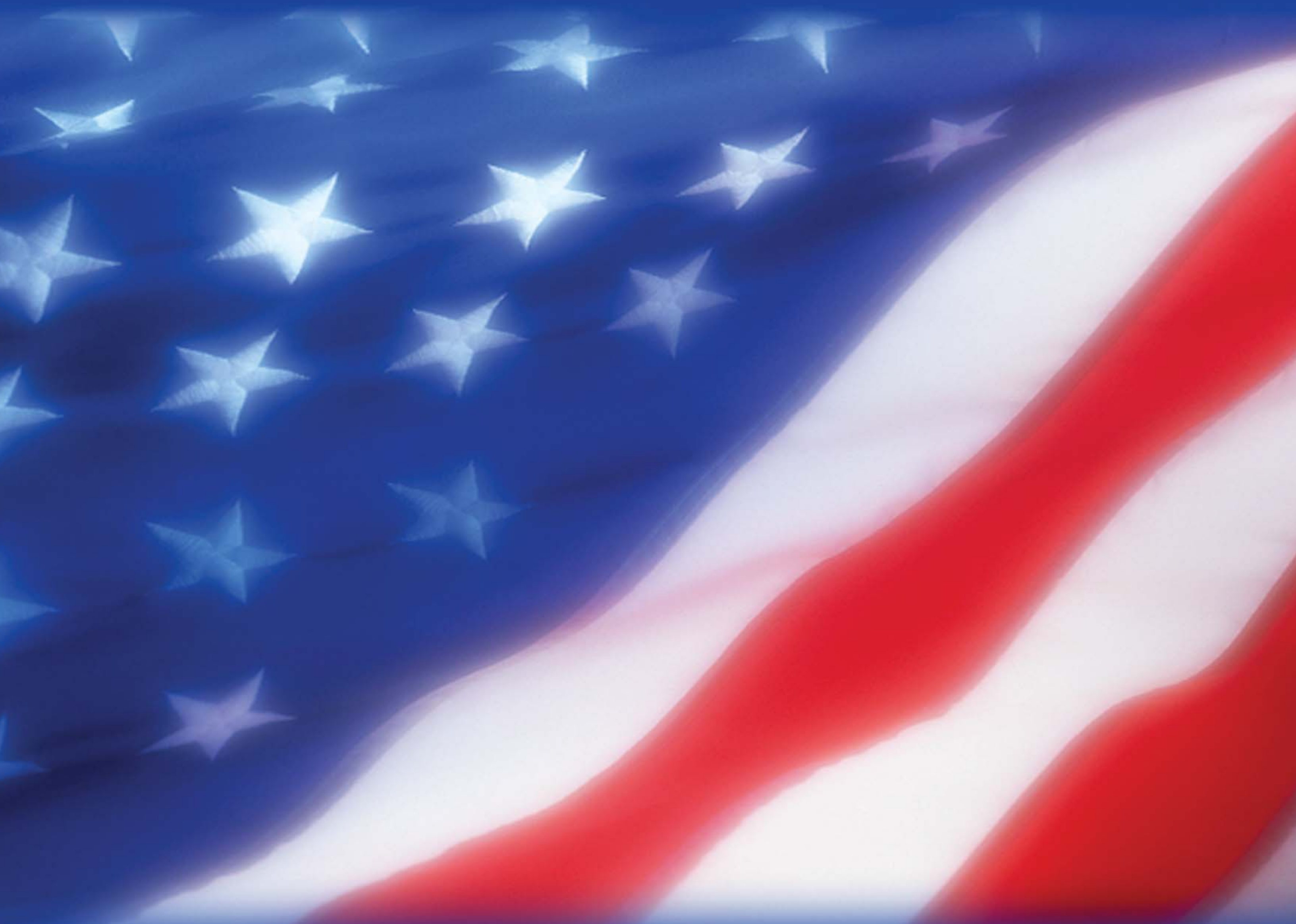
Semiannual Report to Congress

U.S. Department of Housing and Urban Development

Office of Inspector General



Semiannual Report to Congress

October 1, 2004 through March 31, 2005

Office of Inspector General

Profile of Performance

For the Period, October 1, 2004, through March 31, 2005

Audit and Investigation Results	Audit	Investigation	Hotline	Combined
Recommendations That Funds Be Put to Better Use	$940,871,236		$1,824,881	$942,696,117
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	$1,207,899,773			$1,207,899,773
Questioned Costs	$89,988,861			$89,988,861
Management Decisions on Audits with Questioned Costs	$119,366,523			$119,366,523
Indictments/Informations		888		888
Convictions/Pleas/Pretrial Diversions		455		455
Civil Actions		32		32
Recoveries/Receivables		$498,294,949		$498,294,949
Funds Put to Better Use		$40,844,193	$117,226	$40,961,419
Collections from Audits	$7,761,521			$7,761,521
Administrative Sanctions	8	1,142		1,150
Personnel Actions		34		34
Arrests		1,786		1,786
Search Warrants		35		35
Weapons Seized		5		5
Subpoenas Issued	27	379		406

Inspector General's Message

On behalf of the U.S. Department of Housing and Urban Development's Office of the Inspector General, I hereby proudly present the Semiannual Report on our activities for the half fiscal year beginning on October 1, 2004.

Before highlighting HUD OIG's recent activities, I note first that it is my continuing honor to serve with the many talented auditors, investigators and support personnel who strive unceasingly to further HUD OIG's mission. Their efforts have helped ensure that HUD programs are administered properly, that HUD personnel continue to fulfill their legislatively-directed objectives, and that sums of wasted or stolen program funds are recovered for the benefit of HUD's target constituents. During the last six months, HUD OIG's audits and investigations have achieved a return on investment of 28 to 1, a remarkable achievement and a proper service to the American taxpayer. HUD OIG shall set the bar ever higher in the months ahead.

HUD OIG has also established vital relationships with professional organizations working on housing issues, a practice essential both to industry oversight specifically and more generally to our mission to deter fraud, waste, and abuse involving HUD programs. These organizations include the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, and the Mortgage Bankers Association. We continue to work closely with these organizations on areas of mutual interest.

I note lastly and with great satisfaction that HUD OIG's peers within the federal Inspector General community have recognized our accomplishments, and look to us for leadership. To this end, I was appointed recently to serve as Chairman of the Investigations Committee for the President's Council on Integrity and Efficiency (PCIE). This committee establishes policies and procedures for the federal Inspector General community. Since I assumed the Chairmanship, the committee has undertaken several significant steps, including codification and implementation of a "best practices" program, an increased focus on excellence in training, and better outreach to state authorities, fellow Inspectors General and international organizations. I look forward to the many challenges ahead, and to the myriad opportunities my leadership may present to serve HUD OIG's mission.

Here are several of the key areas discussed herein.

We are continuing our efforts on problems plaguing single-family housing. During the six-month reporting period, audit reports related to the single Family Housing Program area questioned millions of dollars in costs and made recommendations as to how millions of dollars in funds could be put to better use.

Inspector General's Message

Similarly, we have had outstanding results investigating single-family mortgage fraud, tailoring our forensic audit and investigative activities to complement this need, support HUD management, and provide deterrence to potential criminal activity.

The rental housing program has been enhanced by the collaboration of the Department with OIG and State and local law enforcement to locate and stop Section 8 rental subsidy fraud. Our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with Section 8 program requirements. We are conducting 20 external audits of the Section 8 Housing Choice Voucher program during this fiscal year.

OIG auditors continue to monitor the Disaster Recovery Assistance funds provided to the City of New York in the wake of the 9-11 attacks. Specifically, we audited the Lower Manhattan Development Corporation and found that it has generally disbursed the Disaster Recovery Assistance funds as directed by the Congress.

In closing, I have already stated how proud I am of the men and women of HUD-OIG and their excellent work. I also want to commend those OIG personnel who are activated reservists, serving our country in the armed forces in Afghanistan, Iraq, the Middle East, and elsewhere. They are our strength and our future. I am extremely grateful that America has such fine individuals dedicated to the service of our citizenry.

Thank you,

Kenneth M. Donohue, Sr.
Inspector General

Information About the HUD Office of Inspector General

Beginning with fiscal year (FY) 2004, the Office of Inspector General (OIG) instituted a return-on-investment (ROI) computation as one method to measure its contribution to the Department's mission. This measure takes the total dollars of recommended "funds to be put to better use[1]" and "questioned costs,[2]" together with "receivables and recoveries [3]" from Investigations and Hotline, and divides that total by OIG's operating costs, including salaries, for the period. The resulting ratio represents the potential amounts that could be realized or better used per dollar of OIG expenditures either during current or future periods. Many factors affect when and how much is actually returned so OIG uses recommended amounts in our ROI calculation, rather than management decisions, to better relate results to the work that was actually done during the period. Much of this period's ROI results from the annual financial audit finding regarding the need to deobligate $708 million in HUD funds. The majority of contributing factors to the ROI are the results from reviews of external parties who administer or benefit from U.S. Department of Housing and Urban Development (HUD)-funded programs. HUD refers many matters such as these to OIG for audit or investigation, as appropriate.

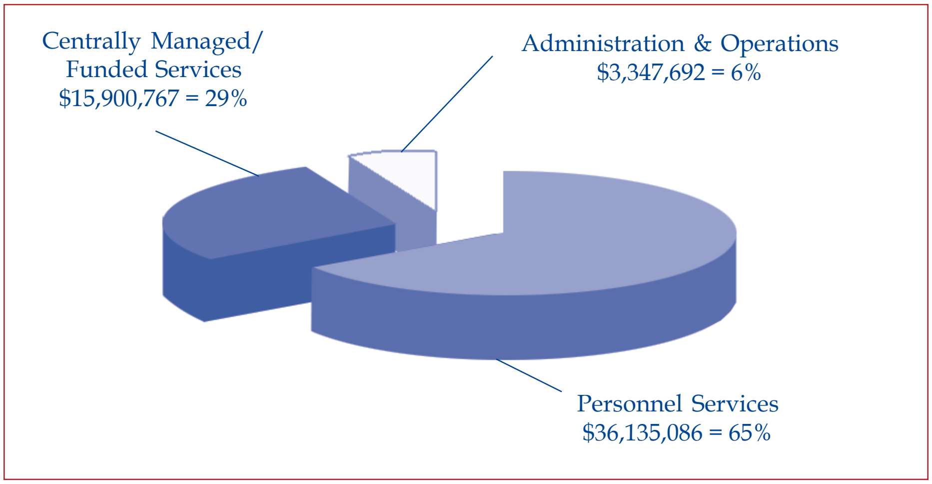
Our target ROI ratio for FY 2005 is set at 8-to-1. This means that for every dollar Congress appropriated to OIG, we should uncover $8 that should be returned or put to better use. The budget for FY 2005 is $103,168,000. The ROI in dollars computed on an 8-to-1 ratio would be approximately $825 million. We are pleased to report that for the period of October 1, 2004, to March 31, 2005, our ROI is 28 to 1 – far exceeding a goal of 8-to-1.

[1] "Funds to be put to better use" is an item required by Congress and is defined in the Inspector General Act as " a recommendation by the Office that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contractor grant agreements; or (6) any other savings which are specifically identified."

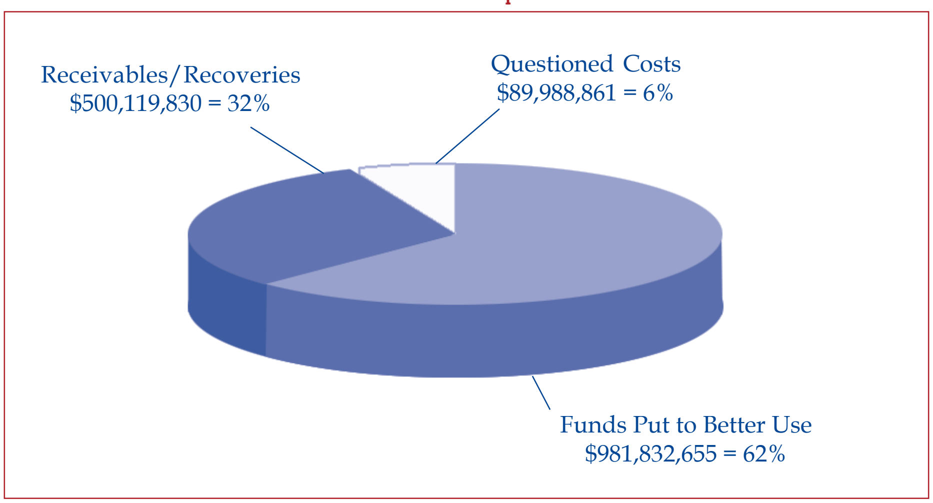
[2] "Questioned costs" are "a cost that is questioned by the Office because of (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that at the time of the audit, such cost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

[3] "Receivables and recoveries" are based on the total dollar value of (1) criminal cases—the amount of restitution, criminal fines, and/or special assessments based on a criminal judgment or established through a pretrial diversion agreement; (2) civil cases—the amount of damages, penalties, and/or forfeitures resulting from judgments issued by any court (Federal, State, local, military, or foreign government) in favor of the U.S. Government or the amount of funds to be repaid to the U.S. Government based on any negotiated settlements by a prosecuting authority or the amount of any assessments and/or penalties imposed, based on actions brought under the Program Fraud Civil Remedies Act, civil money penalties, or other agency-specific civil litigation authority, or settlement agreements negotiated by the agency while proceeding under any of these authorities; (3) voluntary repayments—the amount of funds repaid on a voluntary basis or funds repaid based on an agency's administrative processes by a subject of an OIG investigation or the value of official property recovered by an OIG during an investigation before prosecutive action is taken, any of which result from a case in which an OIG has an active investigative role; and (4) " administrative receivables and recoveries" based on Hotline referrals to HUD program staff.

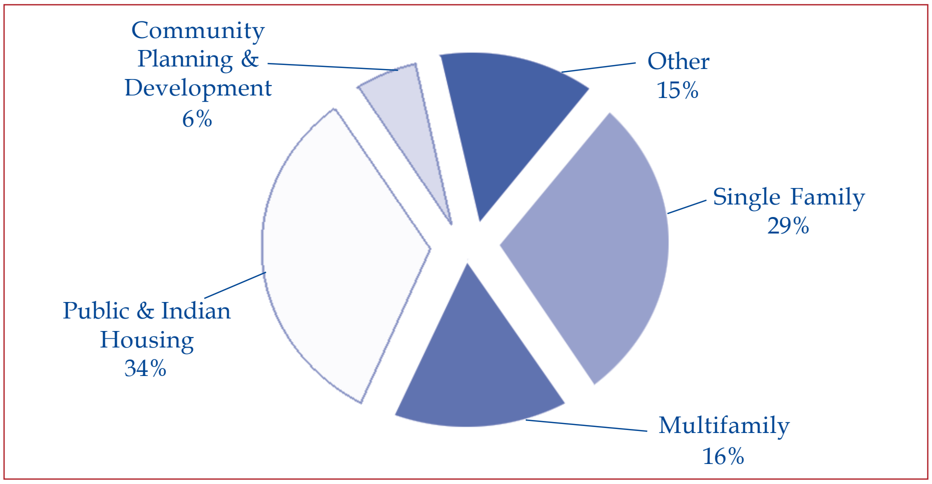
OIG Cost of Operations for the Period October 1, 2004, to March 31, 2005



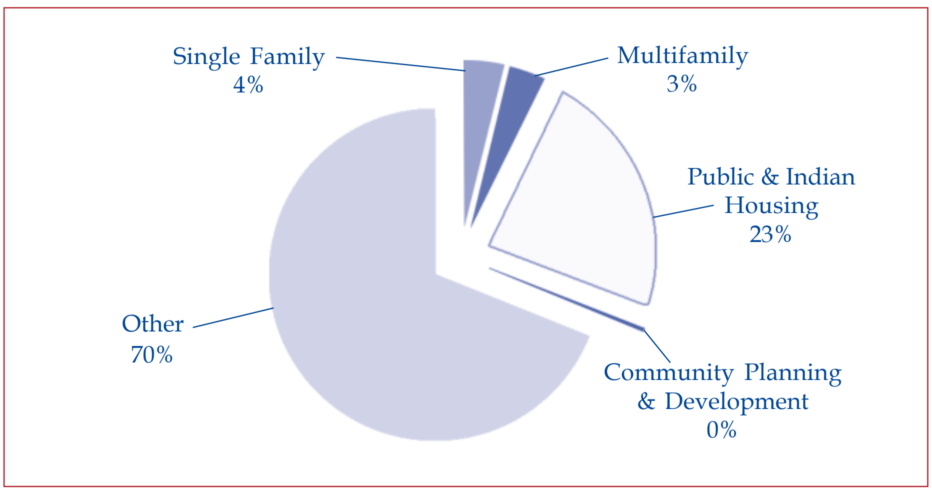
OIG Results FY 2004 $1.57 Billion Captured



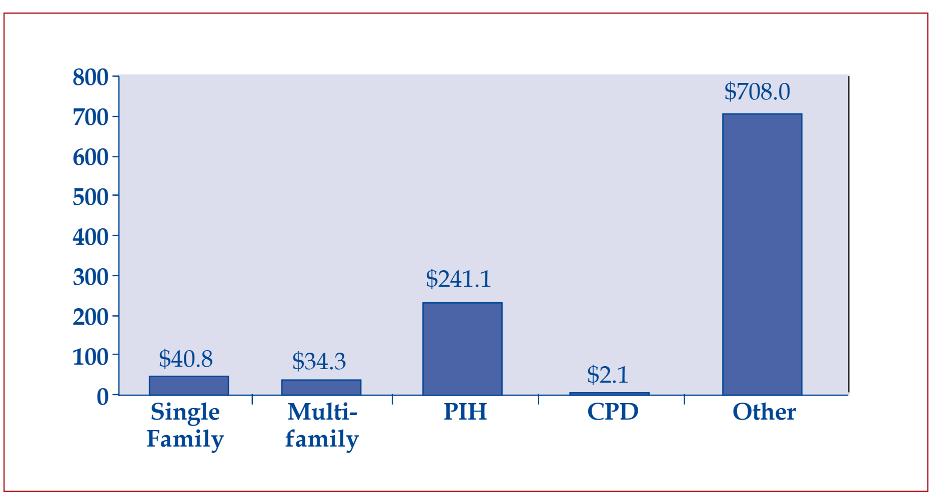
Audit Reports Issued by Program



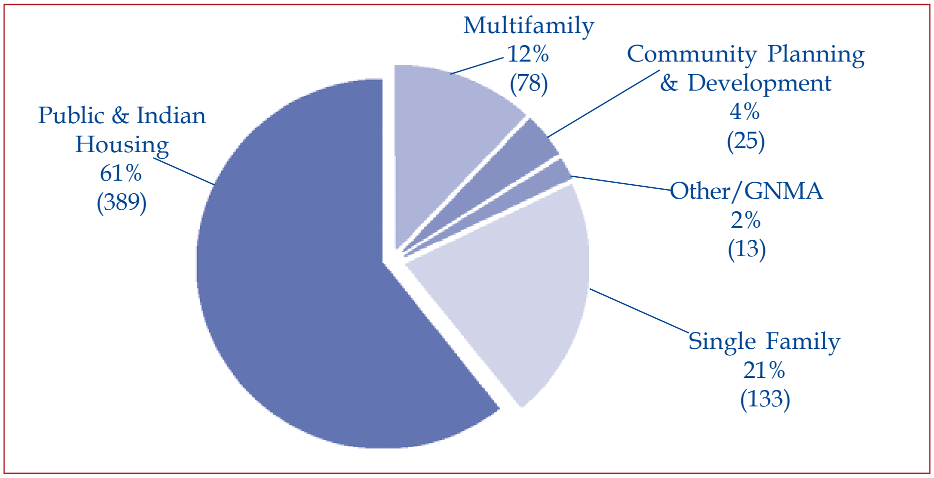
Monetary Benefits Identified by Program



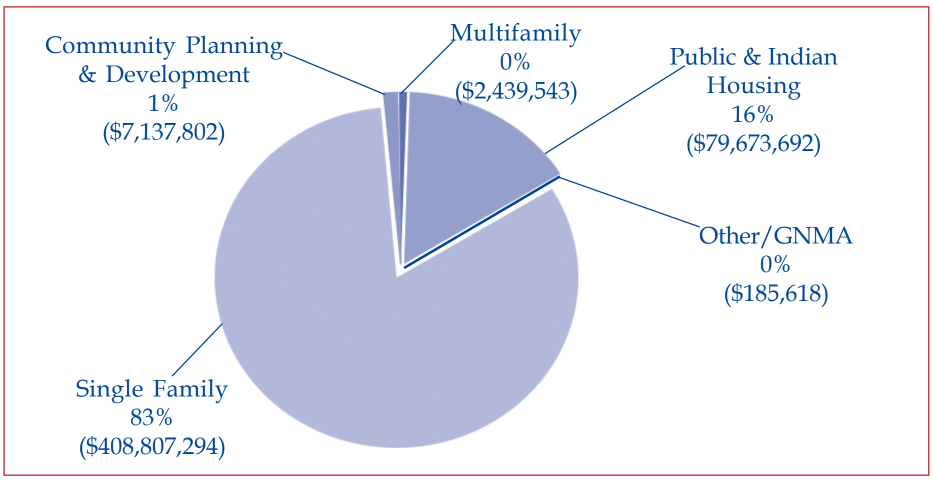
Monetary Benefits Identified in Millions of Dollars



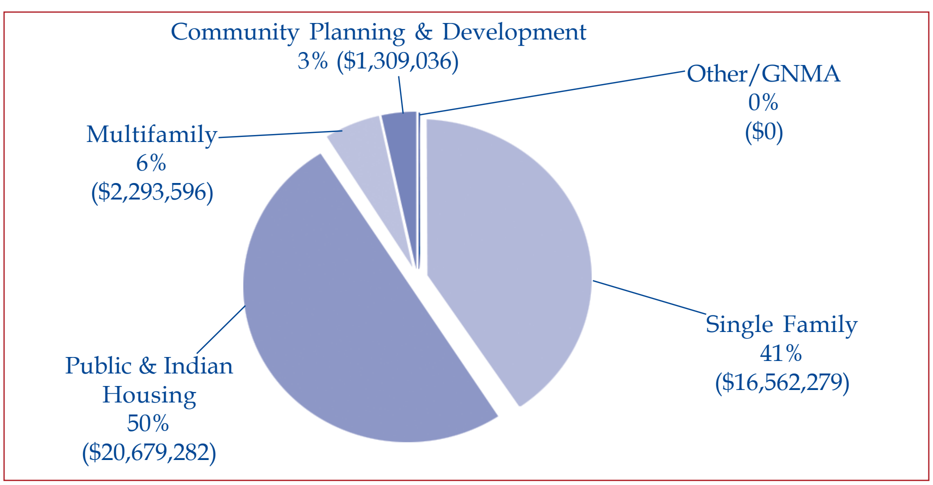
Investigation Cases Opened by Program (Total: 638)



Investigation Recoveries by Program (Total: $498,294,949)



Investigation Funds Put to Better Use (Total: $40,844,193)



Acronyms List

ASAC	Assistant Special Agent in Charge
BCI	Bureau of Criminal Investigation
CDBG	Community Development Block Grant
CID	Criminal Investigation Division
CJIS	Criminal Justice Information Services Division
CPD	Office of Community Planning and Development
DOC	Department of Commerce
ED	Executive Director
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHASL	Federal Housing Administration Subsidiary Ledger
FHEO	Office of Fair Housing and Equal Opportunity
FISMA	Federal Information Security Management Act of 2002
FY	fiscal year
GAO	Government Accountability Office
GNMA	Government National Mortgage Association (aka Ginnie Mae)
HAP	housing assistance payment
HHS	Department of Health and Human Services
HOME	Home Investment Partnership
HQS	housing quality standards
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IRS	Internal Revenue Service
LLG	Liability for Loan Guarantee
LLR	Loan Loss Reserve
NAHRO	National Association of Housing and Redevelopment Officials
NIST	National Institute of Standards and Technology
NOFA	notice of funding availability
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OND	Officer Next Door
OPM	Office of Personnel Management

PFCRA	Program Fraud Civil Remedies Act
PHA	public housing authority
PIC	Public and Indian Housing Information Center
PID	Program Integrity Division
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
REAC	Real Estate Assessment Center
REAP	Resource Estimation and Allocation Process
REO	real estate owned
RESPA	Real Estate Settlement and Procedures Act
RHIIP	Rental Housing Integrity Improvement Project
RIGA	Regional Inspector General for Audit
SA	Special Agent
SAC	Special Agent In Charge
SBA	Small Business Administration
SID	Special Investigations Division
SEMAP	Section 8 Management Assistance Program
SSA	Social Security Administration
SSN	Social Security number
TEAM	Total Estimation and Allocation Mechanism
TND	Teacher Next Door
UDAG	Urban Development Action Grant
UIV	Upfront Income Verification
USDA	U.S. Department of Agriculture
USPS	U.S. Postal Service

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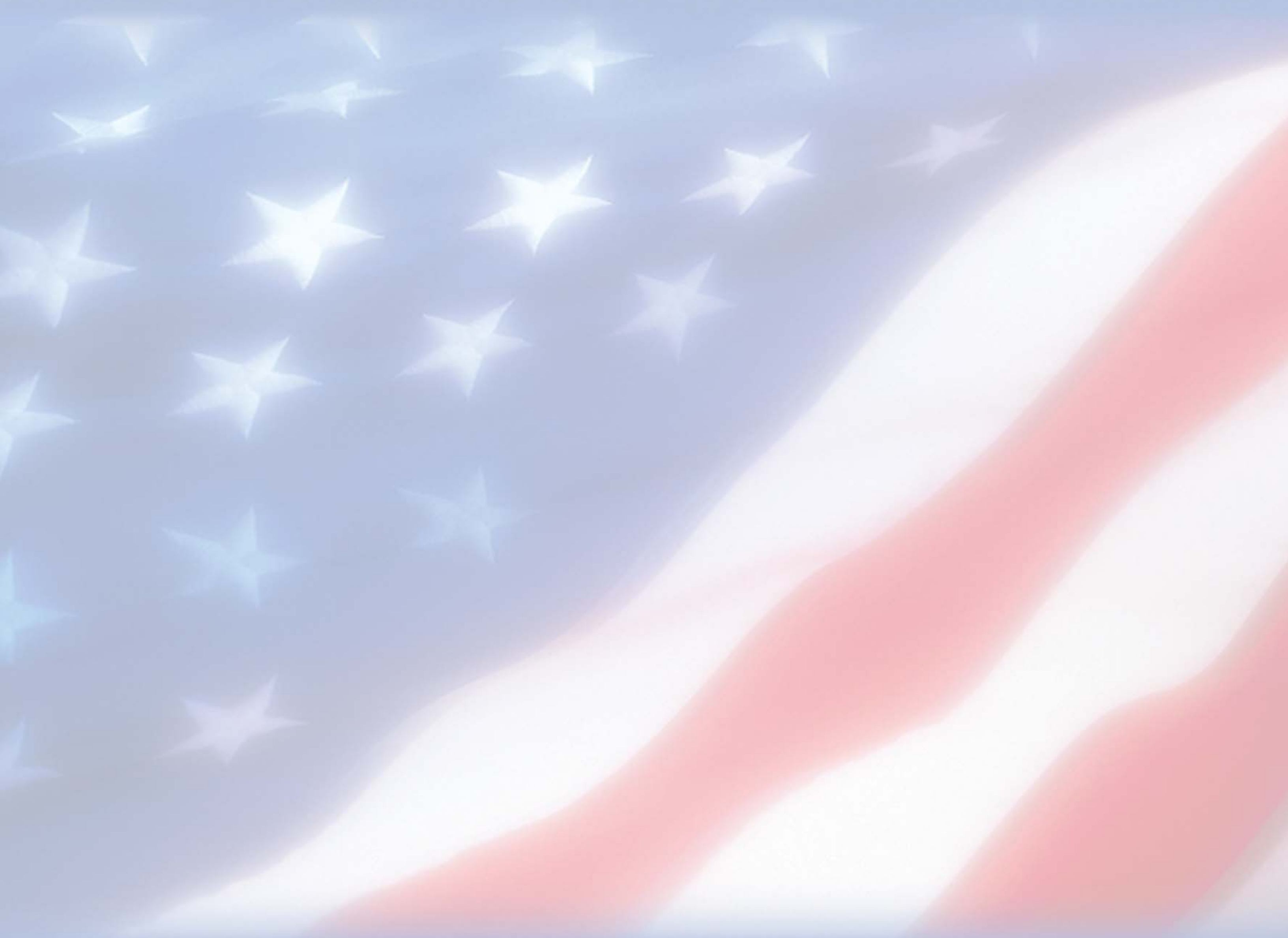
Reporting Requirements

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

Source/Requirement	**Pages**
Section 4(a)(2)-review of existing and proposed legislation and regulations.	115-122
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-105, 123-130
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	9-105
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report 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.	9-105
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. reports and the total dollar value of questioned and unsupported costs.	9-105
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.	125-128
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	128-130
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	130

Chapter 1



HUD's Management and Performance Challenges

The HUD Office of Inspector General

The U.S. Department of Housing and Urban Development (HUD) Inspector General is one of the original 12 Inspectors General authorized under the Inspector General Act of 1978. Over the years, we have forged a strong alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. We strive to make a difference in HUD's performance and accountability. We are committed to our statutory mission of detecting and preventing fraud, waste, 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; 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 staff located in eight regions and numerous field offices.

Major Issues Facing HUD

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development grant, subsidy, and loan programs. HUD's budget approximates $31 billion annually. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. At the end of fiscal year (FY) 2004, FHA's outstanding mortgage insurance portfolio was about $469 billion. Ginnie Mae, through its mortgage-backed securities program, gives issuers access to capital markets through the pooling of federally insured loans.

With about 9,100 staff nationwide, HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD's Community Development Block Grant (CDBG) funds, hundreds of public housing authorities that manage assisted housing funds, thousands of HUD-approved lenders that originate and service FHA-insured loans, and hundreds of Ginnie Mae mortgage-backed securities issuers that provide mortgage capital.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's many distinct programs. HUD's management problems have for years kept it on the Government Accountability Office's (GAO) list of agencies with high-risk programs. HUD's management team, GAO, and the Office of Inspector General (OIG) share the view that improvements in human capital, acquisitions, and information systems are essential in removing HUD from its high-risk designation. More specifically, HUD must focus these improvements on rental housing assistance programs and single-family housing mortgage insurance programs, two areas where financial and programmatic exposure is the greatest. That HUD's reported management challenges are included as part of the President's Management Agenda (PMA) 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 two HUD program areas on GAO's high-risk list.

As of the end of the second quarter of 2005, HUD's PMA scoring status showed that the eight initiatives applicable to HUD remained unchanged with a total of three "yellow" and five "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of the number of serious flaws. The five red baseline scores reported are Competitive Sourcing, Improved Financial Performance, E-Government, Budget and Performance Integration, and HUD Management and Performance. HUD's baseline score for Improved Financial Performance remains at red because of material weaknesses and a disclaimer of opinion received on HUD's FY 2004 consolidated financial statements.

Although HUD's baseline scores remained unchanged for the second quarter, actions completed during the quarter resulted in improved progress scores. HUD's third quarter 2005 goal is to complete all planned quarterly actions, attain green progress scores for all eight initiatives, and improve goal scores for seven of the eight initiatives.

Each year in accordance with the Reports Consolidation Act of 2000, 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 latest assessment on October 19, 2004. These reported challenges are the continued focus of our audit and investigative effort. HUD is working to address these challenges and in some instances, has made progress in correcting them. The Department's management challenges and current efforts to address these challenges are as follows.

***Departmentwide 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 realigned the Department along functional lines, separating outreach from program administration. Also, it placed greater reliance on automated tools, processing centers, contracted services, and HUD partners to administer its programs. As HUD implemented these realignments, many employees were assigned new duties and responsibilities, and many new employees were hired. The disruptions caused by these sweeping changes compounded problems in effectively managing HUD operations.

The current Administration has made several changes to reduce organizational layers and improve operations. The Departmental Enforcement Center was placed under the direction of the General

Counsel to consolidate legal resources in support of a strong program enforcement effort. The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing to improve REAC's working relationships with program staff and program partners. In addition, the return to the former regional and field office structure was implemented 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.

Improving the efficiency and effectiveness of HUD's programs through reorganization efforts requires the Department, in part, to sustain operational consistency in completed reforms. To better ensure operational consistency, it is essential that HUD execute its Strategic Five-Year Human Capital Management Plan. The first goal in HUD's Plan, developed in 2003, is to make HUD a mission-focused agency. Getting the right number of employees in the right location with the right skill mix will improve the quality of HUD programs and services by addressing management challenges, reducing program risks, and improving program performance. The relationship between office functions and departmentwide goals is also reinforced through the Plan's implementation. HUD's Plan recognizes that human resources activities must be aligned with agency goals to clearly, efficiently, and effectively support and enable HUD to achieve its mission.

***Financial Management Systems*.** HUD's inventory of automated systems lists 45 information systems as "official financial systems." Another 44 information systems are listed as "other systems performing financial functions." These systems, some of which are very old, are not all operated on the same platform. Since FY 1991, we have annually reported that the lack of an integrated financial system in compliance with all Federal Financial Management System (FFMS) requirements is a material weakness in internal controls. While some progress has been made, a number of long-standing deficiencies remain.

For the past several years, our financial audits also reported weaknesses in internal controls and security over HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, protected from loss, and available to those who need it without interruption.

The weaknesses noted in our FY 2004 Consolidated Financial Audit relate to the need to

- Comply with FFMS requirements, including the need to enhance FHA's information technology systems to more effectively support its business and budget processes;
- Strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to the Department's critical financial systems; and

- Improve the systems and processes for reviewing obligation balances to ensure that unneeded amounts are deobligated in a timely manner.

HUD's most significant system deficiencies have existed in FHA, which continues to conduct some day-to-day business operations with legacy-based systems, limiting its ability to integrate its financial processing environment. During FY 2003, FHA implemented the Federal Housing Administration Subsidiary Ledger (FHASL) financial system. This system automated many previously manual processes used to (1) consolidate the accounting data received from the various FHA operational legacy systems and (2) prepare summary entries for posting to the FHASL. FHA continues to make progress in its overall compliance with FFMS requirements. In FY 2004, FHA completed the implementation of its core financial system implementation with the addition of cash management, funds control, and contract modules. By FY 2007, FHA plans to fully integrate program operations with its core financial system, eliminating some legacy systems and reengineering others to implement budgetary controls at the source, further reducing the need for manual processing, and improving financial operations.

***Human Capital Management*.** For many years, one of the Department's major challenges has been to effectively manage its limited staff resources to accomplish its primary mission. In recent years, the Department has contracted out numerous functions essential to the accomplishment of its overall mission, in part due to staffing issues. 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 effectively and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills in the right positions.

To address its human capital needs and respond to the PMA, HUD developed a comprehensive Five-Year Strategic Human Capital Management Plan that identifies three strategic goals for human capital:

- Mission-focused agency to align employees and work to support HUD's mission;
- High quality workforce which recruits, develops, manages, and retains a diverse workforce; and
- Effective succession planning to ensure retirees over the next 5 years are succeeded by qualified employees

The human capital management plan is the Department's primary tool for advancing its human capital transformation. The plan is reviewed annually, and updates or revisions are issued as needed to support implementation activities. In line with its strategic plan, HUD has increased its focus on human capital management through a variety of initiatives.

To address staffing imbalances and other human capital challenges, the Department uses the Resource Estimation and Allocation Process (REAP) and the Total Estimation and Allocation Mechanism (TEAM). REAP and TEAM are

Management & Performance Challenges

HUD's resource management tools by which the Department identifies, justifies, analyzes, and makes a recommendation regarding the optimal level of resources necessary for effective and efficient program administration and management. REAP obtains crucial time and workload data necessary for viable budget estimation and execution and to meet the Department's Government Performance and Results Act requirements.

In June 2003, HUD awarded a contract to conduct a workforce analysis for the Department. The purposes of the workforce analysis studies was to establish future workforce needs, compare them with current capabilities, determine skill gaps, and develop human capital strategies and actions to close the gaps. In September 2004, the contractor completed the analysis of HUD's workforce and provided HUD a consolidated report with 5-year work force projections for planning purposes. The contractor's analysis and report focused on the Department's core business functions, beginning with the Office of Public and Indian Housing (PIH), and then the Office of Community Planning and Development (CPD), the Office of Housing, and the Office of Fair Housing and Equal Opportunity (FHEO).

HUD is currently in the process of integrating REAP and workforce analysis so that they complement one another and provide strategic workforce planning direction with the objective of comparing priority needs and making workforce management decisions that best serve the Department's mission.

FHA Single-Family Origination. HUD manages about $400 billion in single-family insured mortgages. Effective management of this high-risk portfolio represents a continuing challenge for the Department. The PMA has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. While GAO and the Inspector General have reported improved monitoring of lender underwriting, default tracking, and expanded loss mitigation to help reduce mortgage foreclosures, HUD needs to further strengthen lender accountability through policy revisions and take strong enforcement actions against program abusers that victimize first-time and minority homebuyers.

In support of HUD and the PMA, OIG's Strategic Plan for FY 2005 gives priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. Our audits target lenders with high default rates. Our detailed testing focuses on mortgage loans that have defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late endorsed loans, inadequate quality control, and other operational irregularities. Our recommendations have sought monetary recoveries through loan indemnifications exceeding $38 million, loss reimbursements of $2.4 million, and appropriate civil remedies. During the current semi annual reporting period, we completed 19 external audits of FHA-approved mortgage lenders as well as one internal audit of single-family program activities. We also started 31 additional audits of FHA lenders during the period. Additionally, our investigative workload in single-family fraud prevention continues to grow dramatically. During the current semiannual period, OIG opened 133 investigation cases and closed 208 cases in the single-family housing program area, resulting in 214 indictments, 213 arrests, and 108 convictions/pleas/pretrial diversions. The audit of FHA's FY 2004 financial statements also reported a need to place more emphasis on monitoring lender underwriting and continuing to improve single-family early warning and loss prevention. OIG has tailored its audit and investigation techniques to complement this need, support HUD management improvements, and provide an added deterrence to mortgage fraud. We developed a comprehensive training course on auditing single-family lenders and conducting single-family fraud investigations. To date, 127 auditors have completed the single-family lender training course.

Public and Assisted Housing Program Administration. HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. PIH and the Office of Housing monitor these intermediaries' administration of the assisted housing programs.

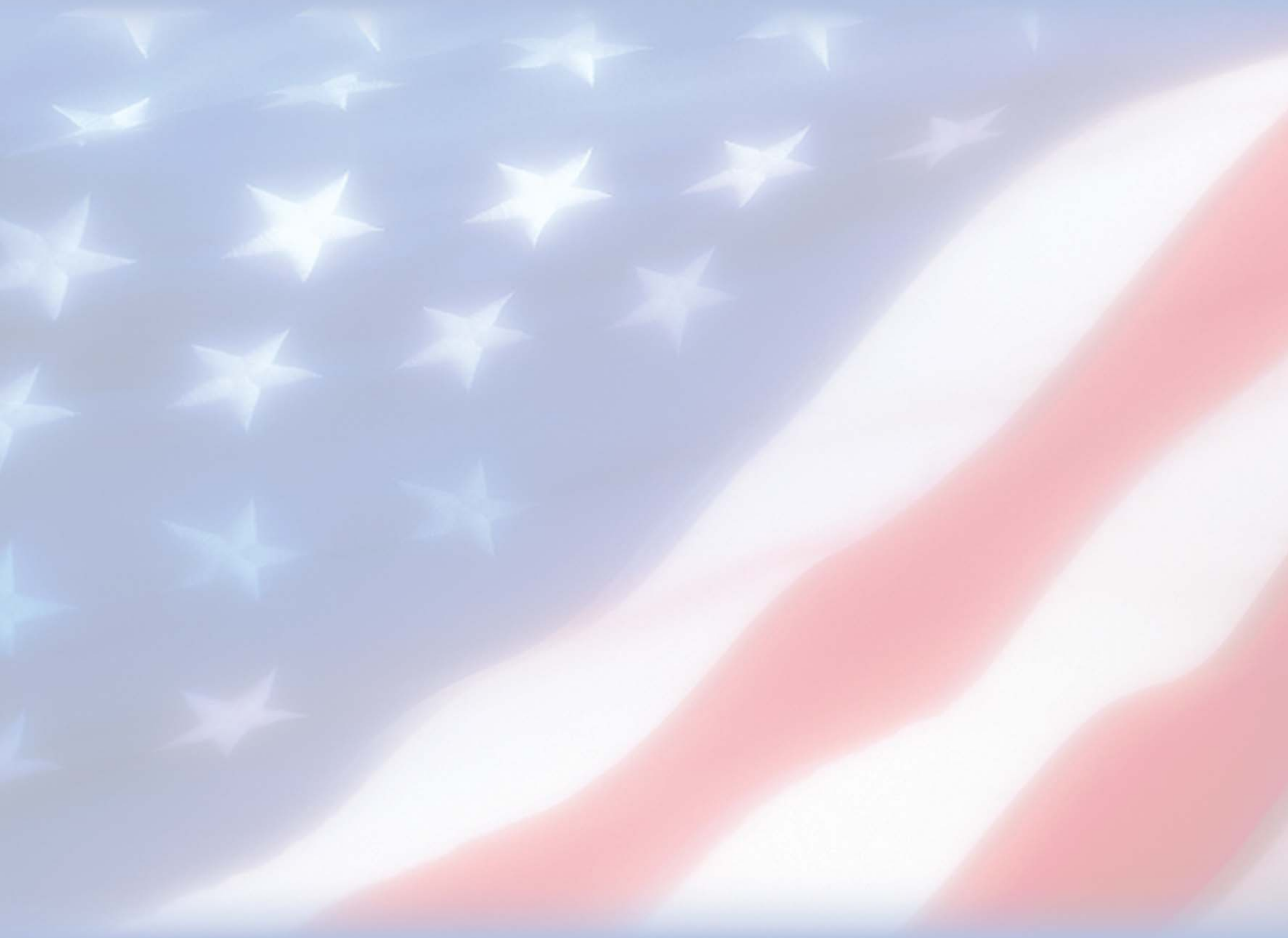
Accurate and timely information about households participating in HUD housing programs is necessary to allow HUD to monitor the effectiveness of the program, assess agency compliance with regulations, and analyze the impacts of proposed program changes. The level of reporting by agencies is a criterion in both the Public Housing Assessment System and the Section 8 Management Assistance Program (SEMAP) assessment systems for housing agencies. HUD's goal is to obtain 100 percent reporting of tenant data into the system.

Material weaknesses in the monitoring of housing agencies and assisted multifamily projects continue to present obstacles in achieving the intended statutory purposes. These weaknesses have been reported for a number of years in our annual audits of HUD's financial statements.

A material weakness reported in FY 2004 concerns a long-standing concern about the calculation of housing assistance to families. A 2000 HUD study concluded that 60 percent of all rent and subsidy calculations performed by intermediaries contained overpayment or underpayment errors totaling more than $3.2 billion. In 2003, an update to this study estimated a gross error payment of $1.6 billion. Although still a large amount, this represents a 50-percent reduction from the error estimate completed in 2000. The reduction is attributed to enhanced program guidance, training, oversight, and enforcement, as well as improved income verification efforts, voluntary compliance by tenants due to promotion of the issue, an improved computer matching process, and an improved methodology for reviewing income discrepancies. HUD is also validating tenant-reported income against other Federal sources and considering program simplification options. In addition to these efforts, HUD needs to enforce the requirement that intermediaries report data elements in the management information system. Sanctions need to be applied if intermediaries do not comply with this requirement.

Paralleling HUD efforts, our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. To comply with the request from Congress, OIG plans to conduct 20 external audits of the Section 8 Housing Choice Voucher program during FY 2005 and has hired an additional appraiser to assist in evaluating housing quality. In total, these external audits will address whether the housing agencies are correctly calculating subsidy amounts, correctly determining family income, complying with housing quality standards, fully using authorized vouchers, and implementing controls to prevent duplicative and fraudulent housing assistance payments.

Chapter 2



HUD's Single-Family Housing Programs

The Federal Housing Administration's (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase new or existing homes or to rehabilitate existing homes.

Audits

During this reporting period, the Office of Inspector General (OIG) issued 20 reports, 1 internal audit and 19 external audits, in the single-family housing program area. These reports disclosed more than $2.8 million in questioned costs and about $37.9 million in recommendations that funds be put to better use. We reviewed 18 FHA single-family mortgage lenders.

Chart 2.1: Single Family Housing Reports Issued

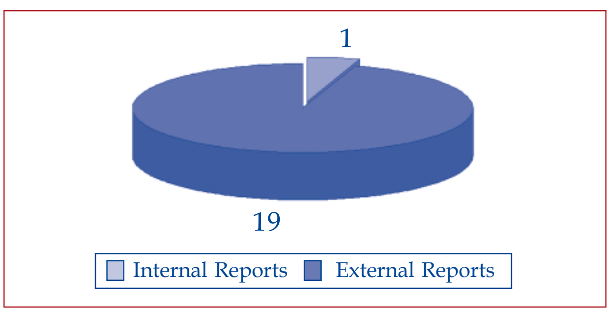
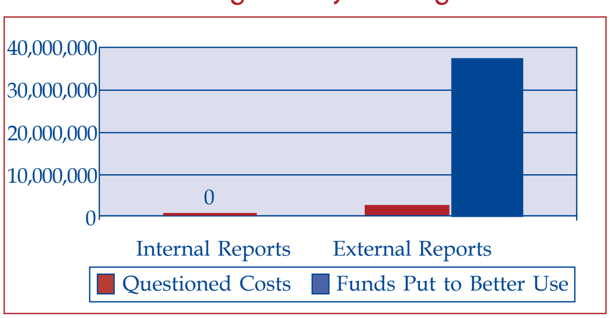


Chart 2.2: Single Family Housing Dollars



Mortgagees and Loan Correspondents

The U.S. Department of Housing and Urban Development (HUD)-OIG audited RBC Mortgage Company, also known as Prism Mortgage, **Houston, TX,** a mortgagee approved to originate, underwrite, and submit insurance endorsement requests through HUD's single-family direct endorsement process. We selected RBC for audit because of its high late endorsement rate. Our audit objective was to determine whether RBC complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests.

RBC and its contractor submitted 170 late requests for insurance endorsement out of 5,123 loans tested. The loans were either delinquent or otherwise did not meet HUD's timely payment requirements. RBC and/or its contractor also incorrectly certified that mortgage and escrow accounts were current. RBC lacked adequate procedures and controls to ensure that it and the contractor's employees followed HUD's requirements regarding late requests for insurance endorsement. The improperly submitted loans increased the risk to the FHA insurance fund.

We recommended that RBC indemnify HUD for any future losses on 138 loans with a total value of more than $16.2 million. We also recommended that RBC reimburse HUD approximately $26,000 for the actual loss on a case in which the associated property was already sold and reimburse HUD for any future losses from a claim of more than $24,000 paid on one insured

The chart cost figures in this chapter represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

loan with a total mortgage value of approximately $229,000 once the associated property is sold. We recommended that RBC establish and implement an adequate quality control plan. Further, we recommended that HUD take appropriate administrative action against the employees, contractors, and principals of RBC, including remedies under the Program Fraud Civil Remedies Act (PFCRA). (Audit Report: **2005-CH-1007**)

We audited American Property Financial (American), a loan correspondent approved to originate FHA mortgage loans through HUD's single-family direct endorsement process in **San Antonio, TX**. American originated 83 FHA loans between February 1, 2002, and January 31, 2004. As of February 23, 2004, 14 of the 83 loans were in default status. The 14 loans were all underwritten by Synergy Mortgage, a loan sponsor for American. Our audit objectives were to determine whether American (1) complied with HUD's regulations, procedures, and instructions in the origination of mortgages and (2) implemented a quality control plan according to HUD's requirements.

American failed to originate loans in accordance with HUD requirements. American used gift funds to pay delinquent debts, rolled delinquent debts into mortgage loans, and submitted loans for unqualified applicants. American used inflated appraisals to increase the sales price to accommodate incentives to purchase. All 39 loans reviewed involved the same underwriter, and 35 of the 39 involved the same loan officer. American received more than $185,000 from originating the 39 loans. As of February 23, 2004, 14 of the loans totaling almost $1.4 million were in default status. The deficiencies resulted from American's failure to follow HUD's requirements, its failure to implement an adequate quality control plan, and its lack of supervision over its loan officers. These deficiencies contributed to the high default rate, putting at risk 34 loans totaling more than $3.3 million in insured loans.

We recommended that Synergy Mortgage, Inc., American's sponsor on the loans, indemnify/reimburse HUD against losses on the 34 loans valued at more than $3.3 million and reduce 20 mortgage balances approximately $165,000 for incentives to buy disguised as gift funds. Additionally, we recommended that American establish controls to ensure that personnel are knowledgeable of HUD procedures and supervision is adequate to maintain an effective operation and that appropriate administrative action is taken. (Audit Report: **2005-FW-1004**)

We completed an audit of First United Mortgage Company, Inc., a mortgagee located in **Cranford, NJ**. The objectives of the audit were to determine whether First United (1) originated and underwrote FHA-insured loans in accordance with HUD's requirements and (2) designed and implemented a quality control plan. The review generally covered the period between February 1, 2002, and January 31, 2004, and involved a review of 25 loans with mortgage amounts totaling more than $3 million.

We found 23 of the 25 loans had at least one underwriting deficiency, and First United charged borrowers ineligible and/or unsupported fees in 24 cases. In addition, we concluded that First United had not implemented its quality control plan in accordance with HUD requirements.

We recommended that HUD request First United to (1) indemnify 20 of the 25 loans valued at more than $2.4 million with significant underwriting deficiencies, (2) reimburse borrowers for ineligible and unsupported fees totaling more than $6,000, and (3) provide HUD a corrective action plan containing assurances that all guidelines pertaining to underwriting and quality controls will be followed. (Audit Report: **2005-NY-1002**)

We completed a limited review of Wachovia Mortgage Corporation (Wachovia), a direct endorsement mortgagee. The review was performed on one of the mortgagee's branch offices in **Scottsdale, AZ**. We selected this branch office for review based on the results of a previous OIG audit that identified the use of false credit and employment documents by a loan correspondent of Wachovia. The review objective was to determine whether there were fraud indicators in a sample of 27 mortgage loan files underwritten by Wachovia and if so, whether these indicators were identified and resolved during Wachovia's underwriting process.

We found Wachovia failed to identify and/or follow up on indicators of false credit and/or employment documents during the underwriting process for all 27 loans totaling approximately $2.9 million. As a result, loans were approved based on false information, causing the FHA insurance fund to assume unnecessary risks. The report recommends that Wachovia indemnify/reimburse HUD for any past or future losses on 25 of the 27 loans valued at more than $2.4 million. (Audit Report: **2005-LA-1803)**

In **Towson, MD,** we audited the Towson branch of Peoples Mortgage Corporation, a branch approved to originate FHA single-family mortgage loans, because it had a high default rate. Our objectives were to determine whether Peoples complied with HUD's regulations, procedures, and instructions in the origination of FHA loans and whether Peoples' quality control plan met HUD requirements.

Peoples' did not originate all FHA loans in accordance with HUD's loan origination requirements. Of the 26 loans we selected for review, Peoples did not fully comply with FHA requirements for 14 of the loans valued at more than $2.4 million. Peoples did not exercise due diligence in the review of assets and gifts or resolve signature, Social Security number (SSN), and employment inconsistencies. These deficiencies were caused by a lack of management oversight and contributed to an increased risk to the FHA insurance fund. Further, Peoples' quality control plan and the corresponding contract for quality control reviews did not contain requirements to identify patterns of early defaults or to perform onsite reviews at branch locations. After these matters were brought to its attention, Peoples corrected its loan origination process and its quality assurance plan.

We recommended that Peoples take immediate action to correct operational deficiencies and indemnify HUD for 14 FHA loans valued at more than $2.4 million. (Audit Report: **2005-PH-1006**)

We audited Wells Fargo Bank NA's Fife Branch Office, **Fife, WA,** because of the high rate of claims on defaulting FHA-insured single-family loans approved by this branch. Our audit objective was to determine whether Wells Fargo-Fife acted in a prudent manner and complied with HUD regulations, procedures, and instructions in its approval of the

FHA-insured single-family mortgages selected for review and whether the mortgagee's quality control plan met HUD requirements.

Wells Fargo-Fife did not always process and approve the defaulting FHA-insured loans in accordance with HUD regulations and guidance. Of the 20 loans reviewed, Wells Fargo-Fife approved 13 loans totaling more than $1.7 million, which did not meet HUD underwriting requirements. The underwriting deficiencies included approving loans with unsupported income, unsupported assets, underreported liabilities, unexplained derogatory credit information, inadequate qualifying ratios, and unclear and/or inadequate documentation of important file discrepancies. We determined that Wells Fargo-Fife's quality control plan complied with HUD requirements.

We recommended that HUD take appropriate administrative action up to and including recovery of losses on more than $667,000 in paid claims and indemnification against future losses on loans totaling more than $882,000. (Audit Report: **2005-SE-1004**)

We audited Pan American Financial Corporation, a direct endorsement lender, in **Guaynabo, PR.** We selected Pan American because of its high default rate. Pan American did not follow HUD requirements when originating and approving 17 FHA-insured loans totaling more than $2.7 million. In 10 loans, Pan American did not exercise the care expected of a prudent lender in the analysis of the borrower's assets, earnings, and debts. Pan American also approved seven loans that did not comply with HUD's self-sufficiency requirements and were overinsured by almost $210,000. The deficiencies occurred because Pan American did not establish and implement adequate controls to ensure its employees followed HUD requirements when processing and underwriting loans. In addition, Pan American did not implement procedures or controls to ensure all FHA-insured loans that default within 6 months of closing undergo a loan origination quality control review. We attribute this deficiency to Pan American's disregard of HUD requirements and instructions. The deficiencies contributed to Pan American's high default rate and increased the risk to the FHA insurance fund. HUD has no assurance of the accuracy, validity, and completeness of Pan American's loan origination operations.

We recommended that HUD require Pan American to indemnify almost $1.4 million against future losses on nine loans and pay down the mortgages of the several overinsured loans by almost $210,000. We further recommended that HUD take appropriate monitoring measures to ensure Pan American establishes and implements appropriate controls so that its employees follow HUD requirements when processing and underwriting loans. Finally, HUD should require Pan American to take the needed action to ensure the required quality control plan reviews are conducted. (Audit Report: **2005-AT-1005**)

In **Miami, FL**, we audited Interstate Financial Mortgage Group Corporation. Interstate is a direct endorsement lender approved by HUD to originate and approve FHA-insured mortgages. We selected Interstate for review because of risk factors associated with defaulted loans. Our audit objectives were to determine whether Interstate (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of FHA-insured single-family mortgages and (2) implemented its quality control plan as required. We reviewed a sample of 18 loans to accomplish our objectives.

Interstate did not follow HUD requirements when originating and approving 15 loans totaling more than $1.5 million. All 15 loans contained underwriting deficiencies that, taken as a whole, should have led a prudent person to not approve the loans. Interstate approved the loans based on inaccurate employment income and gift documentation and other deficiencies. This occurred because Interstate did not exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files or adequately following up to verify borrower income and employment histories. Interstate also improperly allowed independent loan officers to originate loans and maintained no supporting documentation to ensure HUD that interest rates, loan discount points, and other fees were appropriately charged. Further, Interstate did not fully implement its quality control plan, and the quality control plan was incomplete. We attribute all these deficiencies to Interstate's disregard of HUD requirements and instructions. As a result, HUD has no assurance of the accuracy, validity, and completeness of Interstate's loan origination and underwriting operations, and there is increased risk to the FHA insurance fund.

We recommended that Interstate (1) indemnify HUD against future losses on 10 loans totaling more than $1 million, (2) reimburse HUD for a loss already incurred of almost $37,000 on one property, and (3) reimburse HUD for a loss, if applicable, on another property for which HUD paid a claim of more than $110,000. We also recommended that HUD require Interstate to stop using independent loan officers to originate FHA loans and maintain documentation to justify interest rates, loan discount points, or other fees charged. Further, we recommended that HUD take appropriate measures to ensure Interstate conducts required quality control reviews, corrective action is taken and documented for all reported deficiencies, and the written quality control plan complies with HUD requirements. Finally, we recommended that HUD take administrative action as appropriate, up to and including civil monetary penalties. (Audit Report: **2005-AT-1007**)

OIG audited Trust America Mortgage, Inc., in **Cape Coral, FL**. Trust America is a direct endorsement lender approved by HUD to originate and approve FHA-insured single-family mortgages. We selected Trust America for review because of risk factors associated with defaulted loans.

The audit objectives were to determine whether Trust America (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of FHA-insured single-family mortgages and (2) implemented its quality control plan as required. We reviewed a sample of 17 FHA-insured loans.

Trust America did not follow HUD requirements when originating and approving 16 loans totaling more than $1.9 million. All 16 loans had underwriting deficiencies that, taken as a whole, should have led a prudent lender to not approve the loan. Trust America approved the loans based on inadequate asset and debt verification and other deficiencies. The deficiencies occurred because Trust America failed to exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files. These deficiencies increased the risk to the FHA insurance fund.

Trust America did not fully implement its quality control plan. It did not conduct the required number of quality control reviews, including reviews of early-defaulted loans and rejected loan applications. Also, Trust America's quality control plan was incomplete. We attribute these deficiencies to Trust America's disregard of HUD requirements and instructions and reliance on an independent contractor to fulfill its responsibilities. As a result, HUD has limited assurance of the accuracy, validity, and completeness of Trust America's loan origination and underwriting operations.

We recommended that Trust America (1) indemnify HUD against future losses on eight loans totaling more than $977,000, (2) reimburse HUD for a loss already incurred of approximately $17,000 on one property, and (3) reimburse HUD for a loss, if applicable, on another property for which HUD paid a claim of $113,000. We further recommended that HUD take appropriate measures to ensure Trust America conducts required quality control reviews and the written quality control plan complies with HUD requirements. Finally, we recommended that HUD take administrative action as appropriate, up to and including civil monetary penalties. (Audit Report: **2005-AT-1008**)

OIG reviewed Leader Mortgage Company, a direct endorsement lender located in **Lenexa, KS**, because its default rate has been significantly higher than HUD's Kansas City average over the past 3 years. Our audit objectives were to determine whether Leader Mortgage properly originated FHA loans and to determine whether it properly developed and implemented a quality control plan.

Leader Mortgage did not follow HUD requirements when processing and submitting loans for FHA insurance endorsement. It improperly originated seven of the 23 loans reviewed and charged unallowable costs. These seven loans contained deficiencies that affected the insurability of the loans, including unsupported assets, underreported liabilities, unsupported income, and derogatory credit. As a result, the insurance fund was placed at risk for more than $911,000. Further, Leader Mortgage's quality control plan lacked many required elements, and Leader did not ensure that it obtained quality control reviews that met HUD requirements. Leader Mortgage also did not take prompt corrective action when quality control reports identified material deficiencies. As a result, HUD lacks assurance that Leader Mortgage is able to ensure the accuracy, validity, and completeness of its loan origination operations.

We recommended that appropriate administrative action be taken against Leader Mortgage based on the information contained in our report. This action should, at a minimum, include indemnification for the seven actively insured loans valued at more than $911,000, reimbursement of appropriate parties for unallowable costs charged to borrowers totaling more than $3,000, and verification that Leader implements controls to ensure it follows HUD's quality control requirements. (Audit Report: **2005-KC-1003**)

In **Philadelphia, PA,** we audited the Philadelphia branch of Fleet National Bank, a direct endorsement lender approved to originate FHA single-family mortgage loans. We selected Fleet for audit because it had a high default rate. Our objectives were to determine whether Fleet complied with HUD regulations, procedures, and instructions in the origination of FHA loans and whether Fleet's quality control plan met HUD requirements.

Fleet's Philadelphia branch office did not originate all FHA loans in accordance with HUD's loan origination requirements. Of 20 loans we selected for review, the branch office violated HUD requirements for five loans valued at more than $224,000. Fleet did not exercise due diligence in the review of assets and income, did not verify rental history, and approved loans with excessive debt to income ratios. Fleet also submitted loans for late endorsement when the payment histories of the buyer were not current. We found that seven loans totaling more than $434,000 were from borrowers who had delinquent mortgage payments. In addition, Fleet's Philadelphia branch office, contrary to HUD requirements, did not provide an accessible business environment for its clients during normal business hours and did not employ a branch manager to supervise operations. Finally, the quality control plan provided by Fleet did not meet all the requirements of HUD.

We recommended that HUD take appropriate administrative action, request indemnification from Fleet on loans valued at more than $619,000 that were issued contrary to HUD's loan origination procedures, and require Fleet to repay more than $39,000 on one loan that went into default, causing HUD to pay a claim. Further, since the Philadelphia branch office has been closed, we recommended that HUD ensure the branch is removed from its systems as an approved direct endorsement lender. (Audit Report: **2005-PH-1005)**

OIG audited Washington Mutual Bank, a direct endorsement mortgagee in **Downers Grove, IL**. The audit was conducted because we identified a high number of loans with overinsured FHA loan amounts and invalid borrowers' SSNs. The audit objectives were to determine whether Washington Mutual (1) exercised due diligence in resolving or following up on warnings regarding borrowers' SSNs and (2) funded FHA-insured loans without exceeding HUD's maximum insurable limits.

Washington Mutual Bank did not identify and follow up on or resolve warnings on borrowers' SSNs for four of the 22 loans reviewed. We reviewed 22 of the 94 FHA-insured loans that Washington Mutual underwrote from October 2000 through September 2003. We also found that Washington Mutual funded 79 of the 94 loans above HUD's maximum insurable limits. As a result, HUD's FHA insurance fund incurred a loss of more than $62,000 on four loans, and the FHA insurance fund remains at risk by more than $393,000 for another 32 loans.

We recommended that Washington Mutual reimburse HUD almost $44,000 for the actual loss on one terminated loan in which the borrower had more than one SSN as shown on the borrower's credit report, indemnify HUD more than $337,000 against future losses from a foreclosed property associated with one loan and two defaulted loans in which the borrowers had invalid SSNs or an SSN belonging to a deceased person, buy down more than $56,000 for the excessive FHA insurance amounts for the 31 active loans and one loan with a claim paid, reimburse HUD approximately $19,000 for the losses incurred on four loans with overinsured FHA loan amounts that were already sold by HUD, and implement procedures and controls to follow HUD's requirements and/or prudent lending practices regarding warnings about borrowers' SSNs and maximum insurable limits.

We also recommended that HUD seek civil monetary penalties against Washington Mutual for the deficiencies cited in this report. (Audit Report: **2005-CH-1002**)

We audited American Mortgage Express Corporation, doing business as American Residential Mortgage Corporation, **Mt. Laurel, NJ,** to determine whether it followed acceptable loan origination procedures. We found significant underwriting deficiencies in four of seven loans. American Mortgage Express underwriters did not properly evaluate the borrower liabilities, income, and credit worthiness. The underwriting deficiencies occurred because American Mortgage Express did not provide adequate control and supervision over the staff, nor did it have adequate internal procedures in place to prevent the deficient underwriting from occurring. As a result, American Mortgage Express approved loans for borrowers who were not qualified for FHA-insured mortgages. By approving these loans, American Mortgage Express increased HUD's insurance risk, as three loans with a total unpaid balance of more than $307,000 defaulted and the fourth loan foreclosed with an insurance claim of almost $104,000.

We recommended that HUD require American Mortgage Express to indemnify three loans totaling more than $307,000 and reimburse HUD almost $104,000 in claims paid for another loan. In addition, HUD should require American Mortgage Express to monitor all loan underwriting functions for compliance with HUD requirements. (Audit Report: **2005-AT-1003**)

As a result of a complaint, we reviewed Prime Mortgage, a nonsupervised loan correspondent in **St. Charles, MO,** to determine whether it provided funds to an FHA borrower to assist with closing costs. We found the owner of Prime Mortgage inappropriately provided funds to two borrowers just before closing their loans. For a third loan, Prime Mortgage did not obtain adequate documentation of the transfer of gift funds. As a result, HUD insured three loans that would not have met the minimum requirements to qualify for an FHA loan, placing HUD at risk for loans totaling more than $376,000.

We recommended that HUD take appropriate administrative action against Prime Mortgage for its improper actions and against the sponsors of the three loans valued at more than $376,000 with origination deficiencies. We also recommended that HUD take appropriate action against Prime Mortgage for providing funds to FHA borrowers while making it appear that the funds came from allowable sources and for providing loans to borrowers to use as funds to close. Additionally, if HUD allows Prime Mortgage to maintain its FHA approval status, we recommended that HUD verify that it implements controls that ensure it follows HUD's quality control review requirements. (Audit Report: **2005-KC-1001**)

OIG reviewed Flagstar Bank FSB, **Troy, MI,** a lender approved to originate FHA mortgage loans through HUD's single-family direct endorsement process. We selected Flagstar for audit because of its high late endorsement rate in fiscal years 2002 and

2003. Our review objectives were to determine whether Flagstar complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

Flagstar implemented improved procedures and controls in January 2004 to fully comply with HUD's requirements regarding late requests for endorsement and upfront mortgage insurance premiums. However, before the controls were strengthened, Flagstar improperly submitted two loans for late endorsement. These two loans increased the risk to the FHA insurance fund by more than $251,000. Flagstar's employees incorrectly certified that one of the two loans' escrow accounts for taxes, hazard insurance, and mortgage premiums were current when they were not. Flagstar's staff was not adequately trained or was not aware of the late endorsement processing requirements, and procedures and controls were insufficient to ensure timely payment of upfront mortgage insurance premiums.

We recommended that Flagstar indemnify HUD for any future losses on the two loans with a total mortgage value of more than $251,000. Also, we recommended that HUD pursue appropriate remedies under the Program Fraud Civil Remedies Act against Flagstar and/or its principals for incorrectly certifying the escrow accounts for taxes, hazard insurance, and mortgage premiums were current for one loan submitted for FHA insurance endorsement when the escrow accounts were not current. (Audit Report: **2005-CH-1006**)

We audited Prestige Mortgage Group, Inc. (Prestige), a loan correspondent approved to originate FHA mortgage loans through HUD's single-family direct endorsement process. We selected Prestige for audit because of its high loan default rate. Our audit objectives were to determine whether Prestige (1) complied with HUD's regulations, procedures, and instructions in the origination of FHA-insured single-family mortgages and (2) implemented a quality control plan according to HUD's requirements.

Prestige did not adequately originate FHA-insured loans in accordance with HUD's requirements. Prestige failed to exercise due diligence to verify or support borrowers' income, sources of funds, and credit information. In addition, Prestige did not always ensure that unbiased appraisals were provided, cash investment requirements were met, information on inconsistencies contained in loan documents were explained or resolved, and interested third parties were not handling key documentation. Further, Prestige charged borrowers for fees that were unjustified. Additionally, Prestige failed to adequately implement its quality control process. It did not always review early payment defaults, perform quality control reviews on loans in a timely manner, formally and consistently document the actions taken to resolve the deficiencies found during its reviews, and perform reviews of its branch office. The deficiencies stemmed from Prestige's unfamiliarity with HUD's requirements, its failure to adequately implement its quality control plan, and its senior management's lack of supervision over its employees. These deficiencies contributed to an increased risk to the FHA insurance fund.

We recommended that Prestige's sponsors indemnify HUD for any future losses on 25 loans with a total value of more than $1.8 million. We also recommended that Prestige repay the overcharges for loan discount points totaling more than $13,000 and establish controls to ensure personnel are knowledgeable of HUD procedures and supervision is adequate to maintain an effective operation. (Audit Report: **2005-CH-1001**)

We audited First Source Financial USA's (First Source) **Midvale, UT**, branch office. We determined an audit was warranted based on deficiencies identified in the areas of loan origination and quality control during a prior audit.

Our objectives were to determine whether the mortgagee complied with HUD regulations, procedures, and instructions in the origination of insured loans and whether the mortgagee's quality control plan met HUD's requirements.

First Source's Midvale branch office did not comply with HUD regulations, procedures, and instructions in the origination of 24 of the 25 loans reviewed. We found employment information that was invalid or questionable and/or passed through the hands of an interested third party, the selling agent for the transaction. In addition, contrary to HUD's requirements, loans were originated by nonemployees or independent contractors. HUD suffered a loss of more than $227,000 on the sale of four of the properties and paid insurance claims of more than $183,000 on two of the properties. As of June 30, 2004, the remaining 18 loans have a total unpaid insured mortgage balance of $2.2 million, which represents a continuing or imminent insurance risk. First Source has a quality control plan that complies with HUD requirements. However, the quality control plan was not implemented, and related quality control reviews were not performed at the Midvale office. The lack of implementation of a quality control plan has contributed to higher default and claim rates and, therefore, unnecessarily high risk to the FHA insurance fund.

We recommended that HUD take appropriate administrative actions against First Source based on the information contained in this report. (Audit Report: **2005-DE-1001**)

Single Family Property Disposition Program

In response to a congressional and departmental request, we audited the Town of **Clifton, VA's** participation in HUD's Single Family Property Disposition Program. Our objective was to determine whether the Town complied with HUD's rules and regulations in administering the sales program. Specifically, we wanted to determine whether the Town appropriately participated under the sales program using the competitive sales method and properly resold rehabilitated properties.

The Town of Clifton did not fully comply with HUD's rules and regulations in administering its sales program. The Town could not adequately support property rehabilitation costs claimed on the properties it sold under the program. As a result, some properties were sold at sales prices above the amount allowed by HUD. However, we did find the Town was eligible to participate under the program using the competitive sales process and it did meet the requirements in selling the homes to income-qualified buyers.

Onsite physical home inspections of 10 properties with the highest dollar repair costs out of 89 properties purchased and sold by the Town of Clifton confirmed that some of the work itemized on the home inspection repair invoices had not been performed. In total, we identified more than $9,000 in charges for repairs that were not made to seven homes and thus were ineligible. Since we found the process used to identify and pay for repair costs was neither accurate nor reliable, we also question more than $205,000 in repair costs for the 10 homes we inspected.

We recommended that HUD require the Town of Clifton to schedule an independent inspection of the 79 remaining homes it has processed under the discount sales program to verify that all work was satisfactorily completed. If work has not been done, the Town should pay down the homeowners' mortgage by the appropriate amount. Additionally, HUD should review the deficiencies noted in this report and determine whether the Town should be reinstated to participate in the program. Before reinstatement, HUD should require the Town to set up controls and procedures that fully document and verify the claimed net development costs. (Audit Report: **2005-PH-1003**)

We issued a second report, "Criteria Governing Local Government Participation in HUD's Single Family Property Disposition Program," to address internal control concerns with HUD's Single Family Property Disposition Program. Our report (2005-PH-1003) of the Town of Clifton, a participant in the sales program, disclosed that requirements for government entities may not protect HUD. The objective of this review was to determine whether HUD's criteria governing a local government entity's participation in the sales program adequately protect HUD's interests.

We determined HUD's interests are not adequately protected. HUD intended that the sales program be used to benefit low- to moderate-income individuals. Our audit of the Town of Clifton found the local government participated in the sales program primarily as a means to raise revenue for the Town. The Town used its government status to purchase homes and then contracted a for-profit entity to manage its program. The Town did not violate HUD requirements by participating in this manner; however, HUD never intended the sales program to be used for this purpose.

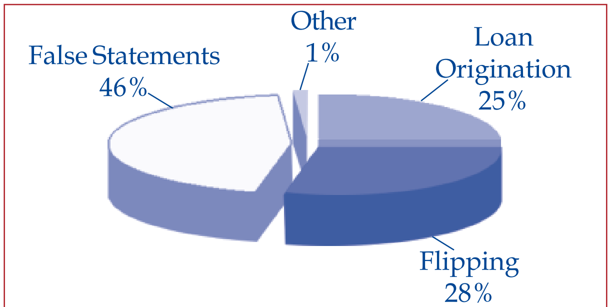
We recommended that HUD strengthen the established criteria governing local government entities' participation under the sales program by implementing criteria similar to those under which its nonprofits operate. (Audit Report: **2005-PH-0001**)

Investigations

During this reporting period, OIG opened 133 investigation cases and closed 208 cases in the single-family housing program area. Judicial action taken on these cases during the period included $408,807,294 in investigative recoveries, $16,562,279 in funds put to better use, 214 indictments/informations, 108 convictions/pleas/pretrial diversions, 162 administrative actions, 23 civil actions, 1 personnel action, and 213 arrests.

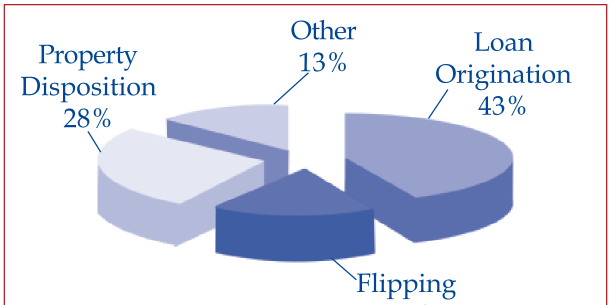
Some of the investigations discussed in this report were conducted jointly with Federal, State, and local law enforcement agencies. The results of our more significant investigations are described below.

Chart 2.3: Single Family Recoveries



Total Recoveries: $408,807,294

Chart 2.4: Single Family Funds Put to Better Use



Total: $16,562,279

Loan Origination/Property-Flipping Schemes

In **New York, NY,** in the U.S. Eastern District of New York, defendant Michael Fox, a former loan officer of Mortgage Lending of America, a private mortgage lending institution in Long Island, NY, was sentenced to 1 year and 1 day of incarceration, 60 months of supervised release, a $100 assessment, and restitution in the amount of $45,794,260. From September 1997 to November 1999, Michael Fox, while working at Mortgage Lending of America, fraudulently originated more than 250 FHA-insured loans under the HUD 203(K) program to several not-for-profits, including but not limited to Family Preservation Center, Helpline Soul Rescue Ministries, St. Stephens Baptist Church, St. Stephens Community Development Corp., St. Stephens Bible College, Word of Life Ministries, Word of Life Community Development Corp., Advance Local Development Corp., and Federation of Puerto Rican Organizations. These HUD 203(k) loans were originated from Mortgage Lending of America, a defunct mortgage company that was previously based in Long Island, NY.

Also in this Federal court case, defendant Howard Finger, owner of real estate companies called Hazmats Realty Corp., No Exit Place Realty, and One Exit Place Realty, was sentenced to 5 years probation, $19,730,315 in restitution, and a $100 special assessment. All three companies flipped properties to Advance Local Development Corp., a not-for-profit based in New York City. These HUD 203(k) loans were originated from Mortgage Lending of America.

In **Los Angeles, CA,** in Federal Court, Central District of California, defendant Christina Antolin, a loan processor for Edgardo and Danilo Guinto, was sentenced to imprisonment for 4 months and placed on probation for 3 years for violation of two counts of making false statements and aiding and abetting. Antolin's conviction stemmed from her participation in a single-family "flipping" and loan origination scheme by assisting in the preparation of mortgage applications in the names of fictitious purchasers. The loan applications contained false employment documents, verifications that the downpayment was from either the buyer's personal funds or a gift, and inflated real estate appraisals. The loans were funded using FHA-insured mortgage loans and resulted in losses to HUD in the amount of $5,691,556. The sentence was handed down after Antolin was arrested while trying to reenter the country after fleeing to avoid prosecution.

In the same case, defendant Elizabeth Candella Guinto, a loan processor for Edgardo and Danilo Guinto, was sentenced in Federal Court, Central District of California, to 5 months of home detention, placed on probation for 3 years, and ordered to pay restitution of $5,863,715 (jointly and severally with Dan and Ed Guinto) for violation of two counts of making false statements and aiding and abetting. Guinto's conviction stemmed from her participation in a single-family "flipping" and loan origination scheme by assisting in the preparation of mortgage applications in the names of fictitious purchasers. The loan applications contained false employment documents, verifications that the downpayment was from either the buyer's personal funds or a gift, and inflated real estate appraisals. The loans were funded using FHA-insured mortgage loans and resulted in losses to HUD of more than $5 million.

In **Kansas City, MO,** defendants Brent Barber, Robert Beckley, and Roderick Criss were indicted by a Federal grand jury in the Western District of Missouri on 67 counts, including conspiracy, interstate transportation of stolen property, money laundering, and asset forfeiture. The indictment alleges that the defendants participated in a property-flipping scheme that caused 84 victim real estate investors to purchase 223 properties totaling $15.6 million. The indictment seeks the forfeiture of $4 million from Barber. The defendants purchased inexpensive single-family properties in inner city Kansas City, obtained fraudulent property appraisals inflated by tens of thousands of dollars, and sold them to victim investors. Investors believed they were buying the properties at true market value, that they were buying the properties for no money down, and that renters, including those receiving Section 8 rental assistance, occupied the properties. In fact, the properties were often unrented, uninhabitable, and purchased based on downpayments provided by the defendants without the buyers' knowledge. Additionally, the defendants falsified numerous loan application documents, enabling investors to unknowingly purchase properties for which they would otherwise not qualify. The scheme resulted in significant property foreclosures and financial losses to investors and lending institutions.

Also, defendant Peggy J. Ries, formerly doing business as Appraisals by Peggy, Raytown, MO, pled guilty in Federal Court, Western District of Missouri, to felony charges that she conspired with others to commit interstate transportation of stolen property related to her role in a property-flipping scheme. Ries and others caused victim real estate investors to purchase 75 properties totaling $4.3 million. Ries' coconspirators purchased inexpensive single-family properties in inner city Kansas City for which Ries created fraudulent property appraisals inflated by tens of thousands of dollars.

A Federal grand jury in **Las Vegas, NV,** indicted defendant Mark Young, former branch manager/owner for Nevada First Residential Mortgage Company, in a superseding indictment to 64 counts charging him with submitting false information to HUD, mail fraud, conspiracy, obstruction of an official proceeding, witness tampering, and aiding and abetting. Two forfeiture allegations were added to the indictment totaling $2,912,465. From May 2000 to June 2002, Young directed loan officers and processors in the origination of 233 fraudulent FHA loans valued at more than $25 million. He conspired with other mortgage company employees and employees of General Realty to manufacture and submit false employment and income documentation for borrowers. Most of the buyers were illegal immigrants from Mexico. To date, 58 loans have gone into default with a total value more than $6.2 million and a loss to HUD of more than $1.9 million. Nevada First Residential Mortgage Company is no longer in business.

In **Camden, NJ,** a Federal jury in U.S. District Court, District of New Jersey, found defendant Kenneth Jenkins guilty on 1 count of conspiracy to commit mail fraud, 10 counts of conspiracy to commit wire fraud, 1 count of conspiracy to possess and/or distribute a controlled substance, 1 count of money laundering, and 9 counts of conspiracy to commit money laundering. Jenkins, a major Camden, NJ, drug wholesaler, organized and operated a $1 million scheme that used crack cocaine profits to buy abandoned and dilapidated residential properties in Camden. Jenkins arranged cosmetic repairs on the properties by paying his contractor in crack cocaine. Jenkins then "flipped" the properties at an inflated price by securing fraudulent HUD-insured loans for unsophisticated and unqualified borrowers. Jenkins, along with Sabena Ingalls, a licensed real estate agent, targeted naïve and illiterate individuals to purchase properties. Jenkins and his coconspirators created false and fraudulent paperwork, such as Internal Revenue Service (IRS) W-2 forms, pay stubs, IRS tax forms, and credit verifications. Several borrowers testified in court that the homes were in poor condition and that they were forced to move out within weeks or months due to faulty plumbing, electrical hazards, water damage, holes in the roof, and wood rot. Jenkins and his coconspirators reaped large profits from the sales of 26 properties, including 18 which involved a HUD-insured loan. Fifteen of the 18 HUD-insured borrowers defaulted on their loans. As a result of his conviction, Jenkins conceded to a forfeiture of $1,692,785. Jenkins, along with Thomas Harper, Sebena Ingalls, Walter Jenkins, Ronald Rogers, and Delores Lewis Jones, was indicted on October 29, 2003, as part of a 37-count indictment and arrested on October 30, 2003. The above five coconspirators of Jenkins had previously pled guilty and testified against him. Sentencing is scheduled.

In **Greenbelt, MD,** property speculator, John Bryant, and his wife, Monica Silver, a real estate agent with Re/Max Professionals, were sentenced in Federal Court, District of Maryland, for their admitted role in an FHA fraud scheme. Bryant was sentenced to 15 months incarceration, to be followed by 36 months supervised release. Silver was sentenced to 6 months home detention, to be followed by 60 months supervised release. In addition, they were ordered to pay restitution totaling $1.3 million to HUD and various other lenders. The investigation revealed that the defendants, along with six others who were previously convicted and sentenced, participated in a scheme whereby Bryant would purchase distressed homes and then flip them at inflated prices to unqualified buyers, who were made eligible for FHA-insured mortgages through the use of false income, employment, and credit information. In all, Bryant purchased a total of 41 homes for speculative and investment purposes, and many of the homes that were flipped with FHA mortgages later went into foreclosure. Silver used her real estate contacts to identify homes that Bryant would purchase, and in many cases, she earned a fee as the realtor of record on the flipped transactions.

In the District of New Jersey, **Trenton, NJ,** defendant Allen J. Meyer, a closing attorney for the defunct Mortgage Acceptance Corporation, was sentenced to 1 year of confinement and ordered to pay $566,338 in restitution. Meyer previously pled guilty to one count of conspiracy to commit offense or to defraud the United States. As part of a loan origination and land-flipping scheme, Meyer falsified mortgage loan applications and related documents to obtain FHA-insured loans for unqualified borrowers. Meyers' sentencing was based on 11 loans with a loss to HUD of $566,338. Meyer committed these acts during the period of March 27, 1997, through September 2, 1998. Total losses to HUD from this case are $1,190,579 for 25 FHA loans.

In **Denver, CO,** a Federal grand jury for the District of Colorado returned indictments against several defendants for their participation in a single-family loan origination scheme involving 40 properties insured through the FHA 203(b) insurance program totaling $6,723,937. The actual loss to date is $309,732, and restitution will be recommended in the amount of $388,205. The Government has also requested that the defendants pay $174,009 in disgorgement from the profits made when the properties were sold.

Defendants Linda Carnagie, a loan officer working for Highland Mortgage, and Nina Cameron, a loan officer working for Acclaim Mortgage/Affiliated Mortgage, each had an agreement to kick back a percentage of each home sale to Roderick Wesson, who for a price from $500 and $1,000, would provide false SSNs and false income information in the form of IRS W-2 forms and pay stubs. Wesson would also verbally verify income if needed. Defendant Carnagie was charged with 1 count of conspiracy, 15 counts of wire fraud, 13 counts of making false statements, and 12 counts of misuse of an SSN. Defendant Cameron was charged with one count of conspiracy and one count of mail fraud.

Defendant James Galloway, a real estate agent for Colorado Classic Properties, and Warren Williams entered into an agreement requiring Galloway to provide Williams a kickback on loans that closed using false information provided by Williams. Galloway was charged with one count of conspiracy, six counts of wire fraud, five counts of misuse of an SSN, and four counts of making false statements.

Defendant Antonio Del Valle, a loan officer for Yes Capital Funding and VMP Funding, worked for a time with Warren Williams, who was also a loan officer. Del Valle and Williams worked together to determine the amount of money the borrower needed to earn to qualify for the FHA-insured loan. Defendant Del Valle and Williams produced the false income information using false SSNs provided by Williams. Defendant Del Valle was charged with one count of conspiracy, one count of wire fraud, and one count of misuse of an SSN. Defendant Albertico Galindo, a former FHA-insured homebuyer, was arrested as a result of his earlier indictment by the Federal grand jury for the District of Colorado for making false statements on a loan application, which enabled him to obtain an FHA-insured home using false income information.

In **Spokane, WA**, in Federal District Court, Eastern District of Washington, defendant John Hansen, a real estate appraiser doing business as John Hansen Appraisals, was sentenced as a result of a felony conviction for his role in a scheme to defraud lenders and flip numerous homes at inflated prices. Hansen was sentenced to 18 months of incarceration, to be followed by 36 months of supervised release and restitution of $287,797. Four other defendants in the case were previously sentenced. Hansen provided inflated appraisals of properties for his part of an elaborate scheme to defraud vulnerable borrowers and their lenders.

In **Los Angeles, CA,** in Federal District Court, Central District of California, defendant Virginia Montenegro was sentenced to 6 months of incarceration, to be followed by 36 months supervised release, and ordered to pay restitution of $229,376 and a fine of $100 for wire fraud. The investigation found that Montenegro was a coconspirator in a loan origination scheme in which she recruited unqualified buyers to purchase homes with FHA-insured loans, thus defrauding the HUD single-family program. Montenegro purchased false employment and income verification documents from known forgers who fabricated or inflated the incomes of the buyers. The false forms were used to make it appear as though the buyers qualified for FHA-insured home mortgage loans. As a result of Montenegro's involvement in the scheme, HUD approved approximately $1,081,850 in fraudulent home mortgage loans that resulted in an approximate loss of $325,000.

In the U.S. District Court, District of Colorado, **Denver, CO,** defendant Warren Williams, an organizer/loan officer involved in a fraudulent real estate scheme that used falsified documents to assist homebuyers in qualifying for FHA 203(b)-insured mortgages, was sentenced to 18 months confinement and 3 years probation and was ordered to pay $142,337 in restitution and a $100 special assessment fee. Williams previously entered into a plea agreement with the U.S. Government and pled guilty to conspiracy for his involvement in the loan origination scheme. Williams charged loan officers and real estate agents a fee that ranged from $500 to $1,000 per transaction to provide homebuyers with false SSNs as well as false IRS W2 forms and pay stubs. Williams was paid this fee/kickback once the loans were closed. The closed loans totaled $3,817,760, and the actual loss to date is $188,832. Restitution of $250,900 from the sales of the properties is being sought.

In **Los Angeles, CA**, in Federal District Court, Central District of California, defendant Sergio Fernandez, real estate agent, was sentenced to 12 months and 1 day of incarceration, to be followed by 36 months supervised release, and ordered to pay restitution of $250,097 and a fine of $100 for mail fraud. Fernandez was a coconspirator in a fraudulent loan origination scheme in which he obtained false employment and income verification forms that fabricated or inflated the income of straw buyers. The false forms were used to make it appear as though the straw buyers qualified for FHA-insured home mortgage loans. As a result of Fernandez' involvement in the scheme, HUD approved approximately $981,853 in fraudulent home mortgage loans, which resulted in an approximate loss of $300,348.

In **Trenton, NJ,** in the U.S. District Court, District of New Jersey, defendant Frank Pepe, Jr., a HUD-certified appraiser and owner of The Home Consultants and SSP Investments, pled guilty to an information charging him with three counts of conspiracy to commit false statements. Pepe purchased various properties under the names of his companies. He did not disclose his ownership in these companies, and the properties were flipped to mortgagors. Pepe also appraised these properties. Pepe conspired with codefendant, Kim Sammartano, branch manager/loan officer, American Home loans, to create and submit fraudulent documentation, which assisted borrowers in obtaining FHA mortgages.

Defendant Kim Sammartano, Manahawkin, NJ, was sentenced in U.S. District Court, District of New Jersey, to 5 years probation, 6 months home confinement, restitution of $109,000, and a $100 special assessment fee. Sammartano pled guilty to conspiracy to commit false statements. Sammartano created and submitted fraudulent documentation, which assisted borrowers in obtaining FHA mortgages. Sammartano and Pepe created and submitted fraudulent IRS W-2 forms, pay stubs, false verifications of employment, false verifications of rent, false gift letters, and other qualifying documents in the borrower's FHA-mortgage application. Pepe and Sammartano were associated with approximately 18 fraudulent FHA mortgages and 13 U.S. Department of Agriculture loans with a value of $2,473,744.

In **Jacksonville, FL,** in U.S. District Court, Middle District of Florida, defendants Patrick Singletary, Robert Singletary, Peter Russo, and Clifford Shaw were indicted on 22 charges involving conspiracy, making false statements to HUD, wire/bank fraud, and money laundering. Also named in the indictment were the business entities CAL Investments of North Florida, Eagle Investments of North Florida, Sunshine Management of North Florida, Sunshine Mortgage Services of North Florida, Universal Title Services of North Florida, Dack Properties of Jacksonville, Tropical Mortgage of North Florida, Extreme Investments of North Florida, Global Investments of North Florida, and Shaw Properties of Jacksonville. The scheme involved investor property flipping of HUD real estate owned (REO) properties, FHA loan origination fraud, and bank fraud. FHA insured approximately $100 million in loans generated by the subjects and their businesses. HUD's current loss on defaulted loans is approximately $9 million. Patrick Singletary is a former professional football player for the Philadelphia Eagles.

In **Newark, NJ,** defendant Brian Lyles, a real estate investor, surrendered to the U.S. Marshal's Service and appeared in U.S. District Court, District of New Jersey. Lyles pled guilty to one count of conspiracy to commit mail fraud and making false statements. A sentencing date of May 5, 2005, was set, and Lyles was released on a $100,000 personal recognizance bond. The investigation, which concerns mortgage fraud, began with Lyles' purchase of residential homes, which he then flipped at falsely inflated prices. Unqualified buyers were recruited to purchase these homes. Fraudulent mortgage applications were completed, along with fraudulent bank statements, false appraisals, false employment documents, false employment verifications, and false gift letters. This activity resulted in fraudulent loans valued at $3,977,224, which to date, have resulted in a loss to HUD in the amount of $881,292.

In **Los Angeles, CA**, in Federal Court, Central District of California, defendant Sandra Ruiz, a loan officer, was convicted, following a jury trial, of one count of conspiracy and two counts of making false statements to HUD. This investigation began after OIG received a referral from North American Mortgage Corporation (NAMC) of Montebello, CA. The defendant was a loan officer at NAMC from 1995-1999. An NAMC internal investigation revealed discrepancies in some of the defendant's FHA-insured home loan applications, including the presence of false income, employment, and credit-related information. Following an OIG investigation and a week-long trial in which borrowers and cooperating defendants/coconspirators testified against her, Ruiz was convicted of forwarding loans for unqualified borrowers to HUD for FHA insurance. She fraudulently originated more than 20 FHA-insured loans, causing more than $800,000 in losses to HUD. Three other real estate professionals have already pled guilty as a result of this investigation, and additional suspects are being pursued.

In Federal Court in **Baltimore, MD,** defendants Michael K. Dronet, a speculator, and Bart Aconti, a loan officer for Capital Mortgage, were indicted for participating in a scheme to furnish false statements to Capital Mortgage on numerous FHA-insured mortgage transactions. The investigation revealed that defendant Dronet, individually and through various corporate entities under his control, would purchase distressed properties in Anne Arundel County, MD, at bargain rates. He would then flip the properties at inflated prices to innocent, first-time homebuyers, whom he qualified for FHA mortgages through the use of false employment documents, false gift letters and gift checks, and false credit information. Defendant Aconti prepared and submitted the loan packages to Capital Mortgage knowing that they contained the false information. Most if not all of the mortgagors eventually defaulted on their payments. Approximately 40 properties are involved with an estimated loss of at least $650,000 to the FHA insurance fund.

In the Eastern District Court of Missouri, **St. Louis, MO,** defendant Robert Wright pled guilty to one count of bank fraud. Wright and his sister, Kim Crowder, who owned KRW Capital Corporation, a mortgage brokerage company, flipped properties to unsuspecting and unqualified buyers. Wright and Crowder were responsible for more than $2.2 million in fraudulent loans, resulting in more than $475,000 in losses. Crowder was previously indicted for bank fraud, wire fraud, tax evasion, and money laundering.

In the Northern District of Illinois, **Rockford, IL**, defendant Jae Horn-Gerber, also known as Jae Rank, pled guilty to one count of making false statements to HUD, a misdemeanor. As part of her plea agreement, Rank accepted responsibility for losses to HUD totaling $337,195.

Horn-Gerber was a licensed real estate agent and employed by codefendant Gordon Nelson as the Vice President and Director of Marketing for his companies. It was Horn-Gerber's primary duty to show homes for sale on behalf of Nelson's companies to prospective homebuyers and then help initiate the mortgage loan application process. Rank, as part of her plea, admitted to her participation in a scheme, in which gift letters were created for buyers to make it appear that the funds came from a friend or a relative when, as Horn-Gerber knew, the buyer had received the money from Nelson or one of his companies. Other codefendants in this case, Marcos Reyes and Lynn Martz, have pled guilty, while Nelson has yet to plead.

In Federal Court, in **Dallas, TX,** defendant Alan Banks, co-owner, New Land Title, was charged in a 28-count indictment alleging bank fraud, wire fraud, conspiracy, and money laundering. Alan Banks was a participant in an illegal land-flipping scheme involving FHA and conventional loans devised to defraud the United States. Banks and his associates recruited straw borrowers and straw purchasers and paid them a fee to use their credit for the purchase of residential property. The straw borrowers and straw purchasers were told that they were "investors" and that property would remain in their name for approximately 12-18 months, during which time the property would be leased out. The "investors" were unaware that the property was being sold to them at a significantly inflated amount and that Banks and his associates were walking away from the transaction with thousands of dollars. The lender was also unaware of monies that were being distributed to Banks from the loan proceeds. The mortgage payments were not made, resulting in the foreclosure of the properties. Banks was able to carry out the scheme due to his ownership and position as a settlement agent for the title company. To date, the loss is $4.5 million in conventional loans and $165,000 in FHA-insured loans.

Also, defendant Darron Banks, owner of New Land Title, was charged in a 28-count indictment alleging bank fraud, wire fraud, conspiracy, and money laundering. Darron Banks was a participant in an illegal land-flipping scheme involving FHA and conventional loans devised to defraud the United States.

Defendant Galen Wade, a real estate appraisal apprentice, has been charged in a 28-count indictment alleging bank fraud, wire fraud, conspiracy, and money laundering. Galen Wade was a participant in an illegal land-flipping scheme involving FHA and conventional loans devised to defraud the United States. Wade was an apprentice for a legitimate real estate appraiser. He used the appraiser's license number without his knowledge and prepared false appraisals for a fee to assist his associates in carrying out a fraudulent land-flipping scheme. Wade was paid $300-$65,000 for his role in the scheme. Eventually, Wade became involved in recruiting straw borrowers and straw purchasers who were paid a fee to use their credit for the purchase of residential property.

Defendant Katrina Crenshaw, Closing Agent, Texas Title Company, was charged in a 28-count indictment alleging bank fraud, wire fraud, conspiracy, and money laundering. Crenshaw was one of the participants in an illegal land-flipping scheme involving FHA and conventional loans devised to defraud the United States. Crenshaw received a $3,000 payment for closing an illegal loan transaction. She worked at a title company as a settlement agent, enabling her to flip the properties. The scheme involved the recruiting of straw borrowers and straw purchasers who were told that they were "investors."

Defendant Mark Dean, also known as Mark Banks, the step-son of New Land Title owner Darron Banks, was charged in a 28-count indictment alleging bank fraud, wire fraud, conspiracy, and money laundering. Dean was a participant in an illegal land-flipping scheme involving FHA and conventional loans devised to defraud the United States. Dean and his associates recruited straw borrowers and straw purchasers and paid them a fee to use their credit for the purchase of residential property.

In U.S. District Court, District of New Jersey, **Newark, NJ,** defendant Sholom Moskowitz appeared before Honorable William Bassler and pled guilty to a five-count information, charging him with tax evasion in connection with his U.S. Individual Income Tax Return (Form 1040) for calendar year 2000, bank fraud, and making a false statement to a financial institution (concerning FHA-insured mortgages). This investigation concerns mortgage loan origination fraud. Fraudulent mortgage applications, false appraisals, false employment documents, false employment verifications, and false gift letters were completed in order for unqualified buyers to purchase homes. This activity resulted in fraudulent loans valued at $1,249,921, which to date, have resulted in a loss to HUD in the amount of $109,668.

Defendants Nelson Miller, Michael Dorsey, Bertram Case "Casey" Miller, and Katrina Bowen Soukkaseum were indicted by a Federal grand jury in the Eastern District of Arkansas, **Little Rock, AR,** on 1 count of conspiracy and 15 counts of wire fraud. Nelson Miller was the owner and Chief Executive Officer of Freedom Financial Mortgage Company, a mortgage brokerage company, and Absolute Abstract and Title Company, a title company, both located in Little Rock, AR. Michael Dorsey was Comptroller of Freedom and managed Absolute. Casey Miller and Katrina Bowen Soukkaseum were Freedom team managers who each managed a group of loan officers at separate Freedom branches.

From January 2000 to March 2002, the above defendants allegedly conspired with one another to commit loan origination fraud and Real Estate Settlement and Procedures Act (RESPA) violations relating to at least 84 loans valued at more than $3.5 million, containing undisclosed inflated fees and materially false and misleading information. Freedom and Absolute employees under the direction of Nelson Miller allegedly altered and otherwise falsified loan origination and title history documents on mortgage loan originations. Freedom employees also allegedly conspired to commit RESPA violations by charging borrowers exorbitant document preparation fees payable to Jefferson Doc Prep, a shell company created by Nelson Miller, without disclosing to the borrowers the relationship between Freedom and Jefferson Doc Prep; by charging borrowers exorbitant loan origination fees while also receiving large yield spread premiums from funding lenders; and by failing to disclose to borrowers and funding lenders the closely held relationships among Freedom, Absolute, and Jefferson Doc Prep.

Equity Skimming

In District Court, Western District of New York, **Rochester, NY,** defendant Edwin "Andy" Kane pled guilty to one count of equity skimming. Kane devised a scheme in which he purchased numerous

FHA-insured properties throughout the city of Rochester, NY. At the time of purchase, all of the properties were rented to tenants. Kane continued to collect the rents on the properties but failed to pay the FHA mortgages, causing the properties to go into foreclosure. To date, more than 30 properties have been foreclosed upon, resulting in a loss of approximately $1,140,000 to HUD due to Kane's actions. Kane could be sentenced to up to 5 years imprisonment, a fine of $250,000, or both and a term of supervised release of 2 to 3 years.

Officer Next Door Program

In the Federal Court, Central District of California, **Los Angeles, CA,** defendant James Derrick Stewart was sentenced to pay $50,000 in restitution to HUD and a $2,000 fine. Stewart was also sentenced to serve 3 years of probation, with the first 4 months served on home detention with electronic monitoring. Stewart is also to serve 100 hours of community service. Stewart was a former correctional officer with the California Youth Authority who purchased a house in Rialto, CA, and received a 50-percent discount through the Officer Next Door (OND) program. Stewart never resided on the property and instead rented it out to tenants. This was in direct violation of HUD's OND program regulations which state that an officer must live on the property for 3 years.

Conspiracy and False Statements

In Federal Court in **San Diego, CA,** defendant Keith G. Grubba, former President of PinnFund U.S.A., Inc., was sentenced to 63 months imprisonment, to be followed by 60 months supervised release, and ordered to pay restitution of $187,665,543. On January 30, 2003, Grubba pled guilty to a Federal information charging him with conspiracy to commit wire fraud, money laundering, income tax evasion, and filing false entries in statements to HUD. Grubba conspired with Michael J. Fanghella and PinnFund Chief Financial Officer John Garitta to deceive investors and perpetuate a "ponzi" scheme by preparing and disseminating false financial statements. Grubba failed to declare his full income on Federal income tax returns for 1997 through 2000, with total taxes due of approximately $2.5 million.

PinnFund was a subprime lender and a HUD-approved direct endorsement lender. Michael Fanghella, founder and director of PinnFund, along with other PinnFund officers, concealed from investors the fact that PinnFund lost $200 million from the mortgage business while soliciting new investor money. From 1997 through 2000, Fanghella gave investors money contributed by new investors and falsely represented to them that these funds were earnings or returns on capital. Fanghella was sentenced to 10 years in Federal prison after he pled guilty to conspiracy to commit wire fraud, conspiracy to commit money laundering, tax evasion, and filing a false entry with HUD.

In Federal Court, Western District of Pennsylvania, **Pittsburgh, PA,** defendants Terry Boring and William McKee, formerly doing business as Zintron Corporation, pled guilty to charges that they conspired to defraud HUD and numerous homeowners in connection with the Title I home improvement program. Boring was sentenced to 27 months incarceration, to be followed by 60 months of supervised release, and McKee was sentenced to 23 months incarceration, to be followed by 60 months supervised release. The defendants were also ordered to make restitution to

HUD and to homeowners in the amount of $1.3 million. McKee was also required to forfeit three luxury classic automobiles. The investigation disclosed that the defendants would market home improvements door to door to elderly and low-income homeowners. They claimed affiliation with HUD-FHA and convinced many homeowners to order work that was excessive or not needed and then qualify them for home improvement loans by falsifying material information such as their income and credit worthiness. A total of 41 Title I loans defaulted, resulting in claims to HUD in excess of $600,000, in addition to many conventional home improvement loans that defaulted.

In Federal Court in **Lake Success, NY,** defendant Lenore Thomas, former Loan Processor and Underwriter, American International Mortgage Bankers (AIMB), Lake Success, NY, pled guilty to conspiracy. She was sentenced to 36 months of supervisory probation. Several employees from AIMB assisted in obtaining FHA-insured loans from questionable homebuyers located in the New York metropolitan area, including Nassau and Suffolk Counties. More than 90 percent of the FHA-insured loans from AIMB contained one or a variety of altered documents, including false pay stubs, bank statements, IRS W-2 forms, rent verifications, verifications of employment, verifications of deposit, credit worthiness letters, gift letters and credit reports.

In the same case, in Federal Court, Eastern District of New York, defendant Nicholas Graham, an outside contractor working with AIMB in Lake Success, NY, was sentenced to 41 months incarceration and 3 years probation and was required to pay a court ordered restitution of $878,235. He may also face the possibility of being deported after serving his sentence. Graham pled guilty to conspiracy and making false statements. Graham helped AIMB by ensuring that questionable homebuyers located in the New York metropolitan area would qualify for FHA-insured loans.

In U.S. District Court in **Chicago, IL**, defendant Yinka Otabor, the Executive Director of Hope, a HUD-approved direct sales nonprofit, was sentenced to 6 months home confinement, 4 years probation, and restitution in the amount of $94,627. Saundra Mayfield, an investor, was sentenced to 8 months in prison, 3 years probation, and restitution in the amount of $185,431. Paul Crutchfield, the Executive Director of Omega, a HUD-approved direct sales nonprofit, was sentenced to 12 months in prison, 3 years probation, restitution totaling $376,190 (of which $143,772 had been paid prior to sentencing), and a $5,000 fine.

Crutchfield and Mayfield pled guilty for their role in an elaborate scheme to use HUD-REO properties, which were purchased under the direct sales program with a 30-percent discount. Otabor, Crutchfield, and Mayfield admitted to violating HUD's direct sales program rules by fraudulently concealing the nature of the transactions from HUD and making material misrepresentations to HUD relating to the purchase, ownership, and disposition of the homes. In particular, the HUD-REO properties were used as investments for family members and friends or Section 8 rental properties or were resold to unqualified buyers with FHA insurance through the submission of false rehabilitation documents, phony gift letters, and fraudulent employment.

In U.S. District Court at **Chicago, IL**, defendant Virgil Griffin pled guilty to one count of mail fraud. This plea also held that

Griffin was responsible for restitution in the amount of $216,378. Griffin was part of a scheme in which seven other individuals, James Rucker, Gregory Jacobs, Stephen Lawhorn, Tina Hoard, Patricia Mays, Carmen Perry, and William Scott, were also charged. Griffin admitted that, as soon as he began working at Comprehensive Mortgage and continuing through his employment at Design Mortgage Corporation, he created and submitted false loan documents. These included IRS W-2 forms, pay stubs, rent payment checks, verification of deposits, verification of employment, and other false documents to be placed into loan files.

In the same case, in **Chicago, IL,** U.S. District Court, defendant William Scott pled guilty to one count of wire fraud. Also, defendant Stephen Lawhorn pled guilty to one count of mail fraud. While Scott was responsible for restitution in the amount of $66,851, Lawhorn's restitution was in the amount of $177,000. As part of his plea, Scott accepted responsibility for his role in initiating fraudulent loan packages and assisting in the setup of shell companies, known as Pinnacle Investment Corporation of America, Wescorp Financial, Inc., and Wescorp Realty Corp., while employed at Comprehensive Mortgage Corp. Lawhorn admitted to signing fraudulent loan applications, completing phony land contracts, and creating fictitious IRS W-2 forms. The purpose of these companies was to purchase properties using false information on the loan application, forging other people's names on verification forms, and creating false documents for loan files such as tax returns and bank checks.

In **St. Louis, MO,** in Federal Court, Eastern District of Missouri, defendant Mardell McGee Smith, owner of New Alliance Enterprises, Inc., was sentenced to 1 year and 1 day in prison and ordered to pay restitution of $230,481. Defendant Smith's brother, defendant Mario McGee, was also sentenced to serve 6 months in prison and ordered to pay $140,508 in restitution. Defendants Smith and McGee previously pled guilty to making false statements to HUD and misuse of an SSN. Mardell Smith participated in a mortgage fraud scheme that involved submitting false information on loan applications for the purchase of residential real estate, knowing that the loans would be offered to HUD for insurance. The scheme involved using employer identification numbers as SSNs and the submission of false income documents.

In **Greenbelt, MD**, in Federal Court, District of Maryland, defendant Lynn Kromminga, a settlement attorney, was sentenced to 12 months incarceration, to be followed by 36 months supervised release, fined $3,000, and ordered to repay $299,479 to HUD and other lenders. Kromminga had previously pled guilty to conspiring with codefendant John Bryant, a speculator, to prepare false settlement statements in 1998 and 1999 on FHA and conventional loans. The defendant also admitted that he prepared fraudulent title insurance policies to facilitate settlements.

In **Los Angeles, CA**, defendant Emma Barrientes agreed to pay a penalty of $5,500 to HUD pursuant to a PFCRA settlement. Barrientes was previously sentenced criminally in the Federal Court, Central District of California, to pay $125,772 in restitution to HUD and serve 4 months in jail. As a loan officer for Star Funding, Inc., Barrientes assisted two ineligible borrowers in obtaining HUD-insured mortgages. Barrientes prepared false loan applications supported by false documentation concerning financial circumstances and eligibility for mortgage insurance. The false information concerning financial documents included IRS W-2 forms. Barrientes caused the borrowers to sign certifications stating that the information was true and correct, although she knew the information to be false. Barrientes submitted the false loan applications to her employer for approval and submission to HUD for insurance. Barrientes caused the lender to sign a certification that the information was true and accurate, although she knew it to be false.

In Federal Court, Central District, in **Sun Valley, CA,** defendant Antonio Esquivel was sentenced to serve 15 months in prison. He was also ordered to pay $108,580 in restitution to HUD. He previously pled guilty to two counts of making false statements to HUD. In June 1999, Esquivel submitted a fraudulent FHA-insured home mortgage loan application for the purchase of a property. He was working as an independent real estate agent assisting individuals in the processing of mortgage loan applications for the purchase of residential properties. Esquivel was released to the Immigration and Naturalization Service on January 23, 2004, and was deported on February 2, 2004. He was later arrested on October 29, 2004, for illegally returning to the United States and turned over to the Department of Homeland Security.

In **Dallas, TX,** pursuant to the Texas Occupations Code, the Texas Real Estate Commission revoked the real estate license of defendant Charles E. Reynolds. Reynolds was a South Dallas real estate agent who was previously sentenced to 30 months in Federal prison following his conviction on Federal housing fraud charges. Reynolds was previously convicted on Federal charges of making false and fraudulent statements to a Federal agency. Reynolds was also ordered to pay restitution in the amount of $100,310 to HUD.

In **Los Angeles, CA,** defendant Raul Altamirano agreed to make a payment of $40,754 to HUD pursuant to a PFCRA settlement. Altamirano worked as a real estate agent for Dynamic Brokers, Inc., in Montebello, CA. Altamirano purchased false and fraudulent pay stubs and IRS W-2 forms from forgers in the names of unqualified borrowers to qualify them for FHA-insured loans. Altamirano was indicted on June 10, 2002, sentenced on January 13, 2003, to probation for 3 years, and ordered to pay $47,527 in restitution to HUD.

Defendant Rogelio Gonzalez Jr. was sentenced in Federal District Court, Central District of California, **Los Angeles, CA**, to serve 1 year of probation and to pay $31,535 in restitution to HUD. Gonzalez was also ordered to pay a special assessment fee of $200. In March 2001, Gonzalez pled guilty to submitting false statements to HUD. Gonzalez, Jr., worked as a real estate professional buying and selling properties and was responsible for the submission of mortgage loan applications used to purchase FHA-insured properties. Gonzalez, Jr., caused two loans with fraudulent income documents to be submitted to HUD. Gonzalez, Jr.'s 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 supporting documents to numerous real estate agents.

Also in this case in **Orange County, CA,** defendant Adriana Forero was sentenced to pay a fine of $3,000 to the United States as well as a special assessment fee of $100. Forero was also placed on probation for 1 year. Forero, who was originally identified as a target in the "April 8 Realty" investigation, was charged with one count of mail fraud, one count of making a false statement, and one count of aiding and abetting on December 18, 2003. This investigation resulted in 29 indictments against 38 targets in Southern California. Adriana Forero purchased fraudulent documents from Ocampo, a forger who produced and sold fraudulent documents to individuals in the real estate business.

In **Los Angeles, CA,** in U.S. District Court, Central District of California, after a 4-week jury trial, defendant Frank Acosta was convicted of a total of 25 counts related to an FHA loan fraud scheme. The jury deliberated approximately 4 hours before rendering guilty verdicts on 13 counts of false statements, 7 counts of wire fraud, 5 counts of money laundering, and 2 counts of conspiracy. Defendant Acosta and his coconspirators were involved in a scheme in which FHA loans were issued to both unqualified and straw buyers. Some of the straw buyers included teenagers who played on a junior college baseball team coached by one of Acosta's coconspirators. Acosta's wife, Elizabeth Madrigal, who was also involved in Acosta's scheme, pled guilty in 2003 to one count each of wire fraud, conspiracy, and money laundering, and she is currently serving a 40-month Federal sentence. Two other cooperating coconspirators, Gerard Current and Fernando Garcia, are scheduled to be sentenced pursuant to their plea agreements. Sentencing for Frank Acosta is scheduled for June 13, 2005. The estimated loss to HUD in this case is $1.5 million.

In **Los Angeles, CA,** in Federal Court, defendant George Bahamondes pled guilty to one count of aiding and abetting, causing an act to be done, and conspiracy and two counts of making false statements. Bahamondes acted as a loan officer and real estate agent in transactions involving the sale of real property to unqualified buyers. He obtained money from real estate investors, including himself, and caused such money to be placed as downpayments on behalf of unqualified buyers. He enlisted notaries public to fraudulently notarize necessary signatures of straw buyers and fictitious buyers. Bahamondes caused mortgage applications for unqualified buyers that contained false employment, income, and credit information to be completed and submitted for funding and approved by FHA.

Bahamondes and other unindicted coconspirators caused the funding and insurance of approximately $7.5 million in fraudulent FHA-insured home mortgage loans on properties in Los Angeles, San Bernardino, and Riverside Counties. Approximately 44 of these properties went into default and were resold at a loss to HUD in excess of $2.5 million.

In the same case, in **Los Angeles, CA,** the U.S. Attorney's Office in the Central District of California issued an information charging defendant Bernadette Baldonado with two counts of wire fraud and aiding and abetting. Baldonado worked as a loan processor and also acted as a notary public on sales of real property to unqualified buyers. Baldonado caused fraudulently prepared employment, income, credit, and identification documents to be submitted to FHA. Baldonado also solicited business owners to falsely certify that they employed the buyers, when she knew they did not. Baldonado, aided and abetted by others, caused the funding and insurance of approximately $703,000 in fraudulent FHA-insured home mortgage loans in the Los Angeles County area. All of these properties went into default and were resold at a loss to HUD in excess of $889,686.

In **Los Angeles, CA,** in the Central District of California, defendants Paul and William Peterson's indictment was superseded. The Petersons were employed at Peterson Land and Development, a company which developed and sold residential properties, some of which were sold pursuant to home mortgage loans insured by FHA. Paul and William Peterson knowingly conspired and agreed to make false, fictitious, and fraudulent statements to HUD. Both Paul and William Peterson were charged with one count of conspiracy, one count of making a false statement, and two counts of aiding and abetting. The approximate amount of loss to HUD is $1,123,030.

In **Cleveland, OH,** a Federal grand jury in the Northern District of Ohio indicted defendant Stanley Motyka, a licensed Ohio real estate agent, on nine felony counts. Motyka was charged with making false statements to HUD, making false statements on loan and credit applications, mail fraud, and bank fraud in connection with FHA-insured loans obtained on behalf of borrowers as well as conventional loans obtained on behalf of himself.

According to the indictment, it was part of a scheme in which Motyka offered homes to unqualified buyers in the Cleveland, OH, area knowing that those buyers had insufficient resources to legitimately qualify for mortgage loans. Through various fraudulent means, Motyka was alleged to have aided the prospective buyers in securing approval of mortgage loans, which ultimately resulted in the sale of the subject properties. The indictment charged that Motyka created fraudulent Social Security checks, as well as falsifying verifications of employment, bank deposits, verifications of rent, letters of credit, IRS W-2 forms, pay stubs, and gift letters. In total, 13 of the 15 loans charged were FHA-insured, and the mortgages totaled $935,990. Of the 13 FHA-insured loans, 6 are currently in the foreclosure process, and 2 have gone through foreclosure.

In addition, Motyka purportedly overstated income and provided fraudulent pay stubs and IRS W-2 forms in support of seven mortgages obtained for his personal properties. The mortgages for Motyka's personal properties totaled $737,250.

In U.S. District Court in **Chicago, IL**, defendant Michael Fedynich, a broker/seller, was indicted on one count of making false statements to HUD, a misdemeanor, and two counts of mail fraud. The indictment alleged that from January 1996 and continuing until December 1999, Fedynich, the owner of Westgate Realty, or people under his direction provided homebuyers with downpayment funds in order for the perspective buyers to qualify for Fedynich-owned properties. According to the indictment, Fedynich provided the downpayment to a friend or a relative of the homebuyer and instructed those persons to execute a "gift affidavit" in which they falsely stated that they had provided the downpayment to the homebuyer as a gift. The person executing the gift affidavit would use the funds provided by Fedynich to obtain a cashier's check made payable to the homebuyer. Following these transactions, Fedynich purportedly provided false certification at closing, which indicated that he had not provided funds to the borrower.

In summary, this investigation involved 10 FHA-insured loans totaling $716,000 in insurance and losses totaling $516,429.

In **Los Angeles, CA,** pursuant to an information filed by the U.S. Attorney's Office, Central District of California, defendant Rene Ibarra, a real estate agent, pled guilty to one count of conspiracy and three counts of making false statements. Ibarra was a coconspirator in a fraudulent loan origination scheme in which he obtained false employment and income verification documents from forger Maggie Cuavas, who was convicted in a separate investigation. The documents obtained by Ibarra fabricated and/or inflated the income of mortgagors and were used to give the false appearance of mortgagors qualifying for FHA-insured home mortgage loans. In addition, Ibarra, as an investor, provided the downpayment funds for several mortgagors and misrepresented the fact on the applicable HUD-1 settlement statement addendums. Ibarra's involvement in the scheme resulted in a loss to HUD of approximately $128,496.

In **Birmingham, AL,** in Federal Court, Northern District of Alabama, defendant Taveres C. Williams, a loan officer, was indicted on Social Security fraud, submitting false statements, and theft of government property. Williams, who worked as a mortgage industry professional, allegedly caused false documentation to be submitted to HUD concerning FHA-insured mortgages. The total amount of loans involved was more than $200,000 with a loss to HUD of more than $112,000.

In **Seattle, WA,** in Federal Court, Western District of Washington, defendant Mildreada Andrews was charged with four felony counts of use of a fraudulently obtained SSN and one count of making a false statement. This investigation began after HUD-OIG received allegations that Andrews was involved in a single-family loan fraud scheme in which the defendant would purchase homes using false names, SSNs, and employment/wage documentation. After purchase of the homes, the defendant would collect a substantial amount of rent on the homes and immediately default on the mortgages. One of the three homes in this fraud scheme had an FHA-insured mortgage. A claim on the FHA defaulted mortgage was made, and HUD was required to pay in excess of $188,000 due to the foreclosure.

In **Phoenix, AZ,** a Federal grand jury in U.S. District Court, District of Arizona, indicted defendants Leonel Estrella and Maria Carmen Garcia on one count of conspiracy and six counts of submission of false statements to HUD. The grand jury further indicted Estrella on three counts of bank fraud. The investigation disclosed that Estrella, a licensed realtor, and Garcia, a loan officer, submitted falsified wage documents and SSN information to HUD to obtain FHA-insured home loans for their mutual clients. The investigation further disclosed that Estrella created false wage documents for other clients, which were used to obtain conventional home loans from commercial lenders such as Washington Mutual Bank, FA. The investigation has identified 14 FHA-insured home loans involved in the scheme with insured mortgages totaling $1.58 million and 14 conventional home loans with mortgages totaling $1.74 million. Five FHA-insured home loans have foreclosed, resulting in a loss to HUD of $140,310. One conventional home loan has foreclosed with a loss to Washington Mutual Bank, FA of $12,363.

Mail, Wire, and Bank Fraud

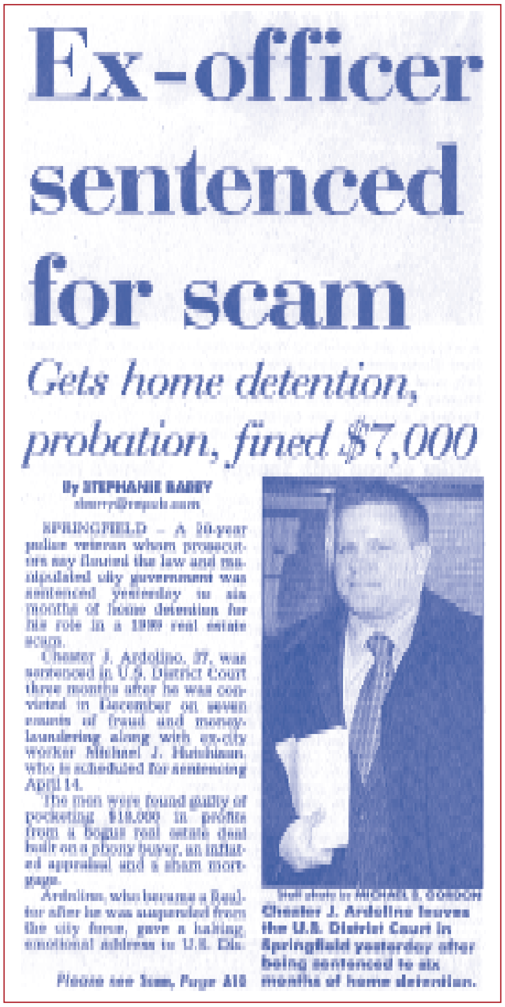
In Federal Court in **Los Angeles, CA,** defendant Luis Angel Sanchez was sentenced to 3 years probation on one count of wire fraud, aiding and abetting, and one count of false statements, aiding and abetting. Sanchez was also ordered to pay restitution of $620,510 and a special assessment of $200. Sanchez located residential properties that were on the market for sale. These properties were then purchased for the purpose of resale. Potential buyers were recruited for these properties who often did not qualify for FHA-insured mortgage loans due to inadequate income or insufficient assets for a downpayment. Recruiters received a commission for every purchaser they located. The buyers were then assisted in finding cosigners for their loans. As a result, fraudulent mortgage applications were completed and submitted in the names of buyers and cosigners that contained false employment documents, false verifications that downpayments were from either the buyers' personal funds or a gift, false explanation letters concerning the relationships of the cosigners to the buyers, and false notarizations of the signature of buyers and cosigners. The total loss to HUD is approximately $23 million.

In **Tampa, FL,** in U.S. District Court, Middle District of Florida, defendant Alison Arnold was sentenced to 24 months incarceration and 24 months supervised release and ordered to pay $265,000 in restitution and a special assessment fee of $100. Arnold was also sentenced to prohibition from engaging in any employment relating to mortgage services or financial lending. Arnold pled guilty on September 30, 2004, to conspiracy to commit bank fraud, false representation of an SSN, false statements to HUD, and identity theft. Arnold, who was a mortgage loan processor, began using a false identity. Arnold, along with an unnamed coconspirator (who has not been formally charged at this time), rented a Palm Harbor home, forged a deed to take title to it, then filed simultaneous applications to take out three mortgage loans totaling nearly $400,000. Arnold used a new name, "Teresa Blecker," along with her son's SSN and another set of phony financial credentials, to obtain an FHA-insured mortgage loan in Hillsborough County. The FHA loan was mortgaged for approximately $150,000.

In **Los Angeles, CA**, in Federal District Court, Central District of California, defendant Domingo Salaza was sentenced after he pled guilty to an information of two counts of wire fraud. Salazar was sentenced to pay $228,000 in restitution to HUD. He was also ordered to pay a $200 fine and serve 6 months of probation. Salazar worked as a real estate agent at Dynamic Brokers and caused fraudulent information to be submitted to HUD. Salazar was originally identified as part of the "April 8 Realty" investigation.

In **Springfield, MA,** a Federal District Judge sentenced defendant Chester J. Ardolino to 6 months house arrest, 3 years probation, a $7,000 fine, and 200 hours of community service.

This sentencing is the result of the December 17, 2004, guilty verdict on seven counts returned by a Federal jury in Springfield, MA, in connection with a single-family fraud investigation. Defendants Chester J. Ardolino, Police Captain with the City of Springfield, MA, Police Department, and Michael Hutchison, a former employee of the Hampden County Employment and



Ex-officer sentenced for scam

Gets home detention, probation, fined $7,000

Chester J. Ardolino leaves the U.S. District Court in Springfield yesterday after being sentenced to six months of home detention.

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Training Consortium (HCETC), a City of Springfield agency funded with Community Planning and Development (Community Development Block Grant) funds, were both found guilty. The two were arrested in January 2004, following the unsealing of a March 2003 indictment, which charged Ardolino and Hutchison with seven counts of wire fraud, mail fraud, false impersonations, money laundering, and bank fraud. The indictment alleged that Hutchison and Ardolino conspired to fraudulently obtain the mortgage to purchase a property at an inflated price using a straw buyer, which in this case, was Hutchison's sister. The indictment further alleged that Hutchison committed wire fraud using the HCETC fax machine to transmit the fraudulent loan documents to the mortgage company. The indictment also contained a forfeiture count for the property valued at $83,000.

Also, defendants Paul Starnes, Marc Brown, and David McCoy, all of Springfield, MA, were indicted by a Federal grand jury. The indictment charged the defendants with conspiracy to launder money and wire fraud in connection with a multimillion dollar mortgage scheme. The defendants were involved in a property-flipping scheme, in which 10 other individuals were previously indicted in September 2004, that had included more than 70 properties in the Springfield, MA, area, including HUD-REO properties purchased with FHA-insured mortgages totaling more than $5,900,000. The scheme by these three defendants duped lenders and homebuyers out of $1.5 million. The scheme included purchasing distressed properties, paying off appraisers to inflate their values, recruiting poor first-time buyers, drafting phony financial documents to obtain mortgages, and collecting large profits.

Also in this case in **Springfield, MA,** in U.S. District Court, defendant Elliott Beals, a real estate broker in the Springfield area, entered a guilty plea on an information filed by the U.S. Attorney's Office. Beals agreed to plead to four counts of failure to file income tax returns for tax years 1998, 1999, 2000, and 2001 on income generated from land flipping. Beals was offered this plea agreement as a part of the overall agreement to testify. Beals was the main witness in the recent trial of former Springfield patrolman Chester Ardolino and former Greater Springfield Entrepreneurial Fund employee Michael Hutchison, in which they were convicted of money laundering and wire/mail fraud

Pastor charged with 'flip' scheme

By STEPHANIE BARRY
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SPRINGFIELD – The pastor of a local Baptist church was arrested this morning and charged with two other city men for running an alleged real estate fraud ring that duped lenders and homebuyers out of $1.5 million.

The Rev. Paul J. Starnes, 39, leader of Morning Star Church, was arrested by federal agents early this morning. He was charged by a federal grand jury Thursday with wire fraud and money-laundering conspiracy along with Marc Brown, 45, and David McCoy, 42, all of Springfield.

The 13-page indictment unsealed yesterday states Starnes formerly owned Trinity Mortgage Brokerage Inc. at 146 Chestnut St. and was a partner in Trinity Land Co., which purchased and sold properties in Greater Springfield. Brown and McCoy were brokers at the mortgage company, according

Please see Flip, Page B3

involving the flipping of one of the properties. Beals was involved in numerous land flips, some involving HUD-REO properties, all of which occurred during the 1998-2001 period in the Springfield area. A sentencing date is pending.

Forgery, Theft, Embezzlement, and Money Laundering

In U.S. District Court, Western District of Michigan, **Grand Rapids, MI,** defendant Jack Brown, the president of Great Lakes Housing Incorporated (GLHI), a HUD-approved nonprofit, was sentenced to $443,694 in restitution, 400 hours of community service, and 15 months incarceration, while defendant Tim Doctor, an employee of GLHI, was sentenced to $62,000 in restitution, a fine of $5,000, and 12 months probation following their September 2004 guilty pleas.

Brown and Doctor were responsible for engaging in fraudulent transactions involving HUD and FHA-insured mortgages. Both admitted to misleading HUD officials into believing GLHI was a nonprofit entity when it operated for a profit for their personal gain. Because of their misrepresentations, GLHI was able to purchase at least 105 HUD properties within the Grand Rapids Office jurisdiction through the help of Terry Hansen, the former Chief of HUD's Property Disposition Branch, for a fraction of their true value and then obtain FHA 203(k) loans to rehabilitate the homes. Brown and Doctor profited from the purchases and use of the 203(k) rehabilitation funds. Hansen, his wife Judy, her two children, Chad and Dawn Elve, and John and Emalee Birne, former HUD contractors, have been convicted and sentenced in this case.

A Maricopa Country grand jury, Phoenix, AZ, indicted Edward Carrillo in **Scottsdale, AZ,** on three counts of fraudulent schemes and artifices and one count of theft. Carrillo was arrested, and search and seizure warrants were executed at his home/office. During the execution of the warrants, a Cadillac Escalade, a Chevrolet Corvette, and $21,281 in cash were seized. The seizure warrant also included a BMW, which has not yet been located. Carrillo, doing business as Sahara Investments, sold his fraudulent " pre-foreclosure" business to three investors for $400,000 in January 2004, 6 weeks after HUD-OIG executed a Federal search warrant at Carrillo's home/office. The Federal investigation was initiated after a mortgage company notified HUD-OIG that Carrillo had been purchasing FHA-insured properties through HUD's "pre-foreclosure" program, at substantial discounts, often using fraudulent appraisals. Carrillo then sold the homes the same day he purchased them at market value. HUD paid substantial claims for each property sold through the "pre-foreclosure" program. The ongoing Federal investigation disclosed that coconspirators at the title company, a mortgage company, and housing counseling agencies accepted large sums of money to approve and assist with over 100 "pre-foreclosure" sales in the Phoenix area. The grand jury indictment also alleged that in June 2004, Carrillo sold two FHA-insured properties to investors for $85,000 and $115,000. The investors paid Carrillo cash for the properties with defaulted mortgages. Carrillo never paid off the previous mortgages and refused to return the investors' money.

In **Seattle, WA,** in U.S. District Court, Western District of Washington, defendant Scott Anderson was sentenced to 24 months imprisonment, 36 months of supervised release, and $108,511 in restitution. Anderson previously pled guilty to interstate transmission of stolen funds, count six of the second superseding indictment. Anderson was initially indicted on eight counts of conspiracy to commit wire fraud, money laundering, interstate transmission of stolen funds, and possession of cocaine. As the president/owner of Washington One Stop, an escrow company, Anderson absconded with funds from the escrow trust account and failed to properly disburse escrow funds. Anderson's actions affected Section 8 of RESPA and Federal statutes.

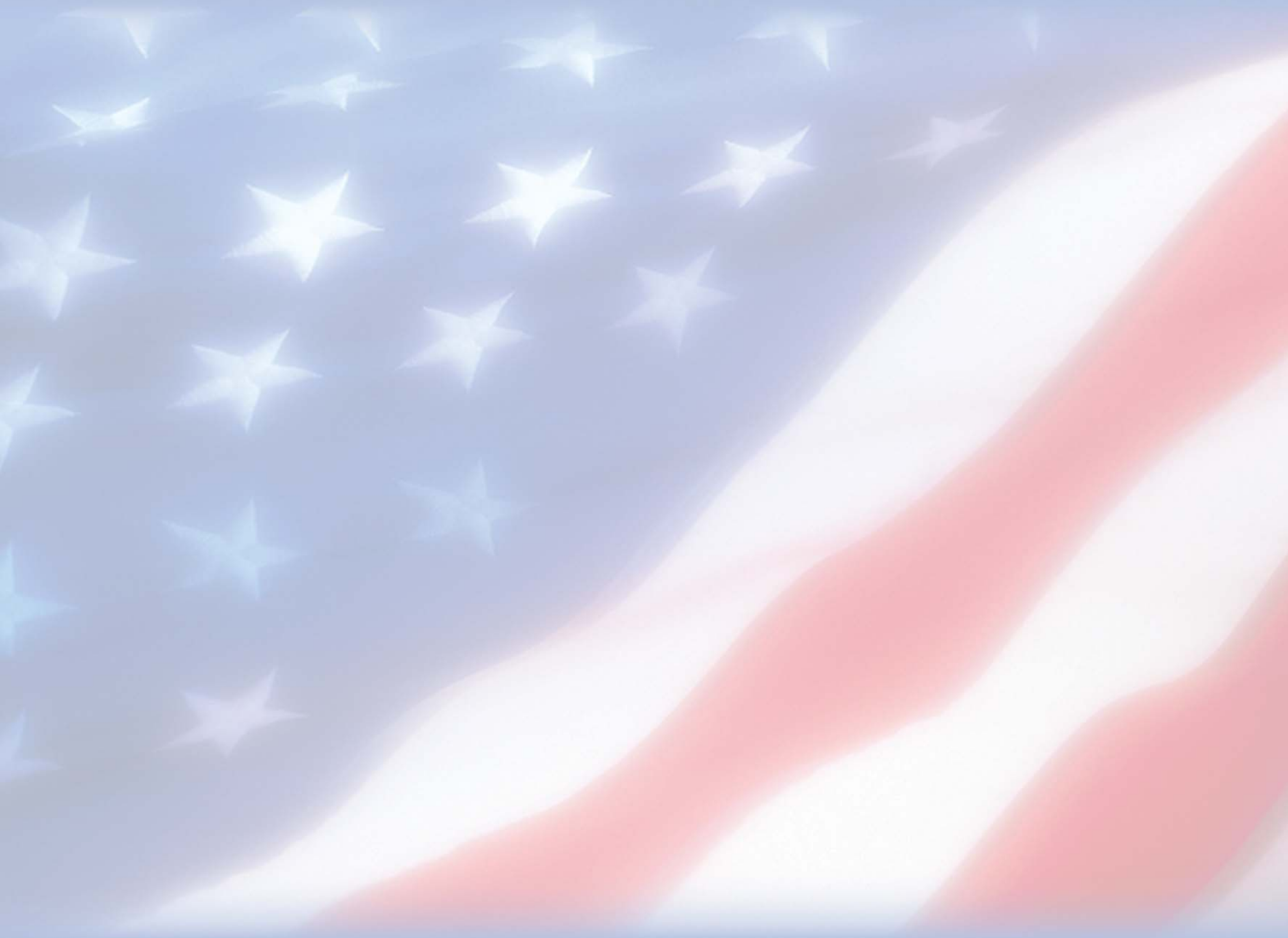
Defendant Gary T. Coley was charged in Federal Court in **Baltimore, MD,** with issuing fictitious obligations in connection with a scheme to defraud FHA mortgagors who were facing foreclosure. The investigation disclosed that Coley would contact homeowners and represent himself as an investor who would be willing to assist them in stopping imminent foreclosure proceedings. He collected substantial funds from them, then manufactured counterfeit, worthless Treasury notes that he submitted to banks and mortgage companies toward payment of the mortgages. Allegedly, Coley passed approximately $1.8 million in counterfeit Treasury notes. Many of the affected homeowners, in addition to losing the money they gave Coley, also ended up losing their homes. Further, it is estimated that almost $1 million in claims to the mortgage insurance fund will be made on FHA mortgages that were involved in this scheme.

In **East St. Louis, IL,** defendant Phillip Cohn, a real estate developer, pled guilty in U.S. District Court, Southern Illinois, to mail fraud, money laundering, and violating the Environmental Clean Air Act. Defendant Katrina Frede, Cohn's wife, also pled guilty to one count of bank fraud. Phillip Cohn was previously indicted on 20 counts that included 3 counts of mail fraud, 11 counts of money laundering, 3 counts of bank fraud, 1 count of wire fraud, and 2 counts of environmental crimes. Cohn admitted creating false invoices and falsely endorsing checks to obtain portions of $1 million placed in escrow for the environmental cleanup of East St. Louis School property. Cohn also admitted obtaining more than $620,000 in loans using the environmental escrow funds as collateral. The lending bank was unaware that the escrow funds had to be used for environmental cleanup, and the lending bank was also unaware that Cohn was creating false invoices to obtain the escrow funds for his own personal use. In addition, Cohn admitted the illegal removal of asbestos-containing materials from the Spivey Building, a separate property he owned.

In **Dallas, TX,** Assistant U.S. Attorney William McMurrey filed an information in the Northern District Court of Texas on defendant Frederico M. Garza, Jr., for defrauding HUD. Garza owned and operated Garza Reality. He was in the business of buying and selling real estate and representing individuals who wanted to buy and sell real property. Garza purchased HUD foreclosures in his parents' names, then contracted to sell the HUD-acquired properties to homebuyers at inflated markups. The HUD properties that Garza acquired were in poor condition and needed significant repairs to make them habitable and FHA insurable for financing. Garza contracted to sell the HUD homes to buyers with the understanding that the properties would be repaired. Garza arranged the financing for the first-time unsophisticated homebuyers who trusted him. He caused loan documents to be submitted to lenders for approval for the buyers without informing the lenders the properties were in disrepair. On a number of occasions, Garza contracted to sell the property before he actually owned it as well as providing fraudulent gift funds for the downpayments. There were 18 HUD-REO properties involved, with an FHA-insured amount of $1,221, 053.

Defendant Harold V. Fields, real estate agent, Valley Home Experts, Glendale, AZ, pled guilty in the Maricopa County Superior Court, **Phoenix, AZ**, to one count of fraudulent schemes, one count of theft, and one count of unlicensed real estate activity. Fields had previously been indicted by an Arizona State grand jury on 3 counts of fraudulent schemes, 1 count of unlicensed real estate activity, and 26 counts of theft. Valley Home Experts had been the number one seller of HUD-REO properties in Arizona for several years. The investigation disclosed that Fields recruited investors through advertisements in the newspaper and requested that each investor give him $25,000 to $100,000 to buy HUD-REO properties. 26 investors lost $1,502,166 in the scheme. Fields told each investor that these funds would be held in a trust account to be used for downpayments and closing costs for up to 12 investment properties. Often because of financing issues, many of the loans did not close, and the properties were recycled back into the HUD inventory. Many of the investors began to demand that Fields return their money after he failed to provide closing costs for several homes. These funds were never deposited into a trust account, and the investigation disclosed that Fields wire transferred more than $500,000 to an offshore sports betting operation.

Chapter 3



HUD's Public and Indian Housing Programs

The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to approximately 4,200 public housing authorities (PHAs) nationwide. About 3,200 PHAs manage public housing units, and another 1,000 with no public housing manage units under Section 8 programs. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

Chart 3.1: Public and Indian Housing Program Reports Issued

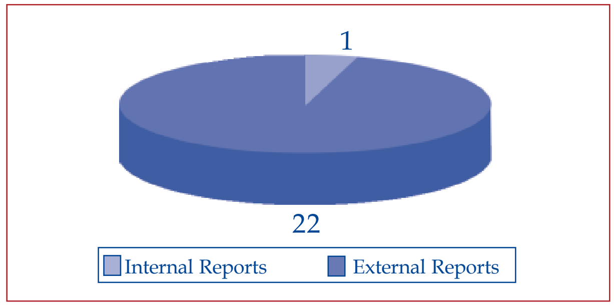
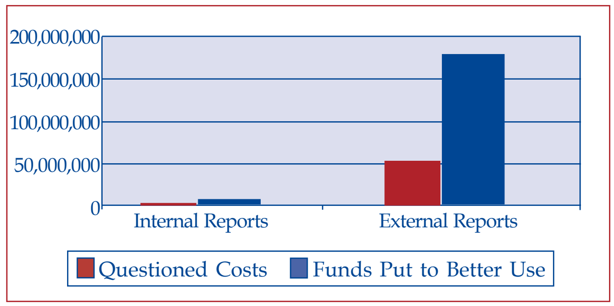


Chart 3.2: Public and Indian Housing Program Dollars



Audits

During this reporting period, the Office of Inspector General (OIG) issued 23 reports, 1 internal audit and 22 external audits in the Public and Indian Housing program area. These reports disclosed approximately $52.9 million in questioned costs and $188.2 million in recommendations that funds be put to better use. We reviewed the Section 8 Housing Choice Voucher program activities and public housing activities, including PHA activities with related nonprofit entities, and PHA pension plan forfeiture policy. In addition, we conducted a corrective action verification review.

Section 8 Voucher Program Activities

We audited the Housing Authority of the City of **Houston, TX,** Section 8 Housing Choice Voucher program. This is the second in a series of audits at the Authority. Our audit objective was to determine whether the Authority's contractor was performing inspections to ensure assisted units were decent, safe, and sanitary before tenants moved in and annually thereafter as HUD and Authority policies required.

In most cases, the Authority's contractor performed annual and initial inspections as required. However, since a majority, 88 out of 118 units, failed our

The chart cost figures in this chapter represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

housing quality standards (HQS) inspections, the contractor's inspections did not ensure the units were decent, safe, and sanitary. The significant failure rate occurred because the contractor appeared to be more focused on performing a large quantity of inspections than on the quality of those inspections.

Projecting the results of the statistical sample to the population indicates at least 9,088 of the Authority's 13,524 units do not meet standards. In addition, our inspections showed that 39 of the 88 units had either uncorrected items from previous inspections or conditions that had existed for more than a year. Thus, our results indicate the Authority expended $26.1 million on 3,503 units, which have failed items that have existed for a year or more. Further, since the Authority's contractor did not ensure the units met standards, its tenants lived in units that were not decent, safe, or sanitary.

We recommended that the Houston Office of Public Housing require the Authority to ensure all 88 failed units we identified meet standards. Further, the Authority needs to inspect all of its remaining units within the next 12 months to ensure those units also meet standards since our results indicated at least 67 percent will not. If the units cannot be made decent, safe, and sanitary, the Authority should either abate the rent or terminate the tenant's voucher. If the Authority corrects its inspection program, it will avoid paying an estimated $26.1 million on units that are not decent, safe, and sanitary in the next year. (Audit Report: **2005-FW-1007**)

We audited the Housing Authority of the City of **Houston, TX,** Section 8 Housing Choice Voucher program. This is the third review in a series of audits at this Authority. We designed the audit to determine whether the Authority's contractor correctly calculated housing assistance payments and to determine the effect if the contractor calculated the payments incorrectly.

The Authority's contractor did not correctly calculate or support its calculations of Section 8 housing assistance payments. Our projection of the results of a statistical sample showed the Authority's contractor made errors in at least 7,168 of its 13,732 housing choice voucher files over a 13-month period. Due to the contractor's errors, the Authority overpaid at least $1.1 million and underpaid at least $115,000 in Section 8 assistance. The Authority did not detect or prevent the errors because it did not properly monitor its contractor and relied on the contractor to police itself. The Authority terminated its contract with the contractor in October 2004. However, if the Authority does not implement controls and procedures to prevent similar errors, it will incur at least an additional $1 million in incorrectly calculated housing assistance payments over the next 12 months.

We recommended that HUD require the Authority to review all of its Section 8 housing choice voucher files and correct any errors that have occurred. HUD should require the Authority to repay the approximate $13,000 that we identified as ineligible payments and pay the tenants approximately $1,700 that we identified as underpaid assistance based on our sample file reviews. Also, HUD should require the Authority, based on its file reviews, to either support more that $1.1 million that we identified as unsupported payments or repay those Section 8 funds to HUD and support more than $113,000 that we identified as assistance underpayments or pay those Section 8 funds to the tenants. Finally, HUD should require the Authority to implement controls to prevent future housing assistance payment errors, which we project to be at least $1 million per year. (Audit Report: **2005-FW-1006**)

We completed an audit of the Section 8 Housing Choice Voucher and low-rent public housing programs of the Glens Falls Housing Authority of **Glens Falls, NY**. Our review focused on tenant selection and continued occupancy activities and whether such activities are being carried out in accordance with requirements and regulations of HUD.

Under the Section 8 Housing Choice Voucher program, the Authority's rental assistance payments were not calculated properly, and HQS violations were either not detected or detected but not reported properly by inspectors of the Authority. Also, for both the Section 8 Housing Choice Voucher and low-rent public housing programs, the Authority's admission policies are not consistent with HUD requirements, information on applications and recertification forms was not properly verified, and program participants' annual income was not properly determined. As a result, HUD lacks assurance that more than $700,000 was spent for units that were decent, safe, and sanitary. We recommended that HUD require the Authority to implement procedures and controls to correct the deficiencies and weaknesses cited in the audit report. (Audit Report: **2005-NY-1001**)

Public Housing Authority Activities

We completed an audit of the Housing Authority of Maricopa County's (**Phoenix, AZ**) mixed finance development activities. The objective of our review was to determine whether the Authority followed HUD regulations and requirements in the development of its mixed finance projects and related property disposition activities. We found that even though the Authority never obtained HUD approval of its two projects, it went forward with them and invested more than $7.2 million of its Federal dollars in the projects. The failure to follow HUD's development requirements has put this $7.2 million investment at risk. Additionally, because the Authority did not amend its annual contributions contract to reflect the changes resulting from the two projects, it has received more than $500,000 of operating subsidy and capital grant funds to which it is not legally entitled. The report recommended that the Authority work with HUD to ensure the project/units meet the legal and compliance requirements of the mixed-finance development program, including contributions contract and declaration of trust amendments. If the projects cannot be brought into compliance, the Authority should be required to refund the questioned costs to its low-income public housing program using nonfederal funds. (Audit Report: **2005-LA-1002**)

At the request of HUD's Hartford Field Office, we completed an audit of selected programs of the **Waterbury, CT**, Housing Authority. The programs included Public Housing Capital Fund program; disposition of the South End Project; Section 5(h) Public Housing Homeownership program; and multifamily projects owned, managed, and administered by the Authority. The primary purposes of our audit were to determine whether the Authority administered its selected programs efficiently, effectively, and economically and complied with the terms and conditions of its annual contributions contract, applicable laws, directives, and regulations. The Authority did not administer its programs in an efficient, effective, and economical manner.

We concluded that the Authority's management controls were too weak to ensure that it complied with the terms and conditions of its annual contributions contract, applicable laws, directives, and regulations.

We recommended that HUD assure the Authority reimburses the applicable program more than $676,000 from nonfederal funds for the inappropriate expenses cited in this report, provides documentation to support more than $850,000 for the unsupported funds cited in this report or reimburses the applicable program from nonfederal funds, recaptures more than $2.3 million in program funds not used, and implements procedures and controls to correct the weaknesses cited in the report. (Audit Report: **2005-BO-1001**)

We audited **Boulder, CO**, County Housing Authority. Our audit objectives were to determine the effectiveness of the controls over and accounting for the receipt and use of HUD funds, evaluate the effectiveness of the controls over HUD-funded personnel functions, and determine the effectiveness of HUD-funded tenant eligibility and certification procedures and evaluate controls over tenant rent subsidies.

The Authority did not properly use HUD funds, which resulted in at least $433,000 in ineligible and $123,000 in unsupported costs. The internal controls over and procedures for accounting functions were inadequate and used inappropriate accounting practices. We determined that the personnel functions performed by Authority staff were effectively completed and documented. Also, the Authority had implemented effective controls over the tenant eligibility, certification procedures, and tenant rent subsidy functions and had complete, well-maintained tenant files and rent subsidy documentation.

We recommended repayment to the Authority's program accounts for the ineligible costs and any of the unsupported costs for which adequate supporting documentation could not be provided. We also recommended changes to accounting controls and procedures to ensure compliance with HUD's requirements and accounting principles. (Audit Report: **2005-DE-1002**)

We audited the activities of the **Stockton, CA**, Housing Authority of the County of San Joaquin to determine whether the Authority (1) used low-rent housing program funds for non-low-rent housing program expenses and (2) followed Federal requirements and its own procurement policies and procedures. In addition, we determined whether allegations received in two complaints were valid.

It was determined that the Authority improperly awarded more than $3.3 million in contracts for goods and services. We attribute this to the Authority's decentralized procurement process, which allowed department managers to procure goods and services without following Federal regulations and its own adopted policies. The Authority misused more than $5.5 million in low-rent housing program funds to pay for its non-low-rent housing program expenses. We attribute the Authority's misuse of low-rent housing program funds to poor management decisions, as well as the lack of adequate controls in place to safeguard low-rent housing funds. We validated the primary allegations in two complaints and determined that the Authority's former Executive Director awarded consulting contracts to what appeared to be friends or colleagues.

We recommended that HUD require the Authority to terminate all current legal and security services contracts and issue new requests for proposal, establish a centralized procurement department, cease the practice of using low-rent housing funds to pay for non-low-rent housing purchases and expenses, reimburse the low-rent housing program more than $154,000 from nonfederal funds in accrued interest for misusing more than $5.5 million in low-rent housing program funds, reimburse the low-rent housing program $518,559 from nonfederal funds for ineligible and unsupported costs incurred by its non-low-rent housing programs, and establish better controls to ensure that low-rent housing program funds are used only for that program's related expenditures. (Audit Report: **2005-LA-1001)**

We completed an audit of the Royal Oak Township Housing Commission's Public Housing Program of **Ferndale, MI**. We selected the Housing Commission for audit based on two citizen complaints. The complainants alleged that the Housing Commission's public housing units were in poor physical condition, tenants were housed contrary to HUD's requirements, and public housing funds were misspent.

The Housing Commission's housing units were in poor physical condition. A HUD construction analyst inspected 32 statistically selected housing units and identified 1,166 deficiencies that did not meet HUD's uniform physical condition standards and Federal handicap accessibility requirements. The Housing Commission also did not meet the uniform Federal accessibility standards for access and the required number of handicap-accessible housing units. HUD's construction analyst estimated that more than $5 million in repairs and more than $192,000 for unit renovations was needed to meet HUD's uniform physical condition standards and Federal accessibility standards. The Housing Commission allowed new tenants with criminal convictions to be housed and did not evict existing tenants with known criminal convictions in violation of HUD's "one strike" policy. The Housing Commission also inappropriately paid more than $3,000 for travel expenses for its Board attorney, and it approved approximately $8,000 for a new project sign changing the name of an existing project without HUD's prior approval.

We attributed these conditions to the Housing Commission's Board of Commissioners not allowing its former Executive Director to hire, evaluate, and fire maintenance and administrative staff and contractors in a timely manner without prior Board approval. The Housing Commission's Board also disagreed with HUD's requirements regarding its role and authority.

We recommended that HUD require the Housing Commission to (1) reimburse its public housing program from nonfederal funds for the inappropriately used monies and (2) implement procedures and controls to correct the weaknesses cited in this report. We also recommended that HUD take strong administrative action against the Housing Commission's Board of Commissioners for its improper oversight of the Housing Commission. (Audit Report: **2005-CH-1003**)

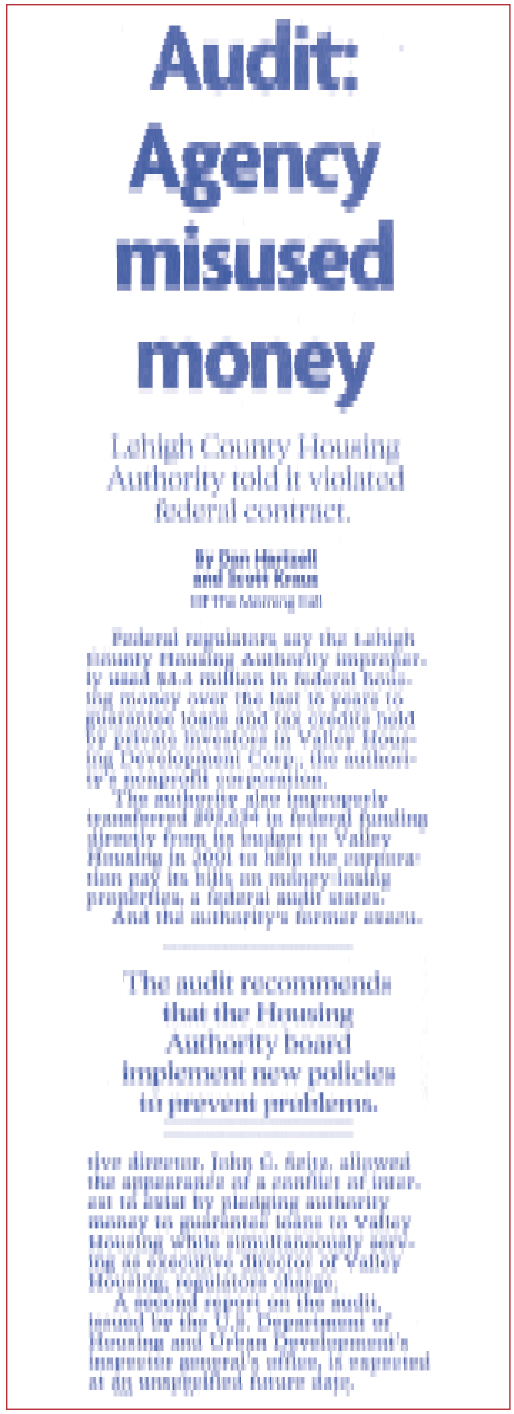
We completed an audit of the **Los Angeles, CA,** Housing Authority of the City of Los Angeles' procurement actions and contract management as they relate to activities of its resident management corporations/resident advisory councils. We found significant problems with the Authority's procurement and management of contracts it entered into with its resident management corporations and consultant. The report recommended that the Authority refund or provide documentation to support $1.8 million in ineligible and questioned costs and take actions to strengthen its procurement and contract management processes. (Audit Report: **2005-LA-1805**)

Public Housing Authority Activities with Related Nonprofit/Nonfederal Entities

We performed an audit at the Lehigh County Housing Authority of **Emmaus, PA**, in response to a complaint. The complainants alleged the Authority used HUD funds improperly to benefit its affiliated nonfederal entity known as Valley Housing Development Corporation.

We found that the Authority improperly used HUD funds to develop and support its affiliated nonfederal entities. Further, our audit identified an apparent conflict of interest regarding the Executive Director's relationship with the Authority's affiliated nonfederal entities.

We recommended that HUD take action, if appropriate, to declare the Authority in substantial default of its consolidated annual contributions contract and direct the Authority to take immediate action to remove its remaining encumbrances of $130,000 in HUD assets. We also recommended that HUD require the Authority to recover approximately $13,000, which it improperly provided its affiliated entities, or repay the amount from nonfederal funds. Lastly, we recommended that HUD direct the Authority's Board of Commissioners to create internal controls to prevent, detect, and resolve the improper pledging of HUD assets and conflict of interest situations. (Audit Report: **2005-PH-1001**)


Audit: Agency misused money

Lehigh County Housing Authority told it violated federal contract.

The audit recommends that the Housing Authority board implement new policies to prevent problems.

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We performed a second audit of the Lehigh County Housing Authority in response to a complaint in **Emmaus, PA**. Our audit objectives were to determine whether the Authority could adequately support its use of HUD funds and whether it used HUD funds to develop and support its affiliated nonfederal entities.

Contrary to its annual contributions contract, the Authority could not always support expenditures made with HUD funds and used HUD funds to develop and support its affiliated nonfederal entities. The Authority could not provide adequate documentation to support $4 million in expenditures it made from January 2001 to December 2003 using HUD public housing and Section 8 program funds. During the same period, the Authority also used an estimated $726,000 in HUD funds to pay salary and administrative costs of its affiliated nonfederal entities.

We recommended that HUD require the Authority to provide adequate documentation to fully support its disbursement of $4 million of HUD funds that it could not properly support or reimburse HUD from nonfederal sources. We also recommended that HUD require the Authority to implement an equitable method of allocating administrative expenses to its nonfederal entities and to reimburse more than $726,000 to the public housing program for ineligible salaries and administrative costs it provided to its nonfederal entities. The Authority acknowledged that it could not adequately support costs during the audit and did not have a certified costs allocation plan. It also agreed to pass Board resolutions approving new procedures needed to ensure it properly supports and allocates costs. (Audit Report: **2005-PH-1007**)

We reviewed the **Durham, NC,** Housing Authority's financial operations and procurement procedures. Our audit objectives were to determine whether the Authority's misuse of funds jeopardized its ability to operate its projects in a manner that promotes serviceability, economy, efficiency, and stability and whether the Authority followed HUD procurement regulations.

The Authority jeopardized project stability by misusing funds to subsidize operations of Development Ventures, Inc. (DVI), a nonprofit subsidiary. As of June 30,

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HUD: DHA has until 2020 to repay $4.8M

BY VIRGINIA BRIDGES, The Herald-Sun
December 16, 2004 10:49 pm

DURHAM -- The Durham Housing Authority will have until December 2020 to pay back parts of the $4.8 million federal officials say it misspent, according to a report issued by the Greensboro office of the U.S. Department of Housing and Urban Development.

However, officials are still evaluating the authority's ability to use Hope VI grant funding and the future of its board, according to federal documents and officials.

In August the Office of Inspector General, HUD's auditing arm, released an audit that criticized housing authority officials for misspending about $4.8 million in federal funding on affordable housing projects under the authority's nonprofit arm, Development Ventures Inc.

The spending put public housing at risk and violated provisions in the authority's federal contract that allow it to receive public funds to house the poor, the audit said.

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2004, DVI owed $4.1 million to the Authority. At its current rate of spending, we estimated the Authority had enough funds to continue operations for about 7 months.

The Authority inappropriately procured about $6.9 million and cannot support another $953,000 for goods and services. In our opinion, the Authority can increase the effectiveness of its procurement activities for the $2.2 million in capital funds by developing and implementing improved procurement procedures that comply with procurement regulations.

We recommended that HUD require the Authority to (1) devise plans with multiple strategies for resolving both its short-term and long-term financial problems, (2) repay approximately $6.9 million to its programs from nonfederal funds, and (3) provide support for another $953,000 of questionable expenditures. (Audit Report: **2005-AT-1004)**

As result of our audit review of the Housing Authority of the City of **Pittsburgh, PA's** implementation of its Moving to Work demonstration program, we found the Authority was not able to develop and implement an effective strategy to fully use the freedom and flexibility of the Moving to Work program. Since entering the program in November 2000, the Authority has accumulated more than $81.4 million in HUD funds and an additional $21.2 million in the first and final year of its agreement. However, the Authority lacked the capacity to implement all components of its Moving to Work plan.

We recommended that HUD not extend the Authority's current agreement after it expires on December 31, 2005, and develop and implement a workable strategy to transition the Authority out of the program. This process will ensure that accumulated and future reserve funds of more than $102 million will be used prudently and expediently to improve the condition of the Authority's more than 6,700 low-rent housing units and provide suitable housing to nearly 3,000 households on its Section 8 and low-rent waiting lists. (Audit Report: **2005-PH-1008)**

We reviewed the Housing Authority of the City of **Charleston, SC**. We found the Authority did not support its allocations of more than $8.9 million and costs of more than $6.6 million in salaries, wages, and fringe benefits that were charged to the Federal programs as required. Authority officials believed their allocation method complied with the requirements. However, without support to substantiate the allocations and costs of actual services performed by personnel or some type of quantifiable measures of employee effort, the Authority may not have accurately charged the Federal programs. In addition, the Authority transferred $400,000 of its Section 8 administrative fee reserves to its Housing Finance Agency. When the Authority transferred the funds to its Housing Finance Agency account, HUD lost visibility of the funds and could not monitor the funds to ensure they were properly spent.

We recommended that HUD require the Authority to provide documentation to justify the more than $8.9 million in allocated costs and $6.6 million in costs without supporting certifications and ensure the Authority makes appropriate adjustments to the various programs. Also, we recommended that HUD require the Authority to develop a reasonable method for allocating its future costs to include daily activity reports and semiannual certifications for services performed by its personnel. Further, we recommended that HUD require the Authority to transfer the $400,000 of Section 8 administrative fee reserve funds back to the reserve account, along with the interest earned on the funds. (Audit Report: **2005-AT-1002**)

We reviewed the **Birmingham, AL,** Jefferson County Housing Authority's administration of its housing development activities. Our primary objective was to determine whether the Authority had diverted or advanced resources subject to its low-income housing annual contributions contract or other low-income housing agreements or regulations to the benefit of the other entities without specific HUD approval.

The Authority advanced more than $771,000 and inappropriately used $396,000 to pay the expenses of its programs and nonprofit entities, including affiliated nonprofit corporations, in excess of the funds the programs or entities had on deposit. These actions occurred because the Authority did not have adequate controls in place to monitor the revolving fund account. For fiscal years (FY) 2000 through 2003, the Authority did not support $3.3 million in salary costs allocated for Federal programs for employees dividing their time among several programs.

We recommended that HUD require the Authority to settle the more than $771,000 or current balance owed to the revolving fund account and repay the $396,000 balance. We also recommended that HUD require the Authority to provide documentation to justify the $3.3 million in salary charged to Federal programs from 2000 through 2003. (Audit Report: **2005-AT-1006**)

We reviewed the **Carrollton, GA,** Housing Authority of the City of Carrollton's administration of its housing development activities as part of our audit of HUD's oversight of PHA development activities with related nonprofit entities.

The Authority advanced more than $316,000 to its private housing program, Little River Management, without specific HUD approval. The advances were made because the private housing program did not have sufficient income to pay its obligations and reimburse the Authority. The Authority repaid the HUD program approximately $249,000, the amount owed at May 31, 2004; however, it continued to advance funds. As of May 31, 2004, another $43,000 had been advanced. The repayment included the cash payment and an adjustment of approximately $121,000 that the Authority did not support. As a result, more than $359,000 in ineligible advances reduced funds for its public housing program needed to serve its low-income residents. In addition, the Authority failed to realize approximately $15,000 in interest income because the funds were not available for investment. The Authority did not support its allocation of administrative and maintenance salary costs with activity reports or equivalent documentation as required. The Authority also executed five loan agreements for the purchase of private property that put more than $1.4 million of its HUD funds at risk. The agreements included set-off provisions that allowed the lender to withdraw the HUD funds on deposit if the loan payments were not made.

We recommended that HUD require the Authority to repay more than $43,000 in funds that were advanced and $15,000 in interest lost from nonfederal sources, ensure that no further advances are made without prior HUD approval, and provide documentation to support the adjustment of more than $120,000 or reimburse its public housing program. We also recommended that HUD require the Authority to take immediate action to terminate the agreements that have put more than $1.4 million in HUD funds at risk by either seeking a waiver of the set-off provisions, closing its accounts with the local lender, or refinancing the loans with another lender. (Audit Report: **2005-AT-1001**)

In **Huntington, WV**, we performed an audit at the Huntington Housing Authority in response to a complaint. Our audit objective was to determine whether the Authority properly used HUD funds to develop and support its affiliated nonfederal entities. While the Authority was generally prudent and did not guarantee debt of its affiliated nonfederal entities, it sometimes improperly used HUD funds to develop and support its nonfederal entities. It did not allocate all relevant salary costs to its affiliated Housing Development Corporation, contrary to its annual contributions contract. As a result, from July 1999 to June 2004, the Authority improperly paid salaries estimated at $320,000 from Federal funds for work its employees performed for this nonfederal entity. We also estimated that in the future, the Authority will be able to better use more than $46,000 annually by properly accounting for and allocating the work its employees perform for its nonfederal entities. We recommended that HUD require the Authority to recover more than $320,000 from the Housing Development Corporation for employee salary expenses not properly allocated to the nonfederal entity or repay it from nonfederal funds. We also recommended that the Authority develop a reasonable method for allocating its future cost to its nonfederal entities, thereby putting more than $46,000 to better use annually. (Audit Report: **2005-PH-1002)**

In **Marysville, WA,** we performed an audit of the Tulalip Tribes Housing Authority's block grant to determine whether the Authority established and operated its program in accordance with HUD requirements for financial management systems.

We found the Authority cannot account for more than $5.1 million in Indian Housing Block Grant funds. The Authority's financial management system was unauditable because the financial statements, general ledger, and subsidiary ledgers for FY 1999 through 2001 are not complete and accurate as required. Further, the Authority did not obtain the necessary financial statement audits for FY 2002 and 2003. As a result, the Authority cannot provide reasonable assurance that its Indian Housing Block Grant funds helped the intended beneficiaries. In our opinion, this occurred because the Board of Commissioners and the Authority's management did not have effective control of Authority accounting operations.

We recommended that HUD take administrative action to ensure the Authority complies with program requirements and require the Authority to return any Indian Housing Block Grant funds not used for authorized purposes. (Audit Report: **2005-SE-1001**)

Corrective Action Verification Review

We performed a corrective action verification review of the actions the **Baltimore, MD,** Housing Authority of Baltimore City had taken to implement key recommendations cited in OIG Audit Report 2001-PH-1003, issued March 28, 2001. As of September 22, 2004, HUD determined the Authority had fully implemented final actions on all of our prior recommendations. Our overall objective was to determine whether the Authority implemented our key audit recommendations and corrected the deficiencies we identified in our previous audit report.

The Authority had not yet fully implemented all key OIG recommendations. This resulted in part because the severity of the problems in the Section 8 program required more time to correct than the Authority had originally anticipated. However, the delays the Authority experienced in implementing its management information system adversely affected its ability to fully implement the other recommendations. We found the Authority had not yet fully developed and implemented all the financial system controls necessary to ensure its books and records were maintained in accordance with HUD requirements and adequate procedures were followed to fully budget and use its available Section 8 resources. Although HUD had closed these recommendations, we found the Authority was still developing and implementing appropriate processes to address and resolve these remaining issues.

Based on our review, we reopened recommendations that addressed the Authority's need to improve its financial system controls and key components over its administration of the Section 8 program. We also recommended that HUD immediately recapture $25.1 million of the $38 million in the Authority's reserve account and require the Authority to repay or reimburse the program for more than $70,000 of ineligible expenses. (Audit Report: **2005-PH-1004**)

PHA Pension Plan Forfeiture Policy

The objective of this **internal** audit was to determine the amount of funds that could be put to better use if HUD changes its policy and requires PHAs with private defined contribution pension plans to return pension plan forfeitures to the benefit of contributing Federal programs. HUD's current policy allows housing authorities with defined contribution pension plans to reallocate forfeitures of separating employees to other plan participants or to reduce employer contributions or administrative costs. The policy that permits authorities to allocate forfeitures to other plan participants is inconsistent with the Office of Management and Budget's (OMB) cost principles for State, local, and Indian Tribal Governments, OMB Circular A-87. The cost principles require the Federal Government to receive an equitable share of any previously allowed pension costs that reverts or inures to the governmental unit. We believe that HUD could put about $5,300,000 per year to better use if it requires housing authorities to refund or credit pension plan forfeitures to the Federal housing programs that incurred the original pension costs.

We recommended that the Office of Public and Indian Housing process a policy revision and promptly distribute the policy to the housing authorities. (Audit Report: **2005-FW-0001**)

Investigations

During this reporting period, the OIG opened 389 investigation cases and closed 253 cases in the public and Indian housing program area. Judicial action taken on these cases during the period included $79,673,692 in investigative recoveries, $20,679,282 in funds put to better use, 590 indictments/informations, 284 convictions/pleas/pretrial diversions, 887 administrative actions, 9 civil actions, 15 personnel actions, and 1,419 arrests.

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

Chart 3.3: PIH Recoveries

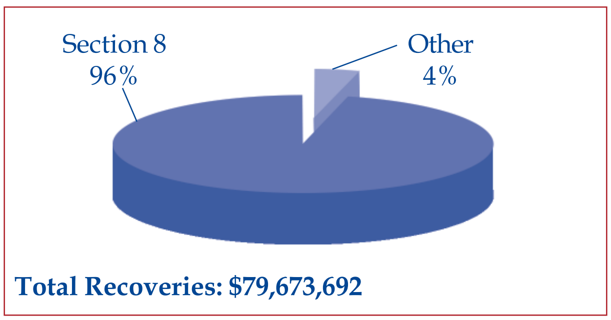
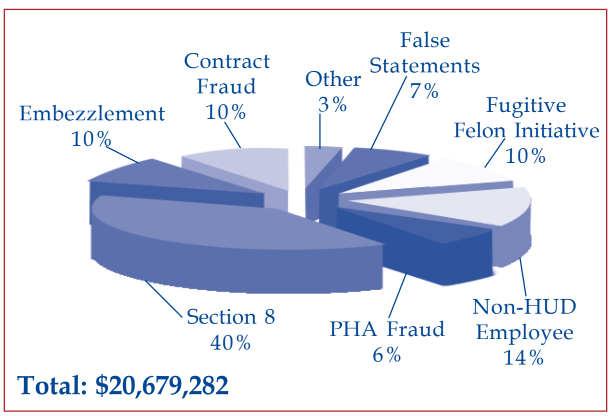


Chart 3.4: PIH Funds Put to Better Use



PHA Management and Program Officials/Employees

In **Springfield, MA,** a Federal grand jury in Springfield, MA, returned a superseding indictment in which Raymond Asselin, Sr., and Arthur Sotirion (the former Executive Director and Deputy Executive Director, Springfield Housing Authority) were charged with four additional counts of bribery and John Spano (vendor) was charged with one additional count of bribery on January 11, 2005. Raymond Asselin, Sr., was charged with two additional counts of witness tampering; Raymond Asselin, Sr., Raymond Asselin, Jr. (son), Maria Serrazina (daughter), James Asselin (son), and Peter Davis (vendor) were charged with five additional counts of obstruction of justice; Raymond Asselin Sr., Janet Asselin (wife), Arthur Sotirion, and Paul Bannick (vendor) were each charged with five counts of filing false income tax returns. A criminal forfeiture was also filed against the following individuals: (1) Raymond Asselin, Sr., and Janet Asselin against property located at 115 Mayfair Avenue, Springfield, MA; property at 56 Stage Island Road, Chatham, MA (Cape Cod); a 2002 BMW; a 23-foot Chaparral boat; and $290,650 in U.S. currency seized during the execution of Federal search warrants at the house of Raymond Asselin, Sr., Janet Asselin, and Maria Serrazina; (2) Arthur Sotirion for property located at 811 Dickinson Street, Springfield, MA; undeveloped property located on Little Diamond Island, ME; and a time-share located in Aruba; (3) Christopher Asselin (son) and Merylina Asselin (daughter-in-law) for property located at 184 Bowles Park Ext., Springfield, MA; (4) James Asselin for property located at 16 Dwight St., Springfield, MA; (5) Joseph Asselin (son) and Melinda Asselin (daughter-in-law) for

Round 2 for Asselins: Innocent pleas made

By JACK FLYNN
jflynn@repub.com

SPRINGFIELD – Two generations of the Asselin family came together in U.S. District Court yesterday to deny a second round of charges in an alleged decade-long swindling-spree at the Springfield Housing Authority.

One after another, the family members – Raymond B. Asselin, his wife, four of his children, including former state Rep. Christopher P. Asselin, and two daughters in-law – stood up and pleaded innocent to counts in a new indictment handed down by a federal grand jury last week.

With his lawyer at his side, Raymond Asselin, 67, took nearly two minutes to answer all the racketeering conspiracy, mail fraud, extortion, money laundering, witness tampering and tax counts read off by a court clerk.

Please see Asselins, Page A10

property located at 518 Old Farm Road, Amherst, MA; and (6) Maria Serrazina for property located at 140 Sallie Circle, Ludlow, MA. All defendants appeared in court on January 19, 2005 to plead not guilty to the charges outlined in the superseding indictment.

In **Pittsburgh, PA**, defendant Patti Braun, former accountant for the HUD-funded Clarion County Housing Authority (CCHA), was sentenced in Federal Court, Western District of Pennsylvania, based on her previous admission of guilt to stealing funds from the CCHA. Braun was ordered imprisoned for 18 months, to be followed by 3 years probation. She was also ordered to repay the CCHA $136,396. The investigation revealed that over at least a 10-year period, Braun embezzled funds by writing checks payable to herself, which she concealed by altering the electronic check register to reflect that the checks had been made payable to legitimate CCHA vendors.

In **Wamego, KS**, Sheila L. Spangler, a former Executive Director of the Wamego Housing Authority (WHA), was sentenced to 6 months confinement and 60 months probation and ordered to pay $33,000 in restitution after she pled guilty to one count of a two-count indictment in the U.S. District Court of Kansas, Topeka, KS. Spangler was convicted for her intent to defraud in using one or more unauthorized access devices for using a U.S. Bank Visa business card, issued in the name of the WHA, to obtain goods and services for her personal use. Spangler submitted a letter of resignation to the WHA Board on March 18, 2003, and immediately moved to Arizona and became employed at the Maricopa County Housing Authority. The investigation revealed that the WHA was not receiving mail after Spangler moved to Arizona. A check with the postmaster revealed that Spangler had put a hold on the mail before her departure and was having the mail forwarded to her address in Arizona. The credit card fraud was discovered after the mail delivery to the WHA had resumed. The WHA Board of Commissioners audited the financial records and discovered that Spangler misused a WHA credit card issued in the name of a former Executive Director and two additional cards, the first under the name of a tenant in care of the WHA and second under Sheila Spangler in care of the WHA. This misuse resulted in $33,000 in losses.

In **Billings, MT**, a Federal grand jury for the District of Montana, returned a four-count indictment charging Dwight Stewart, Wayne Other Medicine, and Billie Tall Bull with one count each of converting property valued at $5,000 or more by falsifying or inflating travel expenses or taking payroll advances. In addition, Crow Tribal Housing Authority (CTHA) funds were used for personal purposes that included a trip to Disney World. The indictment also indicated that the CTHA lost more than $10,000 as a result of each of the defendants' conduct and that each defendant abused a position of trust. The fourth count of the indictment charged each of the defendants with embezzling, stealing, and converting to their use or the use of another and willfully misapplying or allowing to be misapplied property belonging to the CTHA in violation of Title 18 U.S.C. § 1163, Embezzlement and Theft from an Indian Tribal Organization.

In **Newark, NJ**, Miladys Gomez, a former Assistant Administrator for the Perth Amboy Housing Authority, appeared in United States District Court. Gomez pled guilty to four counts of theft of Section 8 funds (theft from programs receiving Federal funds). As Assistant Administrator for the Section 8 program for the Perth Amboy Housing Authority, Gomez was responsible for the printing and issuing of housing subsidy checks to landlords on behalf of Section 8 recipients. She also secured and reviewed application forms submitted by prospective participants in the Section 8 program and updated computer records for the program. Between April 1, 2000, and January 23, 2004, Gomez used her access to the checks to steal $407,603 in Section 8 funds from the Perth Amboy Housing Authority as well as using these checks for her own personal use.

Following their August 31 arrest, 10 employees of the Cuyahoga Metropolitan Housing Authority (CMHA), **Cleveland, OH**, were indicted for various State felony charges in Cuyahoga County Common Pleas Court, Cleveland, OH. Lenard McClain, Supervisor, was indicted for theft in the office, tampering with records, and bribery. Employees Gerald Ford, John Tsolakis, and Ray Ellington were charged in a conspiracy to commit theft in office and tampering with records. Employees Kevin Martin, James Jones, Darrel Sampson, Alvin Roan, Keith Smith, and Leon David were also charged with felony counts of tampering with records and misuse of a credit card. The investigation focused on payroll and overtime fraud, specifically, being paid for working on personal residences during regular work hours and employees stealing CMHA materials and using agency gas credit cards for personal use, resulting in a total loss of approximately $20,000.

In **Orlando, FL**, Federal Court, Middle District of Florida, Courtney Escoffery, former Quality Assurance Director with the Orlando Housing Authority (OHA), was sentenced to 30 months incarceration and 3 years supervised release and was ordered to pay restitution of $205,185 as a result of his guilty plea to one count of conspiracy to embezzle funds.

The investigation disclosed that Escoffery and conspirators Randy Donawa and Kisha Stewart, former OHA employees, used their positions to divert approximately $424,853 from the OHA Section 8 funds by changing landlord bank routing codes in the OHA internal computer system. The investigation revealed that Escoffery and Donawa used stolen funds as seed money to start a property management company and purchased three condominiums they intended to rent to Section 8 tenants.

Indicted in the Middle District of Florida on 42 counts of conspiracy to embezzle, embezzlement, theft concerning programs receiving Federal funds, and money laundering were Leslie Tourner, Brian Tourner, and Shawanna Glover. The Tourners and Glover were friends of Stewart and Donawa, who diverted approximately $219,668 in Federal funds into the Tourners' and Glover's bank accounts. Also indicted in the Middle District of Florida on eight counts of conspiracy to embezzle, embezzlement, theft concerning programs receiving Federal funds, and wire fraud was Samuel Davis. Davis, the brother-in-law of Escoffery, conspired with Escoffery and Donawa to divert $86,000 in Section 8 funds from the OHA, which were purportedly being returned to the New York Housing Authority when, in fact, they were being wired to Davis' personal bank account. Previously indicted in the Middle District of Florida were Randy Donawa and Kisha Stewart.

In **Maquoketa, IA**, defendant Miriam Brown, former Executive Director of the Maquoketa Housing Authority, was charged in an information in Federal Court, Northern District of Iowa, with embezzling more than $50,000 from HUD. Defendant Brown allegedly embezzled approximately $64,000 in a 3-year period by reimbursing herself for expenses that did not exist and overpaying herself with unapproved bonus and salary checks.

Marysol Morales, former Section 8 Coordinator, **Avon, MA**, Housing Authority was indicted by a Federal grand jury in U.S. District Court, Boston, MA, on three counts of bribery. Morales was arrested pursuant to a Federal arrest warrant as a result of the indictment and

FRIDAY, FEBRUARY 18, 2005 THE BOSTON GLOBE

Woman held in alleged Section 8 scam

Was an Avon housing official

By Shelley Murphy

Marysol Morales's job at the Housing Authority in Avon was to help low-income residents find housing. What she was doing instead, prosecutors say, was stealing from them.

Morales, according to a federal indictment, duped three people last fall into believing that if they paid her sums ranging from [illegible] they'd get federal Section 8 vouchers, which the US Department of Housing and Urban Development distributes to help eligible low-income residents afford rent payments on apartments.

Last November, one person gave Morales [illegible] and another gave her [illegible] after she told them they needed to pay for the first and last month's rent and a security deposit on their apartments, according to the indictment.

Instead, Morales, 41, of Brockton, kept the money, the indictment alleges. Both individuals — one had been waiting two years for an apartment, the other had been waiting a year and a half — were given vouchers that were essentially worthless because there were no available apartments, according to federal officials.

Morales, who was arrested yesterday had worked at the Housing Authority for nine years until she was fired last year, allegedly took [illegible] last September from a third individual who had been on the waiting list for six months and was promised that she would get an apartment quicker in exchange for the payoff, the indictment alleges.

US Attorney Michael J. Sullivan said in a prepared statement yesterday that the Section 8 program "is intended to help some of the neediest and most vulnerable people in Massachusetts."

He added, "Taking money from individuals who are already struggling financially and seeking housing for their families, as is alleged, is particularly cruel."

Morales's formal charge is for the corrupt receipt of payments while managing a federally funded program.

In court yesterday, she said she couldn't afford to hire a lawyer. The government has put a lien on her home.

Boston attorney J. W. Carney Jr., appointed by the court yesterday to represent Morales, declined to comment on the charges.

Assistant US Attorney Paul Levenson, who is prosecuting the case, argued that Morales might pose a danger to witnesses or flee if she's released. He noted that she was fired from her job and recently put her house up for sale.

But Carney said Morales had no plans to leave Brockton, where she lives with her longtime boyfriend, her daughter, and granddaughter. US Magistrate Judge Judith Dein ordered Morales jailed without bail pending a hearing Wednesday.

A spokeswoman for the Department of Housing and Urban Development, Kristine Foye, said the agency last year launched an administrative review, which developed into a criminal investigation, after discovering that the Avon Housing Authority had issued 178 vouchers for Section 8 housing but was only authorized to issue 102.

Investigators are looking into whether there are others who were duped into paying money for the missing vouchers. Sullivan's office yesterday urged any other victims to come forward.

Those on the waiting list for Section 8 vouchers have been prequalified for a subsidized apartment. Foye said that to qualify in the Brockton-Avon area, a family of four can't earn more than [illegible] a year; a single person can't earn more than [illegible].

was being held pending a detention hearing. These actions are the result of an ongoing HUD-OIG investigation, which revealed that Morales had solicited bribes from three Section 8 applicants ranging from $2,600 to $6,000. It is also alleged that Morales issued more than 90 Section 8 vouchers that should not have been issued, causing the housing authority to terminate more than 90 families from the Section 8 program. The 90 fraudulent Section 8 vouchers were valued at more than $1.3 million, which caused the Avon Housing Authority to pay in excess of $50,000 per month in housing assistance payments that it did not have. As a result of the allegations, the Avon Housing Authority has also attached a lien against Morales' personal residence, located in Brockton, MA, in the amount of $350,000, since she had placed the property up for sale. Morales was fired from her job at the Avon Housing Authority on December 30, 2004.

In **Gary, IN**, a criminal complaint was filed in the Superior Court of Lake County, Crown Point, IN, against Yolanda Denise Hughes, the Payroll Coordinator for the Gary Housing Authority, for her role in a scheme to embezzle funds from the authority. According to the complaint, Hughes was alleged to have used her position in the Payroll Department to "pad" her paychecks over and above her salary for approximately $45,000 during the years 2003 and 2004. Moreover, the complaint alleged that Hughes used these funds for the purchase of clothing, jewelry, and a second vehicle.

Violation of Tenant Rights

In **Skowhegan, ME**, three civil administrative complaints were filed with HUD's Administrative Law Judge against Colin Quinn, Stephen McDaniel, and Van Ames, landlords of multiple market rent and Section 8 properties. The three civil administrative complaints were filed because the defendants repeatedly violated The Lead Hazard Reduction Act by failing to make required lead paint disclosures in at least 28 transactions, thereby preventing tenants from taking informed measures to reduce or eliminate their exposure to lead-based paint. The following civil penalties were proposed against the three landlords: Quinn $638,000, McDaniel $176,000, and Van Ames $132,000.

In **Minneapolis, MN**, the District of Minnesota, the U.S. Attorney's Office, Civil Division, and David Ray Beaudet, landlord, reached a settlement, in which Beaudet agreed to pay $425,000. This followed an investigation into allegations that the conditions of the lease for various females were based on their granting him sexual favors. Beaudet owns 36 properties in the St. Paul, MN area, more than half of which are subsidized by Section 8 payments from the St. Paul Housing Authority.

Investigations Involving Public Officials

In **Boston, MA,** Hans Fretthlor-Verduzco and Jesus Oritiz Durazo were arrested at the Bunker Hill Public Housing Development in Boston, MA. Fretthlor-Verduzco was charged with offering bribes to a public official, cocaine trafficking in a school zone, and conspiracy to violate drug laws. Durazo was charged with cocaine trafficking in a school zone and conspiracy to violate drug laws. Seized during this arrest was one kilogram of cocaine. Also, a State search warrant was executed at Fretthlor-Verduzco's apartment located in the Harbor Point Housing Development. Twenty-six pounds of marijuana and $4,300 in U.S. currency were seized during the search. The arrests and indictment were the result of an incident in January 2004 when Hans A. Fretthlor-Verduzco approached two Special Police Officers from the Harbor Point Housing Development Public Safety Department who were paid with HUD Drug Elimination Grants funds. Fretthlor-Verduzco offered cash bribes to the Special Police Officers if they agreed to protect Fretthlor-Verduzco from other police while Fretthlor-Verduzco sold cocaine and marijuana in and around the Harbor Point Housing Development, a Boston public housing development. The two Special Police Officers informed HUD-OIG and the Massachusetts State Police of Fretthlor-Verduzco's bribe attempt, and an investigation was initiated.

Grand Theft/False Statements/ Conspiracy

In **Syracuse, NY**, Andre Parker, President and Owner of Parker Environmental Management Group, Inc., appeared in Federal Court, Northern District of New York, and was sentenced to 48 months in prison. Parker Environmental Management Group, Inc., was also sentenced to 2 years of probation.

Parker and Parker Environmental Management Group were found guilty of 22 felony counts for conspiracy to violate the Clean Air Act, conspiracy to violate the Superfund Act, mail fraud, and making false claims. In 2001, Parker directed employees of Parker Environmental Management Group to illegally remove asbestos from 31 buildings of the Plattsburgh Housing Authority. Thereafter, Parker's employees dumped hundreds of bags of asbestos throughout the City of Plattsburgh. Previously, Griffin International, Inc., pled guilty to conspiracy to violate the Clean Air Act and mail fraud. Griffin International provides project design, project monitoring and air monitoring to firms performing asbestos abatement. The charges arose from an illegal agreement between Griffin International and Parker Environmental Management Group. Griffin took fraudulent air monitoring samples and permitted Parker Environmental to perform illegal asbestos work practices during an abatement project at the Plattsburgh Housing Authority. Griffin International was sentenced to 3 years probation and was ordered to pay a fine totaling $199,302.48 in U.S. District Court, Northern District of New York.

Also, Felipe Escobar, Project Supervisor for Parker Environmental, was sentenced to 9 months of home confinement and 4 years of supervised release and was ordered to pay restitution of $200,000 to the Plattsburgh Housing Authority. He was sentenced based on his plea to a one-count information for conspiring to violate the Clean Air Act and the Comprehensive Environmental Response, Compensation, and Liability Act. Escobar illegally removed and disposed of asbestos-containing material from buildings of the Plattsburgh Housing Authority.

In **Hamilton, OH**, Geovanny Cuevas, a former Butler Metropolitan Housing Authority (BMHA) tenant and employee, was sentenced to 6 months imprisonment, 3 years probation, and court ordered restitution in the amount of $1,000, following her conviction at a jury trial in September 2004. During that trial, Cuevas was found guilty of grand theft in the Hamilton County Court of Common Pleas for her role in receiving approximately

$17,000 in overpaid housing subsidies based on allegations that she maintained a subsidized apartment in Brooklyn, NY, while also occupying the unit in Ohio under the BMHA.

In **Oakland, CA,** Shamia Nears, a former Section 8 tenant with the Oakland Housing Authority (OHA), and her mother, Doris White, were sentenced in the State of California Superior Court for their scheme to defraud the Alameda County Social Services, CalWORKS, Child Care Links, and the OHA through false representations that Nears had three dependent children when she had none. In September 2004, Nears and White pled guilty to six felony counts of aid by misrepresentation, perjury, conspiracy to commit a crime, and grand theft. In light of her conviction, Nears was sentenced to serve 16 months in prison and 5 years of parole and ordered to pay $123,361 in restitution, of which $17,266 was due to the OHA. White, who was an abettor in this matter, received 30 days in county jail.

In **St. Louis, MO**, Cedric Williams was sentenced in Federal Court to serve 12 months in prison and ordered to pay $118,665 in restitution. Williams previously pled guilty to conspiracy to commit wire fraud. Williams used his Section 8 residence to make credit card transactions using stolen credit card numbers. He accomplished this by starting fictitious businesses, opening business accounts, and using a credit card reader to enter stolen credit card numbers, which resulted in credits to his business accounts. In the same investigation, Mark Bateman was sentenced to serve 18 months in prison and ordered to pay $118,665 in restitution. Bateman conspired with Williams to commit wire fraud, as described above.

In **Chicago, IL**, the Circuit Court of Cook County, Barbara O Kennard, Section 8 tenant, pled guilty to a class two felony following the information. The information charged O Kennard of Hazel Crest, IL, with theft by deception in violation of Illinois Compiled Statutes, chapter 720, section 5/16-1(a)(2). On the same day, O Kennard was sentenced to 30 months probation, restitution in the amount of $40,150 payable at a rate of $200 per month, and court costs of $179.

O Kennard accepted responsibility for the scheme, in which she occupied a newly purchased home as a Section 8 tenant despite the fact that she co-owned the property with her sister who acted as the landlord. Further, O Kennard listed her daughter as an unemployed family member residing in the home when, in fact, she did not reside in the home, was employed, and received her own housing assistance out of De Kalb, IL. The total loss to HUD is $40,150.

In **Boston, MA**, a civil complaint was filed by the U.S. Attorney's Office, District of Massachusetts, under the False Claims Act, against Delia J. Baez, a former public housing tenant who had resided at the Boston Housing Authority (BHA) development known as Franklin Field. The complaint alleges that Baez obtained Federal financial assistance designed for the indigent through false claims as part of the fraud.

The complaint alleges that Baez applied for and received an apartment at Franklin Field, income assistance and foods stamps from the Massachusetts Division of Transitional Assistance, and Medicaid, all funded in whole or in part by the Federal Government. According to the complaint, Baez received more than $63,000 in such assistance. To obtain these benefits, Baez represented on written applications and certifications on numerous occasions that she had little income and that she had no assets when she had substantial assets, including commercial real estate in Jamaica Plain, MA (Mi Tierra Restaurant), and a multifamily residence in Roslindale, MA.

On August 13, 2002, the U.S. Customs and Border Patrol service seized $62,552 from Baez at Logan Airport in Boston, MA, while she was attempting to leave the United States by airplane. Baez admitted that she was the owner of the money. In addition, Baez maintained a bank account containing large sums of money and has admitted to receiving a substantial monthly income. The civil complaint covers the period 2001 through 2004 and seeks treble damages and civil penalties.

In **Farmington, UT**, Henry Ross and Theresa Holt, who are husband and wife, were sentenced by a Davis County Judge for Second District Court to each pay a fine of $500, plus restitution amounting to $17,972. The judge ordered both defendants to serve 36 months of probation after they each complete a specified period of home detention. Ross was ordered to serve 90 days of home detention while his wife, Holt, was ordered to serve 45 days of home detention. This sentencing was the result of a previous guilty plea to one count of attempted communications fraud, a third degree felony, resulting from their failure to report their true household income to the Davis County Housing Authority. This failure to report resulted in a $17,972 overpayment of Section 8 subsidies on their behalf.

In **Ft. Lauderdale, FL**, Arjunen Apana was sentenced to 36 months supervised release and ordered to pay restitution in the amount of $16,354 in addition to a $2,000 fine. Apana previously pled guilty to one count of conspiracy before Federal Magistrate Judge James Cohn (Southern District of Florida - Fort Lauderdale, FL). This sentencing was related to a 30-count Federal grand jury indictment, which charged Apana and seven coconspirators with conspiring to steal Federal funds through the Pompano Beach Housing Authority.

In the same case, in **Ft. Lauderdale, FL**, Debbie Nelson was sentenced to 60 months supervised release and ordered to pay restitution in the amount of $24,855 in addition to a $200 special assessment fee. Nelson previously pled guilty to one count of conspiracy and one count of money laundering before Federal Magistrate Judge James Cohn (Southern District of Florida - Fort Lauderdale, FL). This sentencing was related to a two-count information that charged Nelson and two coconspirators with conspiring to steal Federal funds through the Pompano Beach Housing Authority. Also, in the same case, Nirmala Chandradat was sentenced to 36 months supervised release and ordered to pay restitution in the amount of $16,004 in addition to a $100 fine. Chandradat previously pled guilty to one count of conspiracy. This sentencing was related to a 30-count Federal grand jury indictment, which charged Chandradat and seven coconspirators with conspiring to steal Federal funds through the Pompano Beach Housing Authority.

In **Kensington, NH**, Amy McPherson, former Section 8 tenant, pled guilty to a four-count information on February 28, 2005, charging McPherson with making false statements to the U.S. Government. The investigation disclosed that McPherson had ownership interest in the Section 8 property for which she was receiving her Section 8 rental subsidy. The first two counts of the information relate to HUD, the third to the U.S. Department of Health and Human Services (HHS), and the fourth to the U.S. Department of Agriculture (USDA). McPherson agreed to make restitution to the United States in the amount of $98,854, but for the purposes of the criminal restitution, the amount ordered by the court should not exceed $67,547. The $67,547 is based upon the following loss amounts: $38,765 (HUD), $5,756 (USDA), and $23,026 (HHS).

In **St. Louis, MO,** Sharonda Jenkins signed a pretrial diversion agreement in the U.S. District Court for Eastern Missouri in which she admitted to making false statements to the St. Louis Housing Authority to receive excess rental assistance payments. Jenkins had failed to report her income since 2002. Jenkins agreed to make restitution in the amount of $15,863.

In **San Juan, PR**, defendant Eneida Soto-Rodriguez entered into an agreement to reimburse the Department of Housing for the Municipality of San Juan $14,064. During the years 1995 to 2000, Soto-Rodriguez falsely stated no employment income on her annual certifications to qualify for a Section 8 rent subsidy. Also in this case defendant Jeannie Fuentes-Carmona entered into an agreement to reimburse the Department of Housing for the Municipality of San Juan $19,910. During the years 1994 to 2001, Fuentes-Carmona falsely stated no employment income on her annual certifications to qualify for a Section 8 rent subsidy.

In the Circuit Court of Cook County, **Chicago, IL**, Allison Waters, Section 8 landlord, and Patricia Flowers, Section 8 tenant, pled guilty to one felony count following their January 2004 indictment. They were each sentenced to 300 hours of community service. Waters and Flowers accepted responsibility for a scheme, in which they occupied a newly purchased home as co-occupants in spite of the fact they were both tenant and landlord. They used another coconspirator, Preston Handcox, and his residence as a drop box for the housing assistance payments. Waters and Flowers would accept checks made out to Handcox from the housing authority and deposit them in their joint bank account. The total loss in this case is $48,000.

In the **Bronx, NY,** Karen Vidal was arrested based upon a Federal arrest warrant that was issued by the U.S. District Court, Southern District of New York, for two counts of theft of government funds. During this investigation, the Yonkers Municipal Housing Authority observed that Section 8 checks for their tenant (Vidal) were being mailed to Vidal's mother and not the Section 8 landlord. Starting in October 2002 and continuing through April 2004, Vidal received approximately $11,745 in Section 8 benefits. HUD-OIG determined that Vidal received her Section 8 benefits through the 9/11 Victim's Emergency Help and Housing, which was established to assist individuals adversely affected by the 9/11 terrorist attacks. Vidal produced false documents to show that she lost her job due to the 9/11 terrorist attacks. The investigation determined that Vidal left her employment before September 11, 2001, making her ineligible for the Section 8 vouchers that she received. Additionally, the Social Security Administration (SSA) OIG determined that Vidal fraudulently received approximately $28,235 in Social Security disability benefits for her daughter.

In Lucas County, **Toledo, OH**, Court of Common Pleas, Alfred Darah, Jr., and Alice Faye Darah pled guilty to one count of attempted grand theft. Alfred Darah, a

Section 8 landlord, accepted responsibility for renting his subsidized unit to his mother and failing to disclose her true relationship to him. He purportedly continued to collect housing assistance payments on the vacant unit after she moved out. Finally, Darah admitted to subleasing the unit and simultaneously collecting a Lucas County Housing Authority payment and a market rate rent check after his mother moved out. The approximate overpayment of behalf on Alfred Darah is $7,100. Alice Darah accepted responsibility for falsely certifying to SSA from 1995 through 2004 that she was separated from Alfred while they were occupying the same residence. The approximate overpayment on behalf of Alice Darah to SSA is $40,510.

In **Norristown, PA**, former Section 8 tenant Anndria Smith Watkins pled guilty in State Superior Court to defrauding the federally funded Section 8 rental assistance program, as administered by the Montgomery County (PA) Housing Authority (MCHA), and also to defrauding the Colonia School District through theft of services. A sentencing date has not been determined. The investigation disclosed that from 1995 through 2002, the defendant failed to disclose the residency and income of her husband on annual recertification forms she furnished to MCHA and in so doing, obtained the benefit of approximately $39,000 in rental assistance to which the family was not entitled. Further, during this time, they purchased and moved into a home but continued to send their three children outside of the proper school district in violation of State law, which amounted to $102,000 in theft of services.

In **Martinez, CA,** the Superior Court of California, County of Contra Costa, an amended complaint was filed charging Patricia Laverne Bryant with 25 counts of violating the California Penal Code. The charges consisted of grand theft, welfare fraud, and perjury. The complaint stemmed from an investigation, which disclosed Bryant's failure to report to the Housing Authority of Pittsburg her boyfriend's residency in the HUD-subsidized unit and additional income Bryant derived from monies intended for a childcare provider. Bryant's actions resulted in a loss of $162,381, of which $46,000 was un-entitled housing benefits.

Identity Theft

Defendant Jackie Morgan pled guilty and was sentenced in Cuyahoga County, **Cleveland, OH,** Court of Common Pleas. Morgan pled guilty to identity theft, tampering with records, aggravated theft, possession of drugs, and trafficking in drugs. Her sentence was 66 months incarceration and restitution totaling $132,162.

Morgan accepted responsibility for receiving a public housing subsidy from the New York City Housing Authority under the name Jackie Davis while receiving subsidy from the Cuyahoga Metropolitan Housing Authority under the identity of Jackie Morgan. Further, Morgan admitted obtaining a Section 8 rental voucher from CMHA under the name Jackie Morgan while purchasing this same property under the name Elizabeth Spencer for $126,900 and acting as the landlord for housing assistance payments.

Morgan was originally arrested on August 1, 2003, at her Section 8 residence located at 4882 East 106th Street, Cleveland, OH, under the Fugitive and Felon Initiative. Morgan was arrested on an outstanding warrant for possession of drugs and/or preparation of drugs for sale, and during the search, 100 pounds of marijuana, $103,000 in cash, and three vehicles were seized.

Lydia Irma Iniguez of **La Puente, CA**, a Section 8-assisted housing participant, was arrested and charged with obtaining aid by false statements. On September 27, 1998, Iniguez acquired title to a house located in LaPuente, CA, using the name Irma Cortez. Iniguez signed over her ownership interest in the house to Claudia Garcia, (a separate and true individual). Iniguez then transferred her Section 8 benefits to the house on November 11, 1998, and told Los Angeles County Housing Authority personnel that her landlord was Garcia. In April of 2004, Garcia granted the house back to Irma Cortez. This was in violation of Iniguez's Section 8 housing assistance payment contract. Based on Iniguez's false statements, the Authority made $52,392 in payments to Garcia.

The Office of Inspector General's Enforcement Actions in Support of the Rental Housing Integrity Improvement Program

In support of the HUD-OIG Rental Assistance Fraud Initiative, HUD-OIG, Office of Investigation, proactively initiated additional computer matching agreements during this semiannual reporting period. These new agreements will identify rental assistance fraud by Federal employees and U.S. Postal Service employees. These two groups of employees would not have been captured in the HUD, Office of Public and Indian Housing, Rental Housing Integrity Improvement Project (RHIIP) Upfront Income Verification (UIV) computer matching tool. UIV, now known as Enterprise Income Verification, compares public housing tenants and housing choice voucher recipients with State wage data reported by more than 22 States. HUD-OIG will supervise these matching projects and pursue any criminal cases identified from the results. Other Agency OIGs will work jointly with HUD-OIG on these potential cases.

In addition, HUD-OIG initiated a data comparison agreement with the National Center for Missing and Exploited Children during this semiannual reporting period. This data comparison is part of a new HUD-OIG national initiative to locate missing children who are residing in HUD-funded housing.

HUD-OIG also initiated a data comparison agreement during this semiannual reporting period with the U.S. Department of Homeland Security, Bureau of Immigration and Customs Enforcement. This data comparison initiative will locate subsidized housing residents who failed to depart the United States as ordered.

HUD-OIG has a current data comparison agreement with the Department of Justice, Criminal Justice Information Services Division, and the U.S. Marshal's Service (USMS) in support of the Fugitive Felon Program. This initiative attempts to identify fugitives receiving HUD-funded rental assistance and target them for arrest.

In addition to these initiatives, HUD-OIG continues to explore and identify proactive ways to identify fraud in HUD programs and assist Federal, State, and local law enforcement.

In **Miami, FL**, on January 25, 2005, as part of the Section 8 Initiative, HUD-OIG Special Agents arrested six tenants and one landlord on Federal housing fraud charges stemming from a 9-month collaboration with the United States Attorney's Office, Southern District of Florida, and three housing authorities. A Federal grand jury separately indicted the defendants with multiple counts of theft of federally subsidized housing funds and filing false statements to HUD. Collectively, the defendants defrauded HUD of more than $139,000 in Section 8 housing subsidies. The false statements provided by the six Section 8 subsidized tenants consisted of concealing employment income, concealing ownership of property, concealing ownership of businesses, and undisclosed tenants. The seventh defendant, a Section 8 landlord, sold the property he rented under the program and continued to receive and negotiate subsidy checks for an 11-month period. One tenant and the landlord have since pled guilty. This investigation and enforcement operation resulted in a press conference in which Inspector General Donohue and the United States Attorney addressed the importance of the nationwide effort to eliminate fraud and corruption in Section 8 subsidized housing and applauded the efforts of the housing authorities that worked with OIG in this collaborative endeavor.

The U.S. Attorney's Office, Public Corruption Section, indicted an employee of the Miami Dade Housing Agency for defrauding the Section 8 subsidy program. Samuel Norris was charged with theft of government funds and making false statements to HUD. As a Supervisor in the Agency's Leasing and Contracts Section for more than 20 years, Norris certified that a third party was the legal owner of a property he owned and diverted $21,000 in Section 8 subsidy payments to himself. The Miami Dade Housing Agency, the largest housing authority in South Florida, continues to be proactive in reporting to OIG those employees, tenants, and landlords who are engaging in corruption and fraudulent activity involving the Federal Section 8 subsidized housing program.

Throughout the **State of Illinois**, as part of "Operation Silver Fox," on March 21, 2005, 24 individuals with outstanding felony warrants and 2 persons in possession of a controlled substance were arrested by agents from HUD-OIG, the Great Lakes Regional Fugitive Task Force, and officers from the Rockford Police Department and the Winnebago County Sheriff's Office. The outstanding offenses include State of Illinois charges, involving drugs, assault, weapons, and fraud. One of those arrested was part of a recent Bureau of Alcohol, Tobacco, and Firearms Federal indictment from the Northern District of Illinois. All of the arrests occurred in the city of Rockford at housing authority-assisted units.

More than 50 officers participated in the early morning sweep, which concentrated on at least 15 of the Rockford Housing Authority's developments. Each of the individuals arrested was either a Rockford Housing Authority tenant or an occupant of the unit. Among those items seized were 100 rocks of crack cocaine.

Media coverage for the press conference included three television stations, two newspapers, and two radio stations.

In **Worcester, MA,** Inspector General Kenneth Donohue attended a press conference at the Worcester Housing Authority (WHA) on October 28, 2004, to highlight the continuing success of the Section 8/Fugitive Felon Initiative in Worcester, MA, being conducted by the WHA's Department of Public Safety, Worcester Police Department (WPD), Massachusetts State Police (MSP), and HUD-OIG.

On October 25, 2004, law enforcement agents from the WPD, MSP, the Worcester Housing Authority's Department of Public Safety, and HUD-OIG conducted reasonable suspicion inquiries at the Wellington Street Apartments, a PHA development in Worcester, MA. Based on previous allegations of illegal residents living in the units, approximately 20 apartments were visited to determine the validity of the allegations. On October 26, 2004, law enforcement agents from the WPD, WHA, Department of Public Safety, and HUD-OIG obtained approximately 30 arrest warrants at Worcester, MA, Federal housing sites for outstanding State warrants as a continuation of its Fugitive Felon Initiative. The Worcester Section 8/Fugitive Felon Initiative has resulted in more than 70 arrests; 11 have been referred for eviction, and 8 removed from the program.

In U.S. District Court at **Chicago, IL**, in a parallel criminal/civil investigation known as "Operation EIGHT" (Enforcement of Ineligible Grantees Housing Task Force), 14 Section 8 tenants from the Chicago Housing Authority (housing authority) were criminally charged for their participation in multiple schemes to defraud the housing authority. These actions were the culmination of a 3-year-long HUD-OIG proactive match between housing authority tenants and employment information from the Illinois Department of Employment Security. These individuals were charged with making false statements and/or theft/embezzlement. Among those schemes included in the indictments were tenants having an ownership interest in the property they were renting, a tenant collecting Section 8 and public assistance in both Wisconsin and

14 charged in federal rent, utility subsidy schemes

BY NATASHA KORECKI
Staff Reporter

Federal officials announced Wednesday they have charged 14 people, including four public employees, with scamming more than $400,000 in rent and utility subsidies from the Housing and Urban Development Department.

Among those charged in separate cases are two Chicago schoolteachers, an engineer with the Illinois Department of Transportation and a Cook County Circuit Court employee. Two others allegedly lied on applications and received money to help them pay rent in buildings they actually owned themselves.

The criminal charges would bring five to 10 years of jail time.

In addition, 12 of the 14 were slapped with civil suits that could also bring thousands of dollars in additional fines and liability for up to three times the amount of damages.

Assistant U.S. Attorney John Kocoras said the civil suits and potentially hefty fines should serve as a financial deterrent to other potential scammers.

Those charged were ineligible for but took advantage of a HUD program offering rent subsidies to low-income families and elderly and disabled people whose income falls below a certain threshold.

"There is a problem with people attempting to defraud the program," Kocoras said. "The funds could have been used to treat families who truly could have been assisted."

Illinois, two tenants who vacated their subsidized units while occupying FHA-insured residences, a tenant who cashed housing assistance payments for her deceased landlord, and tenants who failed to report substantial sums of income for a prolonged period of time.

Among the individuals charged were an employee of the Circuit Court of Cook County, two teachers from the Chicago Board of Education, and a former employee of the Illinois Department of Transportation. On the same day, 12 of the 14 individuals had civil complaints filed against them for the following counts: false claims, payment by mistake, and unjust enrichment. In summary, losses to the housing authority exceeded $400,000 based on the alleged false statements in these cases. The names of those criminally charged were as follows: Antoine Reed, Michelle Lowe, Howard Wilson, Sovaya Chalmers, Tenille Davis, Johnnie Mae Willis, Bader Hafeez, Urena Woods, Angela Gibbs, Rodon Bailey, Evelyn Griffin, Charlette White, Juwana Foster, and Muhammad Abudullah.

Fugitive Felon Initiative: OIG Enforcement Action in Support of Rental Assistance Voucher Fraud

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

On September 25, 2002, the Government Accountability 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.

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

The OIG Fugitive Felon Initiative began in FY 2003. Initially, the Fugitive Felon Initiative used only USMS wanted person data in an effort to identity fugitives. The Office of Investigation identified a more far-reaching tool to implement this strategy by working with the Department of Justice's Criminal Justice Information Service and matching its data in the National Criminal Information Center for fugitive felons with HUD's PIC and Tenant Rental Assistance Certification System data on assisted living housing tenants.

This data-matching is used by all Investigation Regional Offices to assist with the OIG Section 8 Rental Assistance Voucher Fraud Initiative in HUD-funded public and multifamily housing to apprehend fugitives residing in assisted housing. During this semiannual reporting period, the Office of Investigation efforts in this initiative resulted in 824 fugitive felon arrests.

The following cases reinforce the OIG commitment to the Fugitive Felon Initiative.

In **Boston, MA,** on December 8, 2004, law enforcement agents from the Boston, MA, Police Department (BPD), BHA Police, Massachusetts Department of Parole, Massachusetts Department of Youth Services, Massachusetts Bay Transit Authority, and HUD-OIG, arrested 15 individuals as part of an ongoing fugitive felon initiative in the Metropolitan Boston area. This particular fugitive felon sweep focused on the BHA public housing development known as Bromley Heath, located in the Jamaica Plain section of Boston. Although the fugitive felon initiative in Bromley Heath had been in the planning stages, following a meeting between the BPD Police Commissioner Kathleen O'Toole and HUD-OIG, the initiative became a priority with BPD following the rape of a 17-year-old female by 10 youths in the basement at Bromley Heath on November 29, 2004. Five of the ten suspects in this sexual assault were among the 15 that were apprehended in this initiative.

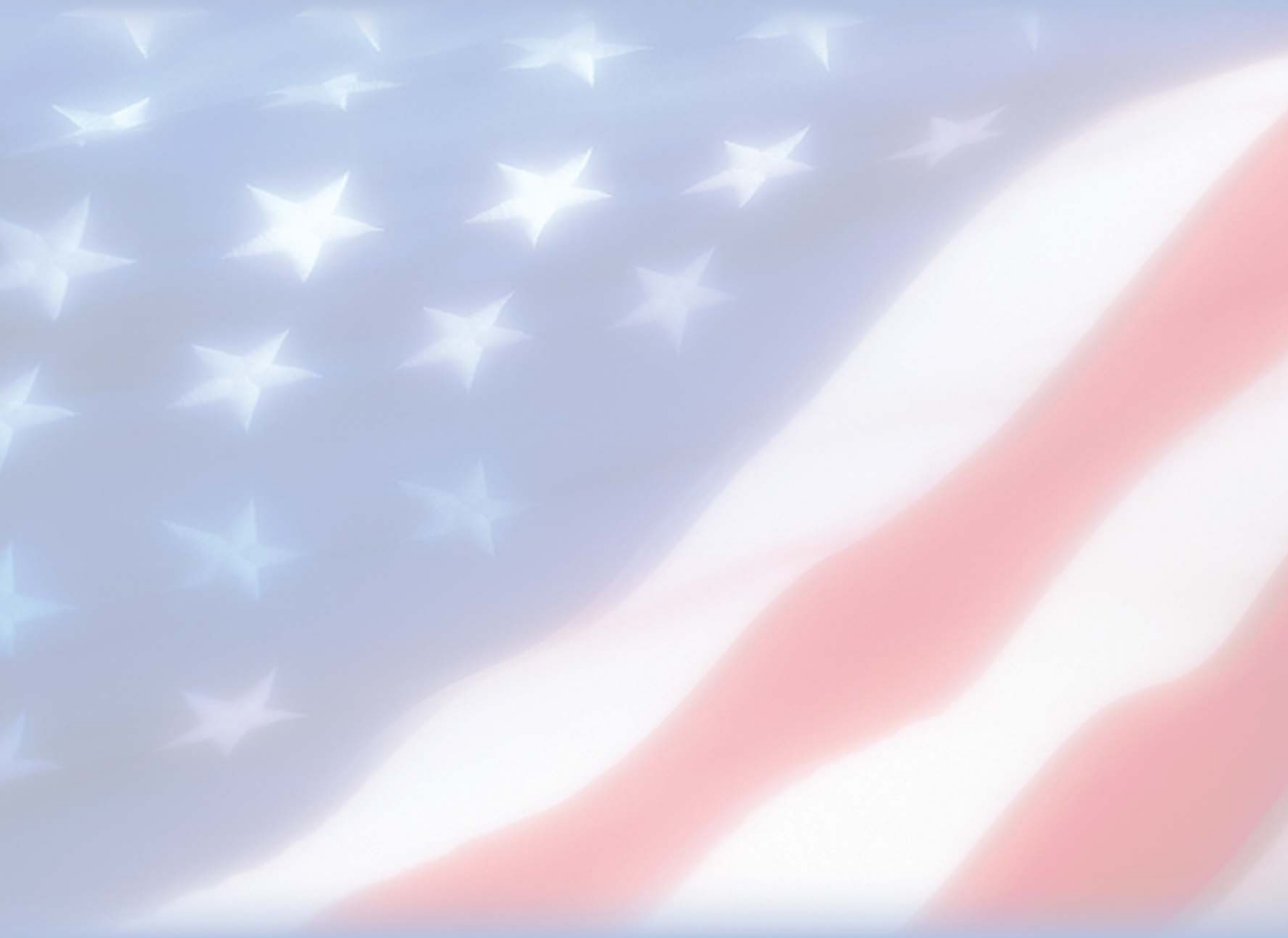
In **Aurora, CO,** HUD-OIG Agents and the Aurora Police Department conducted a sweep, as part of the Fugitive Felon Initiative, at Weatherstone Apartments, a HUD Section 8 project-based housing development. The apprehension unit also visited individually scattered Section 8 voucher sites throughout Aurora. Weatherstone Apartments is located next door to a high school and, consequently, is a high priority for OIG. As a result of the sweep, Marcus Carter, Kencheze Ray, Tyronne Peterson, Arlene Peterson, Jennifer Warn, Maria Herrera, Bridgette Hamilton, and Tammy Hill were apprehended for having outstanding warrants. Donald Davis was arrested and charged with possession of drug paraphernalia and possession of marijuana with intent to distribute. More than 91 grams of marijuana was seized from Davis' apartment. Neisha Jones, Maria Herrera, Marcus Ramos, and Markitina Beverly were issued municipal citations for various infractions of the law occurring during the course of the felony sweep.

In **Los Angeles, CA,** pursuant to HUD-OIG's National Fugitive Felon Initiative, the Los Angeles HUD-OIG coordinated with the Los Angeles USMS Regional Fugitive Task Force in an attempt to effect 25 outstanding arrest warrants, which were identified based on HUD-OIG's listing of wanted felons who were simultaneously receiving Section 8 benefits. This multiagency operation was successful in executing 13 of the 25 arrest warrants, all without incident. The 13 arrests made were pursuant to outstanding warrants for various criminal violations including felony fraud, possession of narcotics and dangerous drugs, burglary, obstructing justice, assault with a deadly weapon, counterfeiting, and welfare fraud. All individuals arrested were located at their respective subsidized residences within the

City of Los Angeles. Participating agencies included the USMS, the Bureau of Alcohol, Tobacco, and Firearms (ATF), the California State Parole Board, the Los Angeles Police Department (LAPD), the Orange County Sheriff's Department (OCSD), and the Department of Children and Family Services (DCFS). Judicial actions will be monitored, and the foregoing information will be referred to the Los Angeles Housing Authority for possible termination of benefits from the rental assistance program. Additional coordination with the USMS Regional Fugitive Task Force and the aforementioned agencies is being conducted to pursue and execute the remaining 12 outstanding warrants and a number of additional warrants identified from the HUD-OIG's National Fugitive Felon Initiative warrant matching list.

In furtherance of HUD's National Fugitive Felon Initiative, beginning in March of 2005, HUD-OIG Special Agents implemented the Louisiana National Fugitive Felon Initiative. Along with members of USMS, two sweeps have been conducted in **New Orleans, LA**, resulting in five arrests of individuals who are wanted either locally or nationally. These individuals will be referred for eviction through the Housing Authority of New Orleans. This initiative is ongoing and will be worked throughout the State of Louisiana in an effort to apprehend wanted persons residing in public and Section 8 housing. HUD-OIG, along with members of USMS, led this initiative.

Chapter 4



HUD's Multifamily Housing Programs

In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (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 period, the Office of Inspector General (OIG) issued 11 external reports in the multifamily housing program area. These reports disclosed nearly $30.4 million in questioned costs and more than $3.9 million in recommendations that funds be put to better use.

Over the past 6 months, we audited health care facility operations, owner and management agent operations, and one contract administrator. The results of our more significant audits are described below. We have placed an emphasis, during this period and prior periods, on the Section 232 program due to increased congressional interest.

Chart 4.1: Multifamily Housing Program Reports Issued

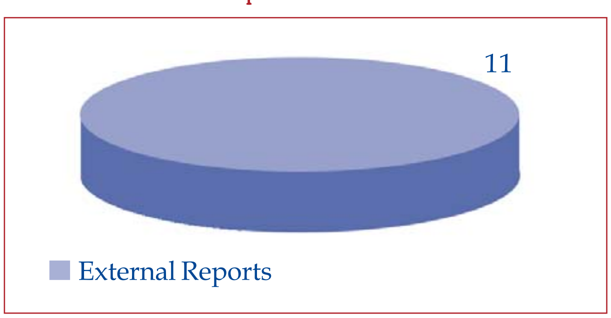
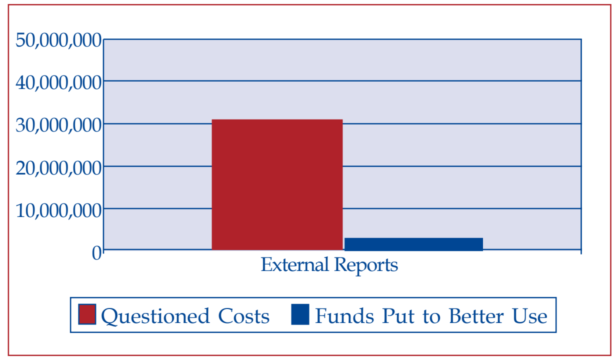


Chart 4.2: Multifamily Housing Program Dollars



Section 232/Health Care Facility Reviews

We completed an audit of the Carmichael Rehabilitation Center in **Carmichael, CA**. We found that the owner incorporated the project in its petition for bankruptcy and then defaulted on the project's mortgage. In addition, the owner disbursed $3.7 million in project funds through ineligible cash distributions and expenses. These activities resulted in increased risk to HUD, the assignment of the mortgage note to HUD, and HUD's resulting loss of $323,000 on the sale of the note. We recommended the recovery of the loss incurred on the sale of the mortgage note, appropriate administrative action, and recovery of the net ineligible distributions in the amount of $3.7 million. (Audit Report: **2005-LA-1801**)

We completed a review of the Canoga Care Center, located in **Canoga Park, CA,** to determine whether the project was operated in accordance with the regulatory agreements and to identify the reasons for the mortgage loan default. We found that

The chart cost figures in this chapter represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

GMAC Commercial Mortgage did not properly originate the loan, and the improper loan origination substantially contributed to the mortgage default. We, therefore, recommended that GMAC Commercial Mortgage be held accountable for the improper $6.7 million insured loan origination and the $3.3 million loss incurred by HUD when the insured note was sold. We also recommended civil and/or administrative actions against the individual lender, owner, and operator officials involved in the improper loan origination. (Audit Report: **2005-LA-1804**)

We audited Lakewood Care Center, a skilled nursing facility in **Milwaukee, WI**. The owner inappropriately disposed of $1 million in project assets while the project was in a non-surplus-cash position and in default of its Federal Housing Administration (FHA)-insured loan. During this time, the owner also inappropriately loaned $612,000 of project funds to the identity-of-interest operator of the project. We recommended the owner reimburse the project's reserve for replacement and/or HUD's FHA insurance fund $1 million for the inappropriate disposition of project assets. We also recommended that HUD pursue double damages remedies, impose civil money penalties, and pursue administrative sanctions against the owner and its managing member. (Audit Report: **2005-CH-1004**)

We audited Wood Hills Assisted Living Facility in **Kalamazoo, MI**. We found the owner had inappropriately disposed of $518,000 in project assets without obtaining HUD approval and in violation of its regulatory agreement and also inappropriately lent almost $13,000 of project funds to the identity-of-interest operator of the project. The project was in a non-surplus-cash position and/or in default during this time. HUD incurred a loss of $1 million on the sale of the mortgage note. We recommended that the owner reimburse the insurance fund $518,000 for the inappropriate disposals and the Department pursue double damages remedies, pursue action under the Program Fraud Civil Remedies Act, impose civil money penalties, and pursue administrative sanctions against the owners. (Audit Report: **2005-CH-1005)**

In **Bethany, OK,** we audited the Heartland Health Care Center of Bethany, a HUD-insured nursing home, to determine whether the Center complied with the regulatory agreement and HUD requirements when disbursing project funds. We found the Center officials used $2.3 million for ineligible costs, such as loan repayments and late fees, and could not support $4.5 million in expenditures. Further, Center officials did not provide documentation to support the use of revenue amounting to nearly $12 million. This ultimately resulted in mortgage default and closure of the Center. We recommended that the Center officials reimburse HUD for the ineligible costs and take appropriate administrative actions. (Audit Report: **2005-FW-1003**)

Owner and Management Agent Operations

In **Farmington Hills, MI,** we reviewed the records of RVA Properties, Inc., to determine whether it used project funds in compliance with the regulatory agreements and HUD's requirements. The owners and/or RVA Properties, Inc., management agent, inappropriately used $272,000 from four projects when the projects were in a non-surplus-cash position. The inappropriate expenses included $23,000 for ineligible expenses and $248,000 for unsupported expenses. As a result, funds were not used efficiently and effectively, and fewer funds were available for the projects' normal operations. We recommended the owners and/or management agent reimburse the appropriate reserve capital account for the amount that cannot be supported from nonproject funds. We also recommended that HUD, in conjunction with HUD's OIG, pursue double damages remedies and administrative sanctions against the owners and/or management agent. (Audit Report: **2005-CH-1801**)

In **Dallas, TX,** we performed an audit survey at Highland Meadows Apartments, a HUD-insured multifamily project. We concluded the owner (1) paid $68,000 to an unapproved identity-of-interest management company, (2) took $45,000 in distributions when the property was not in good repair and in a non-surplus-cash position, (3) paid $10,000 to other identity-of-interest entities, and (4) maintained the property in poor condition. We recommended that the Department seek reimbursement from the owner for the $124,000 in ineligible disbursements and payments and impose sanctions against the owner as appropriate. (Audit Report: **2005-FW-1801**)

In **San Antonio, TX,** we completed an audit of Domicile Property Management, Inc. (Domicile). The Office of Investigation asked us to do the audit. Our objectives were to determine whether Domicile used HUD-assisted property funds in compliance with the regulatory agreements and applicable HUD requirements.

In violation of the properties' regulatory agreements, Domicile diverted property income totaling $771,103 to pay nonproject expenses and paid another $1,469,926 from property accounts for which there was no documentation to show the payments were for necessary and reasonable operating costs. Further, Domicile did not abide by the 1995 settlement agreement for a previous HUD claim, involving project overcharges during 1992 and 1993. Although Domicile paid $272,113 under the agreement, it did not report and pay $49,262 for self-funded health insurance. Because of Domicile's current diversions and failure to pay the previous settlement obligation, it deprived the properties of operating funds, reducing HUD's security interests and increasing HUD's risks. We recommended that HUD require Domicile and its owner to repay or provide support for $2,290,291 in improper charges to the properties, reimburse the Government $352,053 for our audit costs, and take administrative sanctions against the owner and Domicile. (Audit Report: **2005-FW-1002**)

We completed a limited review of expenditures reported by Arlington Arms in **Jersey City, NJ**, to determine whether expenditures complied with the project's regulatory agreement and other HUD regulations. We found the project paid ineligible entity expenses of more than $10,000 and made an unallowable loan of $1,000 to the partners of the ownership entity. Consequently, we recommended that HUD instruct the partnership to reimburse the project for the amount of the ineligible expenditures and obtain written HUD approval before making any payments for these fees in the future. (Audit Report: **2005-NY-1802)**

Contract Administrator Operations

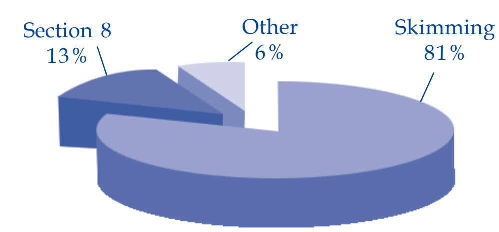
In **Salem, OR,** we audited Oregon Housing and Community Services, a contract administrator, as a followup to our recent audit of Uptown Tower Apartments (Report Number 2004-SE-1003, dated March 26, 2004). We found Oregon Housing did not ensure that $1.4 million of project funds distributed to owners conformed to HUD requirements. Oregon Housing inappropriately approved or allowed unreasonable management fees, split management fees, the revaluation of commercial space, unreasonable interest payments on commercial space, and distributions from residual receipts. Funds inappropriately paid to the owners or management agents reduced the amount of money available for deposit into the residual receipts accounts. The funds in these accounts should have been available for legitimate project purposes with the unused balance returning to HUD upon termination of the subsidy contracts. We recommended that Oregon Housing reimburse the projects a total of $1.4 million for the fees and payments it inappropriately authorized. We also recommended that Oregon Housing immediately reduce the excessive management fees, stop allowing projects to split management fees, and discontinue allowing the project to pay owner distributions from the residual receipts fund when surplus cash is not sufficient. Oregon Housing should also be required to recalculate owner distributions, using the original value of the commercial portion of the project, and implement controls to ensure that fees and distributions to owners and management agents are reasonable. (Audit Report: **2005-SE-1003**)

Investigations

During this reporting period, the OIG opened 78 investigation cases and closed 81 cases in the multifamily housing program area. Judicial action taken on these cases during the period included $2,489,543 in investigative recoveries, $2,293,596 in funds put to better use, 61 indictments/informations, 41 convictions/pleas/pretrial diversions, 61 administrative actions, 8 personnel actions, and 132 arrests.

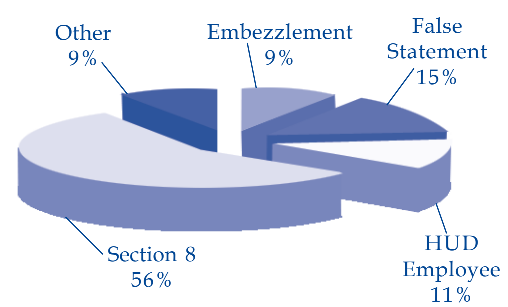
Some of the investigations discussed in this report were conducted by OIG, while others were conducted jointly with Federal, State, and local law enforcement agencies. The results of our more significant investigations are described below.

Chart 4.3: Multifamily Recoveries



Total Recoveries: $2,489,543

Chart 4.4: Multifamily Funds Put to Better Use



Total: $2,293,596

Insurance Fraud

In **Chicago, IL,** in the Northern District of Illinois, defendant Ralph Aulenta was sentenced before U.S. District Judge John Grady to serve 1 year and 8 months in a Federal penitentiary. Aulenta was also ordered to pay $2,006,832 in restitution.

Aulenta was responsible for providing insurance coverage to HUD-insured multifamily projects. Aulenta admitted he was part of a scheme in which he overbilled the insurance premiums provided to these multifamily projects. Aulenta admitted to falsely inflating the premium amount and then later providing a kickback of a portion of the overpaid insurance premium to the owner and manager of the HUD multifamily projects.

In addition to the fraud against HUD, Aulenta was responsible for overbilling insurance premiums to the City of Rosemont and later receiving a kickback from other coconspirators for his participation in the scheme.

Conspiracy

In **Boston, MA,** in U.S. District Court, defendant Joseph O'Connor pled guilty to one count of conspiracy. He was indicted on September 22, 2004. Two additional defendants had been charged in this matter. Janet Gaibl and Joseph Cassidy were indicted by a Federal grand jury on November 19, 2003, both charged with one count of conspiracy. Gaibl was also charged with two counts of making false statements. Cassidy pled guilty and was sentenced on September 2, 2004. Gaibl pled guilty on June 23, 2004, but has yet to be sentenced.

The November 2003 indictment alleged that between 1988 and mid-2000, Gaibl and Cassidy, former employees of First Realty Management (FRM), combined to cause false statements to be submitted to HUD relating to a rent subsidy program at Cummins Towers, a HUD-insured multifamily complex managed by FRM. Gaibl and Cassidy allegedly identified certain federally subsidized units at the development for their own use or the use of friends and then caused false statements to be made on related HUD forms and supporting documents to be fabricated for the purpose of obtaining subsidized units for individuals who would not otherwise qualify. By their actions, Gaibl and Cassidy caused a loss to HUD in excess of $140,000 and also deprived qualified families of the use of the subject units. O'Connor was also a beneficiary of one of these Section 8 units, from which he ran a cleaning company.

Equity Skimming

In **Portland, ME,** defendant Donald Baldyga, Jr., pled guilty to one count of multifamily equity skimming in U.S. District Court. Donald Baldyga, Jr., owner of the multifamily Family Living Adult Care Center, located in Saco and Biddeford, ME, was charged on December 1, 2004, in a one-count Federal indictment with equity skimming. The case involved a defaulted mortgage totaling $2.9 million. The property was resold for $900,000, resulting in a loss to HUD of $2 million. This was a significant indictment in that it involved equity skimming from a HUD-funded assisted living development from which the owner skimmed almost $400,000, causing the foreclosure and a significant loss to HUD. The facility had been in good financial and physical condition before Baldyga took over the project; however, he made only one mortgage payment and used the fees he collected for personal use, causing the elderly residents undue hardship. The State ultimately shut down the facility and relocated the residents. Sentencing is scheduled for May 2005.

In **Hot Springs, AR,** in U.S. District Court, Western District of Arkansas, defendant Rodney Myers entered a plea of

Ex-nursing home owner pleads to misusing funds

By TAMMY WELLS/Journal Tribune
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PORTLAND — A New Jersey man who once owned six adult residential care facilities in Biddeford, Saco and Sanford has pled guilty to federal charges of misusing funds.

Donald A. Baldyga Jr., 45, of West Milford, N.J., once owned three Family Living Centers in Biddeford and Saco, and the federal charges referred to those holdings. He faces up to five years in jail and a fine of $500,000 and, according to U.S. Attorney Paula Silsby, has agreed to repay the federal department of Housing and Urban Development $340,400.

guilty to one count of bankruptcy fraud, one count of money laundering, and one count of perjury. Rodney Myers was indicted by a Federal grand jury in the Western District of Arkansas on 22 counts of equity skimming, bankruptcy fraud, money laundering, making false statements to HUD, perjury, and subornation of perjury. Myers is the former owner of a HUD-insured multifamily project, Burchwood Harbour Apartments (BHA) in Hot Springs, AR.

From December 1998 to April 2000, while the HUD-insured mortgage was in default and during the period of BHA's Chapter 11 bankruptcy proceeding, Myers devised a scheme to defraud and diverted more than $110,000 in project rents and other funds in violation of the regulatory agreement and the U.S. Bankruptcy Court's cash collateral order. After the bankruptcy was dismissed in April 2000 and while the HUD-insured mortgage was in default, Myers diverted more than $40,000 in project rents and other funds from April to July of 2000 in violation of the regulatory agreement.

Myers' scheme involved diverting rent checks to his personal bank accounts and writing BHA checks to several contractors and either receiving cash kickbacks from contractors or forging contractor endorsements, purchasing cashier's checks, and depositing the cashier's checks to his personal bank accounts. Myers used inflated and phony invoices and bids for work not performed to conceal his diversions. Myers' sentencing has not been scheduled. This investigation was referred to OIG by the HUD Office of General Counsel in Fort Worth, TX.

False Statements

In **Chicago, IL,** a Circuit Court of Cook County grand jury indicted on multiple forgery counts the following individuals, who were Section 8 tenants at 810 W. Grace, a 100-percent HUD-subsidized building located in Chicago: Arlene Adewole, Hakeem Adewolej, Jones Mireku, Amma Mireku, Abdul Mustapha, Bukonla Mustapha, Simon Kent, Hakeem Durojaye, Afusat Durojaye, Muradali Bohjani, and Evaristo Torres. These charges are the culmination a 5-year investigation, which focused on the building.

Among those schemes alleged in the indictment were the failure to report W-2 income, self- reported income, savings, checking and investment bank accounts, rental income from properties that the tenants owned, Supplemental Security Income payments, and taxicab medallions. In addition to the false statements to HUD, these individuals purportedly made multiple false statements to the Social Security Administration, the U.S. Bankruptcy Court, and various local banks and lenders. In total, the above-mentioned individuals are alleged to have caused in excess of $270,000 in overpayment of HUD Section 8 payments.

Theft and Embezzlement

In **Louisville, KY,** in the Western District of Kentucky, Londy Rya Haycraft, president, U.H.M. Management Services, was found guilty on 8 counts in a 10-count indictment. On June 18, 2003, a Federal grand jury for the Western District of Kentucky indicted Haycraft for submitting false documentation to HUD and for embezzling, stealing, and obtaining by fraud and otherwise without authority for his own use, more than $800,000 in funds belonging to Blanton House, a 20-story 256 unit facility subsidized by HUD. In addition, trial evidence demonstrated that Haycraft wrote checks payable to personal use, petty cash, credit cards, and casinos.

In **Charleston, WV,** in Federal Court, Southern District of West Virginia, defendant Romona Taylor Williams, a property manager and former Executive Director of a local nonprofit organization, was sentenced for her admitted role in a scheme to defraud HUD and two State agencies. The defendant was ordered to be imprisoned for 6 months, to be followed by 6 months supervised release, and was ordered to repay a total of $63,788 to HUD and the two other agencies.

The OIG investigation determined that Ms. Taylor Williams recruited her daughter and a friend to apply for and receive Section 8 housing choice vouchers, which they then turned over to the defendant. The defendant used both vouchers to provide "free" housing in her apartment building as an inducement or fringe benefit to enable her to recruit skilled individuals for her nonprofit agency.

In **Dallas, TX,** in the Northern District of Texas, Dallas Division, defendant Daniel Manterola Muedano, also known as Daniel Gonzalez Monzalvo, pled guilty for violations of fraud and misuse of identity documents, conspiracy, and misuse of a Social Security number (SSN). Muedano was part of a false document manufacturing operation that produced numerous forms of identification for illegal aliens. These false documents included resident alien cards, Social Security cards, Texas driver's licenses, insurance cards, vehicle inspection stickers, etc. These documents were used to obtain employment, purchase homes that received FHA insurance, and other fraudulent activities. The false document mill was located in a HUD-insured apartment complex. So far, three of the five individuals involved in the operation have pled guilty.

Defendant Edgar Manterola Simeon, also known as Roberto Gomez, pled guilty in the Northern District of Texas, Dallas Division, for violations of fraud and misuse of identity documents, conspiracy, and misuse of an SSN on one FHA loan. This loan was valued at $93,500 with an estimated loss to the Government of $26,000. Simeon was also a part of a false document manufacturing operation that produced numerous forms of identification for illegal aliens.

In **Stockton, CA,** in the Superior Court of California, County of San Joaquin, defendant Mark Southard, former management agent for the Sea Breeze Apartments, pled guilty to State felony charges of grand theft, embezzlement, crimes against an elder or dependent adult, and "white collar" enhancement. Southard is scheduled to be sentenced. Southard embezzled more than a million dollars in cash from a HUD mortgage-insured project. The scheme involved fraudulent contractor's invoices and the manipulation of rent rolls and rental income, and it is believed that a majority of the money involved was cash.

In **Fort Lauderdale, FL,** in Federal Court, Southern District of Florida, defendants Maha Elsaai and Ashraf Elsaai pled guilty to felony charges that they conspired to defraud HUD under the Section 8 Rental Assistance Voucher Program. Maha Elsaai was sentenced to 14 months incarceration, to be followed by 36 months of supervised release. Ashraf Elsaai was sentenced to 12 months incarceration, to be followed by 36 months supervised release. The defendants were also ordered to make restitution to HUD in the amount of $41,383 and each was ordered to pay a special assessment fee of $100. This investigation found that since 1997 Maha and Ashraf Elsaai have falsified employment and income documents to maintain rental assistance subsidies.

In **Pacoima, CA,** pursuant to investigative leads provided by tenants and property management staff, Los Angeles HUD-OIG and the Immigration and Customs Enforcement Agency conducted a Rental Assistance Initiative operation at the Pierce Park apartment complex. During the course of the operation, three HUD-subsidized properties were visited to conduct followup investigations to determine whether the residents were in violation of Section 8 rules and regulations and to execute outstanding warrants for immigration violations.

Eliazar Plasencio was arrested based on an outstanding Federal warrant for immigration violations that was initiated based on his prior conviction in the State of California for the sale of narcotics. A referral was also made to the Department of Children and Family Services based on the fact that two children were sleeping on the floor of the unclean and unhealthy residence.

At the residence of Lilian Palencia, several unauthorized tenants were encountered. One of the unauthorized tenants, Albadia Pena, admitted that she was subletting the unit from Palencia.

In **Oakland, CA,** in the U.S. District Court of Northern California, Oakland Division, an information was filed charging defendant Adrienne Bradley with four counts of making false statements to HUD. The charges came as a result of an OIG investigation, which disclosed that Bradley failed to provide the Crescent Park Apartments management with accurate information regarding her income from 1995 through 2003. Bradley's actions resulted in a loss to HUD totaling more than $25,000.

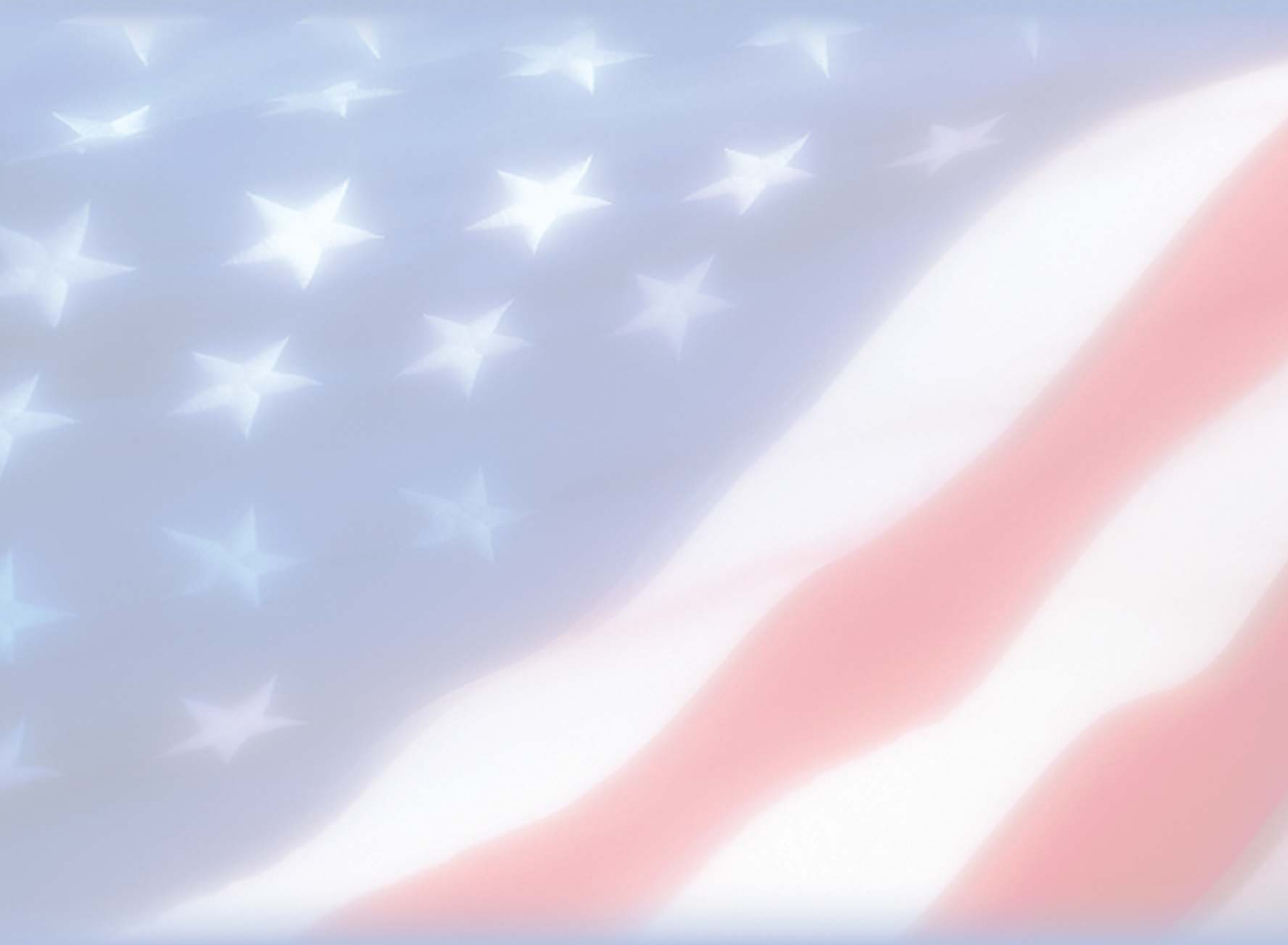
In **Louisville, KY,** in the Western District of Kentucky, defendant Alan King, Treasurer, Board of Directors, Colonial Square Cooperative, Inc., pled guilty to an information. The information charged that for a 1-year period, King embezzled, stole, and obtained by fraud property with a value in excess of $5,000 from Colonial Square Cooperative, Inc., which was receiving a capital improvement loan from HUD. An independent audit of financial statements for the Colonial Square Cooperative revealed possible theft of funds from the operating account. King instructed property management staff to cosign blank checks or checks made payable to him for cash. King used the project operating funds for personal benefit.

In Federal Court, in **Roanoke, VA,** defendant Tonia Hicks, former Section 8 tenant, was indicted on one count of theft of Federal funds. A joint investigation by OIG and the Christiansburg, VA, Police Department was initiated based on a complaint to the HUD Hotline. The investigation disclosed that Hicks married in June of 2001 and failed to report this to management. She then continued to omit her husband's residency and income on official forms through May 2004, thereby receiving a benefit of approximately $11,000 in rental assistance.

In Federal Court in **Bronx, NY,** defendant Jacqueline Grullon, a tenant at a Section 8 complex known as Andrews Plaza, Bronx, NY, was arrested, charged, and remanded pending a $100,000 bond signed by three responsible individuals and $7,500 in cash. Grullon was charged with conspiracy to commit fraud, accepting bribes concerning programs receiving Federal funds, and witness tampering. Grullon is accused of accepting bribes as an intermediary or middleman for the Andrews Plaza project manager. The scheme involved prospective tenants being advised that if they wanted to move in, they would need to pay a fee to Grullon, a tenant and known associate of Saneaux. Evidence was also provided showing that Grullon was contacting witnesses before trial and threatening them to get them to either not talk to government officials or not tell the truth. Grullon allegedly accepted payments of up to $8,000 from several applicants and gave the money to Saneaux. Robert Grullon, brother of Jacqueline and another intermediary, has already pled guilty to his part in the scheme.

In **Palcom, KS,** in the 17th District Court of Kansas, defendant Steve Wood, a rural housing multifamily Section 8 tenant, pled guilty to criminal deprivation of property and was sentenced to serve 360 days imprisonment and 24 months probation and was ordered to pay $8,708 in restitution to HUD. Wood failed to inform Embers Apartments that he had purchased and moved to another residence with his girlfriend. Interviews revealed that Wood used the Embers Apartment unit for storage. Wood received $8,708 in rental assistance to which he was not entitled.

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, as suitable living environments, 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 Office of Inspector General (OIG) issued four external audit reports in the CPD program area. These reports disclosed nearly $1.2 million in questioned costs and more than $850,000 in recommendations that funds be put to better use.

The OIG audited the Community Development Block Grant (CDBG) programs and the Section 108 Loan Guarantee program.

Chart 5.1: Community Planning and Development Reports Issued

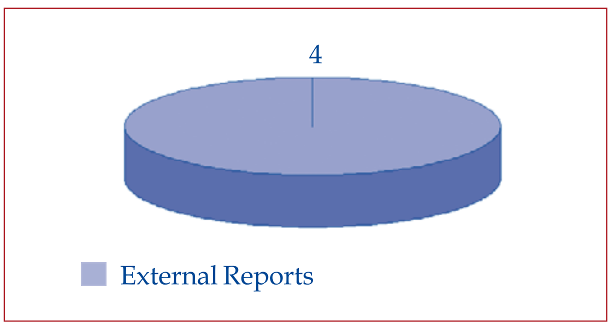
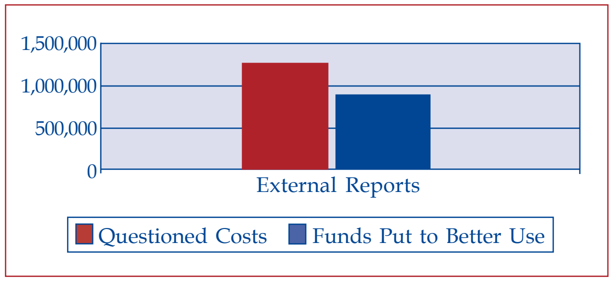


Chart 5.2: Community Planning and Development Dollars



Community Development Block Grant Program

We performed the fourth of our ongoing audits of the **New York, NY**, Lower Manhattan Development Corporation's (the auditee) administration of the CDBG Disaster Recovery Assistance funds. These funds were provided to the State following the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The auditee received more than $2.7 billion in CDBG Disaster Recovery Assistance funds from the U.S. Department of Housing and Urban Development (HUD) and disbursed more than $276 million between April 1 and September 30, 2004, for activities related to the rebuilding of Lower Manhattan. Our audit objectives were to determine whether the auditee disbursed CDBG Disaster Recovery Assistance funds to eligible grant applicants.

Our review disclosed that the auditee disbursed more than $141,000 of its CDBG Disaster Recovery Assistance funds for ineligible administrative expenses under New York City's Utility Restoration and

The chart cost figures in this chapter represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

Infrastructure Rebuilding program. The auditee's subrecipient (its parent company) drew down CDBG Disaster Recovery Assistance funds from HUD without first submitting its invoices to the auditee for review of the accuracy and eligibility of the costs being billed. We recommended that HUD instruct the auditee and/or its subrecipient to reimburse the Utility Restoration and Infrastructure Rebuilding program more than $141,000 in CDBG Disaster Recovery Assistance funds that were drawn down for ineligible salary and fringe benefits costs. (Audit Report: **2005-NY-1003**)

As part of our audit of the City of **New Orleans, LA,** CDBG program, we audited its subrecipient, the New Orleans African American Museum. The objective of our audit was to determine whether the Museum administered its CDBG program funds in an economical and efficient manner and in accordance with the terms of the grant agreements with the City and applicable regulations and Federal laws.

Of five City-awarded grants, two grants totaling $745,000 failed to meet HUD requirements. For the remaining three grants totaling more than $1 million, the Museum failed to document that it met one of HUD's national objectives. Further, the Museum did not exercise financial oversight or management for its five grants. The Museum commingled funds, did not have adequate controls over procurement, and failed to comply with Federal and State income tax requirements, resulting in more than $50,000 in ineligible and $181,000 in unsupported disbursements.

We recommended that the New Orleans Community Planning Development Director require the City to repay its CDBG program more than $774,000 for ineligible and $298,000 for unsupported disbursements and recover any remaining assets provided to the Museum. Further, the City should seek appropriate administrative sanctions against parties involved in the deficiencies described in the report. (Audit Report: **2005-FW-1005**)

Section 108 Loan Guarantee Program

As part of our audit of the City of **New Orleans, LA,** CDBG program, we audited a Section 108 loan to the Louisiana Artists Guild to construct Louisiana Artworks. Both the City and the Louisiana Artists Guild stated systems were in place to ensure that Louisiana Artworks would create sufficient jobs for the $7.1 million Section 108 loan. While Louisiana Artworks expended the vast majority of the funds reviewed properly, it overpaid the City's attorney more than $1,600 and could not support more than $17,000 paid to the attorney or $3,000 paid to a financial analyst. Both the City and Louisiana Artworks agreed to provide support or recover the amounts.

We recommended that Louisiana Artworks repay more than $1,600 in excess charges for legal fees, repay the more than $17,000 of unsupported funds paid to the attorney and $3,000 paid to the financial analyst or provide adequate support, and establish the necessary management controls. (Audit Report: **2005-FW-1001**)

Investigations

During this reporting period, OIG opened 25 investigative cases and closed 22 cases in the CPD program area. Judicial action taken on these cases during the period included $7,137,802 in investigative recoveries; $1,309,036 in funds put to better use; 16 indictments/informations; 18 convictions, pleas, and pretrial diversions; 23 administrative actions; 4 personnel actions; and 15 arrests.

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

Wire/Mail Fraud and Bribery/ Payoffs

A Federal jury in Federal District Court, **Springfield, MA**, convicted four former officials of the Massachusetts Career Development Institute (MCDI), a CDBG-funded State organization, on February 28, 2005, after a 5-week trial. All four defendants in this case were charged on September 2, 2004, in a 19-count superseding Federal indictment in Springfield, MA. This indictment had previously been handed down by a Federal grand jury in January 2004. The indictment included the violations of conspiracy, program fraud, wire fraud, obstruction of justice, making false statements, threatening a witness, and aiding and abetting. The four defendants who were charged and convicted had been employed by MCDI, which provided educational and

The Republican.

4 convicted in job scheme

Phillips could get year in prison on fraud counts

THE VERDICT

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job-training programs for income-eligible individuals in the Springfield area. The four defendants were the former MCDI Executive Director Gerald Phillips, former Administrator Giuseppe Polimeni, former no-show MCDI employee Luisa Cardaropoli, and former MCDI Secretary Jamie Dwyer. The investigation concerned no-show employees.

Joseph Barry, a Hudson County developer of the Shipyard project in Hoboken, NJ, was sentenced in U.S. District Court, **Newark, NJ**, to 20 months incarceration and ordered to pay $1 million in restitution to HUD, the U.S. Department of Transportation, and the Federal Highway Administration within 2 weeks and a $20,000 fine. Barry admitted paying $115,000 in cash to Hudson County Executive Robert Janiszewski as a reward for his help in securing State and Federal grants for his project in Hoboken. Barry surrendered for imprisonment on December 2, 2004. On June 22, 2004, Joseph Barry pled guilty to mail fraud and bribery. Barry managed to secure HUD grants and loan guarantees under the Economic Development Initiative grant in the amount of $1 million, as well as a Section 108 loan guarantee for these projects in the amount of $6.69 million. Barry was previously indicted on 16 counts. The indictment detailed $8.8 million in Federal and State loan grants that Barry and his enterprise, the Applied Companies, secured through bribery. Barry maintained a "payoff sheet" of bribe amounts, dates, and notations, indicating which government loan or grant the payoff(s) were connected to.

In **Rochester, NY**, Steven Young pled guilty to one count of mail fraud. On November 30, 2004, Young was charged in the Western District of New York by criminal complaint with mail fraud and making a false statement to HUD. Young, a rehabilitation specialist for the City of Rochester, NY, was responsible for writing specifications for the rehabilitation of privately owned housing within the City of Rochester. The homeowners must first qualify for CPD Home Ownership Made Easy (HOME) funds. These grants range between $10,000 and $30,000 per project, and the homeowner may qualify for more than one type of grant. Young was charged with receiving bribes from various contractors during the years 2002 through 2004. Young steered the contracts to the contractors by telling the contractors the amount of the lowest bid. The contractor would then bid a lower amount than the lowest bid to win the bid. The contractor would pay Young between $300 and $500 in cash, depending on the size of the contract. Young was also charged with submitting two final inspections that verified that all rehabilitation work had been completed on two HUD-subsidized grants totaling $25,000. Young made false statements in these final inspections when he signed them and certified that the rehabilitation had been completed, when it had not been completed.

In **Rochester, NY**, in the Western District of New York, Emmett Porter was sentenced to 2 years probation and a $1,000 fine. Porter was charged on October 15, 2004, with one count of mail fraud. Porter was a contractor in the City of Rochester who submitted numerous fraudulent bids by mail to receive the winning bids on large single-family rehabilitation contracts. Porter is known to have submitted three fraudulent bids for approximately $216,000. Porter fraudulently prepared bids from other Rochester contractors on their letterhead without their knowledge. The City of

Rochester rehabilitation program receives $2 million per year in HUD CDBG and HOME grant funds. In addition to HUD funding, the City of Rochester has received $12 million in funding from numerous other sources to rehabilitate housing in the City of Rochester, which will be sold to low-income families.

Conspiracy to Commit Racketeering, Fraud, and Extortion

In **Cleveland, OH,** the Northern District of Ohio, a 45-count Federal grand jury indictment was unsealed charging six defendants in a wide-ranging public corruption and fraud scheme, including charges of conspiracy to commit racketeering, extortion, and mail and wire fraud in furtherance of the corrupt activity.

The indictment charged Nate Gray of Cleveland, OH, an alleged coconspirator of the recently convicted East Cleveland Mayor Emmanuel Onunwor, Joseph Jones, Ricardo Teamor, Monique McGilbra, Brent Jividen, and Gilbert Jackson with, among other things, providing numerous things of value, including money and luxury items, to public officials in return for official acts. The charges in the indictment span multiple States and set forth in detail a wide range of corrupt activity. The indictment charges that Nate Gray, who operated his business in a Shaker Square, OH, office; Brent Jividen, who worked in the Cleveland office of a New Jersey company that pursued public contracts; and Gilbert Jackson, who is a senior vice president of an international engineering firm, conspired to violate racketeering laws from at least the mid-1990s to the present.

It further charges that these three, along with Cleveland City Councilman Joseph Jones; Cleveland area lawyer and businessman Ricardo Teamor, who served as legal counsel for the Cuyahoga Metropolitan Housing Authority (CMHA); and Monique McGilbra, who headed the Building Services Department for the City of Houston, TX, committed numerous acts of extortion and deprived the public of the honest services of its public officials, using the mails and telephones to further their scheme. Examples of the extortion payments to public officials alleged and described in the indictment were as follows:

- Numerous cash payments that Gray made to Onunwor that were the subject of Onunwor's own trial and conviction in the summer of 2004;
- Two football-related trips that Gray and Jividen provided to McGilbra, including a $4,500 weekend trip to the 2002 NFL Super Bowl in New Orleans for McGilbra and her boyfriend, who were entertained by Jackson on their arrival;
- A $700 Louis Vuitton purse that McGilbra selected for herself and Gray purchased for her;
- A dinner costing nearly $1,000 that Gray purchased for McGilbra and her family in Miami Beach, FL, as well as limousine service; and
- The $5,000 interest-free loan by Gray and Teamor to Jones that was the subject of Jones' earlier indictment and at least one other payment.

In addition to the conspiracy, extortion and fraud charges, Gray is charged with evading payment of more than $1.5 million in back taxes due and owed the United States during the same period as he ran his corrupt racketeering enterprise described in the indictment. The taxes due are a result of the determination of Gray's tax liability following his conviction for tax evasion for the years 1982, 1983, and 1984 on or about December 13, 1990.

Francis G. Keough III, Director of The Friends of the Homeless, **Springfield, MA**, a HUD-funded long-term homeless shelter, was arrested after a Federal indictment was unsealed. Keough is charged with one count of extortion. The charge stems from Keough extorting $29,000 from Frank Ware, owner of The Ware Group, Inc., a construction contractor hired to do renovations of the women's shelter at 501 Worthington Street in Springfield on or about April 23, 1999, while Keough was building a summer home in Charlestown, RI.

Disaster Recovery Assistance Funds - State of New York

Wing K. Cheng of **New York, NY**, owner of Well Planned New York City Co., Inc., a garment business located in Lower Manhattan, was sentenced in Federal Court to 2 years probation, a $5,000 fine, restitution of $26,250, and a special assessment of $100. Cheng previously pled guilty in Federal Court to one count of theft of government money in connection with a scheme to defraud HUD and Empire State Development Corporation (ESDC) of Federal grant money made available after the September 11, 2001, terrorist attacks to provide assistance to certain businesses in Lower Manhattan. After the September 11 terrorist attacks, the World Trade Center Small Firm Attraction and Retention Grant program (SFARG) was established by ESDC to provide assistance to certain businesses in Lower Manhattan that were adversely impacted by the terrorist attacks. The SFARG program is funded through a $700 million appropriation from HUD.

Francis G. Keough III, executive director of the Worthington House homeless shelter in Springfield, leaves the federal building in Springfield yesterday afternoon after his arraignment on a federal extortion charge.

Shelter director denies extortion

R.I. beach house at center of case

By JACK FLYNN

SPRINGFIELD – Former City Councilor Francis G. Keough III became the latest public figure pulled into a federal corruption probe yesterday when he pleaded innocent to extorting $29,000 from a contractor at the homeless shelter Keough has managed for the past decade.

Six hours after FBI agents arrested him at his Worthington Street office, Keough, 45, stood up and denied a single extortion charge at his arraignment in U.S. District Court. U.S. Magistrate Judge Kenneth P. Neiman released Keough on $50,000 unsecured bail.

Outside the courthouse, Keough had no comment, but his lawyer, Jack St. Clair of Springfield, said he would be vindicated. "He emphatically denies any wrongdoing, and looks forward to clearing his name," St. Clair said.

If convicted, Keough could face a sentence of 27 to 33 months under federal guidelines, said Assistant U.S. Attorney William M. Welch II.

As two FBI agents led Keough into the courthouse yesterday morning, former Police Commission Chairman Gerald A. Phillips was standing trial with three co-defendants for alleged-

Please see Feds, Page B6

In **New York, NY**, the Lower Manhattan Development Corp. (LMDC) received $2.7 billion of CDBG funds from HUD to coordinate the rebuilding and revitalization of Lower Manhattan after the September 11, 2001, terrorist attacks on the World Trade Center. From these CDBG funds, LMDC created a grant program, the goal of which was to retain and attract residents to Lower Manhattan. The Two-Year Residents Grant was created by LMDC to provide rental assistance to residents of Lower Manhattan who agreed to stay in a specified area within Lower Manhattan for a minimum of 2 years. From LMDC and HUD-OIG audit referrals, HUD-OIG in New York/New Jersey arrested and convicted numerous people who fraudulently obtained the Two Year Residents Grant. Due to numerous grants disbursed by LMDC and many grantees fulfilling the 2-year requirement, LMDC initiated an Amnesty Program, through which the grantees could return the grant funds with no questions asked and assurance that they would not be prosecuted. Since February 2004, HUD-OIG has been reporting the return of the grant money received under the Amnesty Program. From August to December 2004, $220,873 was returned and reported by LMDC.

False Statements

In **Los Angeles, CA**, Federal Court, Central District of California, Rolina Brown was charged by a Federal grand jury in a three-count felony indictment, including one count of conspiracy, one count of making false statements, and one count of making false claims. Brown, serving as Chief Executive Officer for the Blue Collar Connection (BCC), had received a $1,050,000 grant from the Los Angeles Homeless Services Authority (LAHSA). The purported purpose of BCC was to offer support to women who were homeless and in need of assistance, including substance abuse counseling, mental health treatment, and/or other types of recovery support services. LAHSA had paid BCC a total of $458,517 from the $1,050,000 grant before it withdrew funding due to inaccurate information being reported by Brown.

In **Cedar Rapids, IA**, Federal Court, Joyce Ashcraft pled guilty to making false statements to HUD, identity theft, bank fraud, and Social Security fraud. Ashcraft stipulated that she submitted false documents to Cedar Rapids Housing Services to obtain a $24,660 housing rehabilitation grant. She also admitted to using credit cards she obtained in other individuals' names, making and transacting counterfeit checks, embezzling $10,000 from her husband's Individual Retirement Account, and falsely obtaining State medical assistance. Ashcraft admitted causing total losses of between $120,000 and $200,000.

Embezzlement/Theft

In the Northern District of Ohio, **Cleveland, OH,** Cecelia George, Charles Reed, Sr., Charles Reed, Jr., and Willie George were sentenced following their earlier guilty pleas to conspiracy, relating to the theft of government funds from East Cleveland Community Development Center. Charles Reed, Jr., was assessed $100, Willie George was ordered to pay $26,115 in restitution, Charles Reed, Sr., was ordered to pay $40,475 in restitution, and Cecilia George was ordered to pay $101,659 in restitution.

Cecilia George served as Community Development Director for the City of East Cleveland from November of 2000 to

December of 2001. While in that position, George and her three coconspirators defrauded the citizens of the City of East Cleveland and HUD by embezzling and otherwise stealing CDBG funds. Cecilia George steered federally funded contracts to "front companies" that were associated with her family members and then funneled the money back through those companies to bank accounts under the control of the Reed and George families. In addition, the Reed and George families falsified and forged documents to conceal that they were benefiting from CDBG funds.

Investigations Involving Public Officials

In **Springfield, MA,** James Krzystofik, former Deputy Director, Greater Springfield Entrepreneurial Fund (GSEF), a City of Springfield nonprofit organization, was sentenced in U.S. District Court, District of Massachusetts, to 41 months confinement and 36 months of supervised release upon completion of sentence, ordered to pay a $300 special assessment fee, and ordered to make restitution of $723,553. Krzystofik previously pled guilty to conspiracy and other charges relating to the embezzlement and theft of more than $700,000 in funds received from the Small Business Administration (SBA) and U.S. Department of Commerce (DOC). GSEF had also obtained $697,000 in Urban Development Action Grant (UDAG) funds for its startup costs. It had been determined that much of the UDAG funds had been used to cover shortages in the books, which had to be presented to SBA and DOC monthly. Kryzstofik was one of four public officials working at GSEF to be convicted and sentenced as a result of this investigation. James W. Asselin, the former GSEF Executive Director, was ordered to serve 41 months confinement in Federal prison and 3 years supervised release and to repay $723,553 in restitution to the Federal Government as well as a $300 special assessment fee; Cornell Lewis, a former GSEF Board member, was sentenced to 6 months home confinement and 3 years probation and ordered to pay a $5,000 fine, make restitution of $29,000, pay a $300 special assessment fee, and serve 300 hours of community service; and Salvatore Anzalotti, the former GSEF Accountant, was sentenced to 6 months home confinement, placed on additional 4 years probation, and ordered to make restitution of $68,000 and pay a $300 special assessment fee.

In U.S. District Court at Chicago, **Chicago, IL**, Deborah Ahmad Bey, also known as Deborah Dunn, was indicted on seven counts of bankruptcy fraud. According to the indictment, Bey, a Chicago police officer, and former owner of a HUD-approved nonprofit organization called Developing Economical and Better Living, Inc. (DEBL, Inc.), participated in the HUD Bulk Sale program by purchasing multiple discounted properties with the commitment to rehabilitate and resell to median-level income families. However, Bey refinanced several of the discounted properties in her own name, causing her to receive significant profits. Bey filed multiple bankruptcy petitions and allegedly failed to disclose ownership of multiple properties and significant amounts of cash from property sales, rental income, and additional employment. As a result, she was granted a financial discharge of more than $56,000 in debts and withheld more than $80,000 in unreported income to the U.S. Bankruptcy Court.

In **Los Angeles, CA**, in Federal Court, Central District of California, Albert Robles, former Treasurer and City Councilmember for the City of South Gate, CA, and two business partners, Edward Espinoza and Michael Klistoff, were indicted on 39 counts of mail fraud, wire fraud, money laundering, and theft or bribery concerning programs receiving Federal funds. Robles used his political office and influence to funnel money from a variety of City projects to family, friends, and business partners during the years 1998-2003. CBDG funds were used to fund illegal contracts Robles arranged with his business partners. It is estimated that Robles personally received $1.2 million in proceeds derived from these illegal contracts.

Erma Kendrick, former Executive Director of Kern County Mental Health Association (KCMHA), **Fresno, CA**, and Edwina Jackson, former Assistant Executive Director of KCMHA, were indicted by a Federal grand jury in the Eastern District of California on one count each of theft and conspiracy. KCMHA was the recipient of a HUD Supportive Housing Program grant in the amount of $156,240. On May 16, 2002, KCMHA received $70,230 as part of the grant for the purchase of a handicap-accessible van and to hire supporting staff. Erma Kendrick and Edwina Jackson diverted the $70,230 grant funds for a purpose other than the intended use. The $70,230 was used to pay for checks that were written by KCMHA as part of its participation as a "payee" in the Social Security Administration "Payee" program. More than $36,000 of the grant funds were paid to a storeowner who had entered into an agreement with KCMHA to cash checks of KCMHA "payee" clients. Many of the checks cashed by the storeowner came back to him with nonsufficient funds, and the $36,000 was paid to him to cover those checks.

Conspiracy

In **Tampa, FL**, defendant Dean Ryan, a general contractor was sentenced in U.S. District Court, Middle District of Florida, to one count of conspiracy to defraud the U.S. Government and one count of paying a bribe to a public official. Because Ryan cooperated and testified on behalf of the Government, Ryan was sentenced to 6 months house arrest and 5 years supervised probation that cannot be reduced and required to pay the City of Tampa $72,000 in restitution.

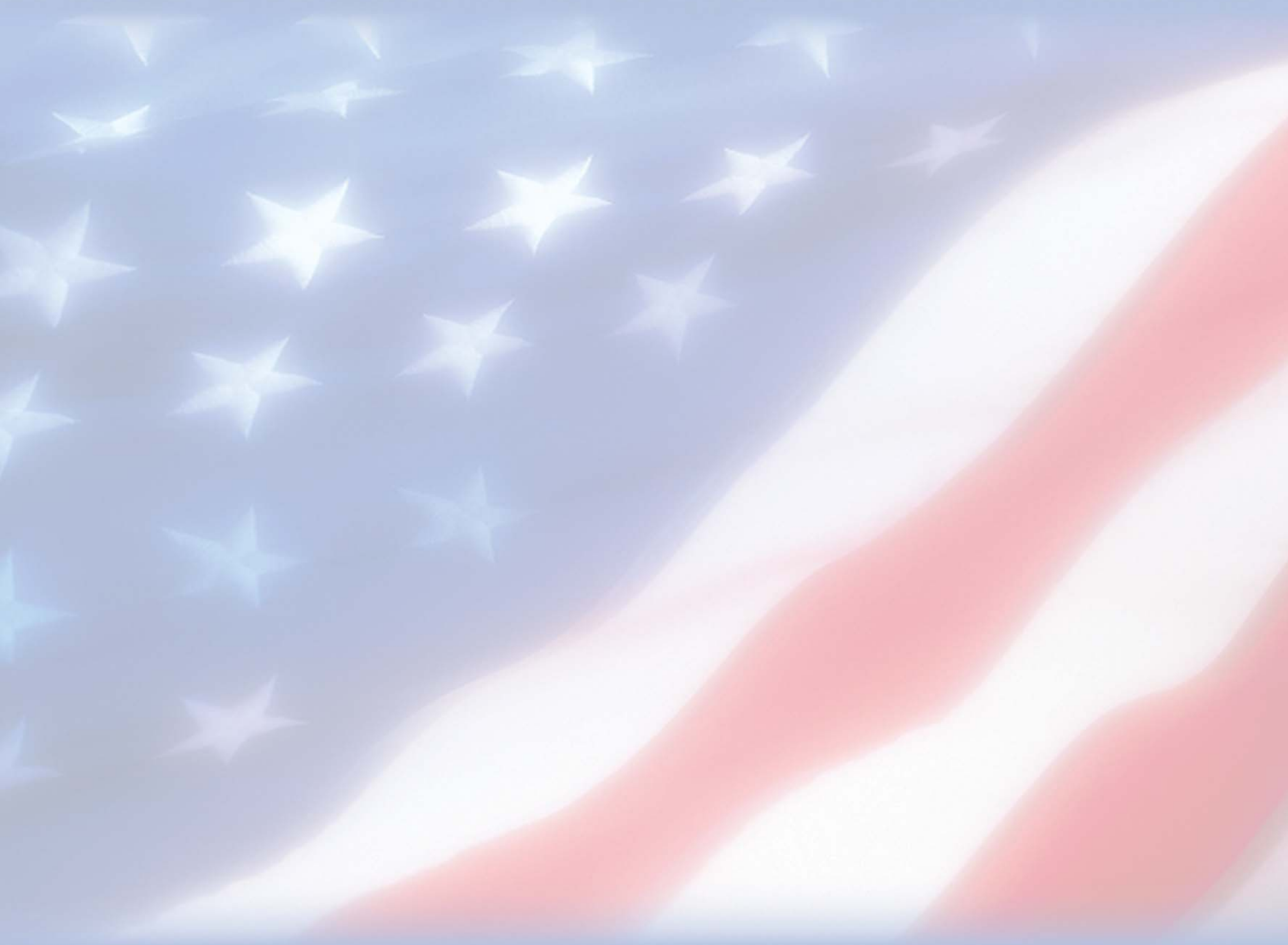
Defendant Steve Labrake, former Director of Business and Community Development for the City of Tampa, was sentenced in U.S. District Court, Middle District of Florida, on 30 counts including conspiracy to defraud and commit offenses against the United States, wire fraud, receiving bribes as public officials, receiving gratuities, theft or bribery concerning programs receiving Federal funds, and stealing public money. Labrake was sentenced to 60 months incarceration in the custody of the Federal Bureau of Prisons and 36 months supervised probation and ordered to pay the City of Tampa $142,000 in restitution.

Defendant Paulette Lynn McCarter (Labrake), former Senior Redevelopment Counselor, City of Tampa, was sentenced on 28 counts including conspiracy to defraud and committing offenses against the United States, wire fraud, receiving gratuities, theft or bribery concerning programs receiving Federal funds, and stealing public money. McCarter (Labrake) was sentenced to 41 months incarceration in the custody of the Federal Bureau of Prisons and 36 months supervised probation and ordered to pay the City of Tampa $142,000 in restitution.

Defendant Chester Luney, former Executive Director for Tampa Hillsborough Action Plan (THAP), a nonprofit organization, was sentenced on 19 counts, including conspiracy to defraud and commit offenses against the United States, wire fraud, bribing a public official, giving a gratuity to a public official, theft or bribery concerning programs receiving Federal funds, and stealing public money. Luney was sentenced to 33 months incarceration in the custody of the Federal Bureau of Prisons and 36 months supervised probation and ordered to pay the City of Tampa $142,000 in restitution.

The investigation revealed that defendants Labrake, McCarter, Luney, and Ryan conspired to defraud HUD for their personal benefit using HOME and CDBG funds. Labrake and McCarter had Ryan build their home in exchange for 15 HUD-funded contracts with an additional $3,000 built into the contract for Ryan. Ryan was required to pay thousands of dollars for Labrake's and McCarter's personal debts. Labrake directed Luney to pay Ryan $30,000 from HUD funds in furtherance of the scheme. Luney, through THAP, received additional funds from the City of Tampa by padding its property acquisition costs. Luney used HUD funds to pay employees and supply costs to build Labrake's and McCarter's home, valued at $670,000. As a result of this investigation, the City of Tampa is repaying HUD $4.5 million for funds misappropriated under the direction of Labrake while serving as a City official. Additional funds are expected to be repaid to HUD based upon the sale of properties acquired under LaBrake that were deemed ineligible acquisitions.

Chapter 6



Other Significant HUD Audits and Investigations/OIG Hotline

Audits

During this reporting period, the Office of Inspector General (OIG) issued 10 reports: 9 internal audits and 1 external audit involving areas of U.S. Department of Housing and Urban Development (HUD) operations that do not fall under major HUD programs reported in previous chapters.

OIG audited HUD and Government National Mortgage Association (Ginnie Mae) financial statements; reported on KPMG, LLP's audit of the Federal Housing Administration's (FHA) financial statements; and audited the travel card program, the purchase card program, the information security program, and information systems. Our more significant audits are discussed below.

Chart 6.1: Other Audit Reports Issued

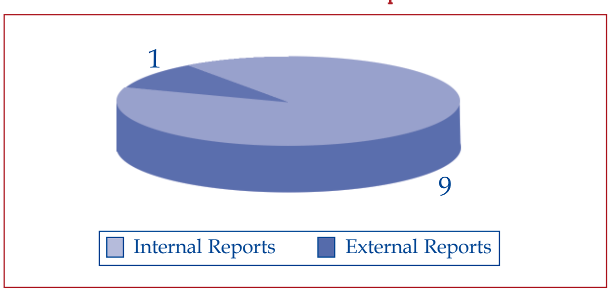
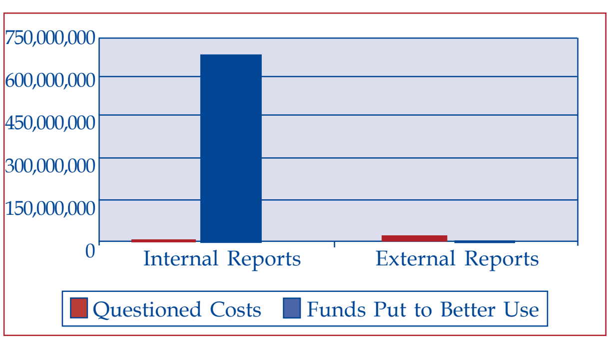


Chart 6.2: Other Audit Dollars



Report on the U. S. Department of Housing and Urban Development's Fiscal Year 2004 Financial Statements

Our report on HUD's fiscal year (FY) 2004 financial statements is included in HUD's FY 2004 Performance and Accountability Report. For FY 2004, The Office of Management and Budget (OMB) directed agencies to complete their Performance and Accountability Reports and submit them to the President, OMB, and the Congress by November 15, 2004, thereby requiring that we complete our work by that date.

We were unable to express an opinion on HUD's FY 2004 principal financial statements for the following reasons:

- Final consolidated financial statements, reflecting all material proposed adjustments and related disclosures, were not presented to the OIG auditors in time to allow us to apply all the procedures necessary to meet *government auditing standards* and render an opinion in time to meet the OMB-required reporting date.
- We were unable to obtain sufficient competent evidential matter in a timely manner to satisfy ourselves that HUD's obligation transactions and balances were supported by appropriate source documents. Department officials were unable to retrieve documents supporting significant project-based Section 8 obligations in a timely manner. In addition, we experienced delays in

The chart cost figures in this chapter represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

obtaining underlying support for significant balances pertaining to the Section 236 interest reduction payments.

- We were unable to obtain sufficient competent evidential matter in a timely manner to satisfy ourselves that Note 17 on Rental Housing Subsidy Payment Errors was supported by appropriate source documents. Department officials were unable to complete the supporting studies or provide adequate supporting documentation in a timely manner to allow us to apply all the procedures necessary to meet *government auditing standards*.

- Interim milestone dates associated with the accounting firm of KPMG, LLP's audit of FHA's financial statements were missed because of (1) the late receipt of the Mutual Mortgage Insurance Fund actuarial study, which is critical to completion of audit work relating to the Single Family Liability for Loan Guarantees, and (2) material errors found in the calculation and reporting of the FHA Multifamily Liability for Loan Guarantees and Loan Loss Reserve for its Mark-to-Market loan portfolio risk category. Missing interim milestone dates with the FHA audit contributed to the Department's missing agreed-upon milestone dates associated with consolidating FHA's financial statements with those of the remainder of the Department.

In a separate report issued by OIG, we provided additional details concerning our audit of HUD's FY 2004 Financial Statements. The report describes three material weaknesses in internal controls related to the need to (1) comply with Federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA's business and budget processes; (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance; and (3) improve FHA's management review over the credit reform estimation process. Reportable conditions in internal controls in FY 2004 related to the need to (1) improve quality control over performance measures data reliability; (2) strengthen controls over HUD's computing environment; (3) improve personnel security practices for access to the Department's critical financial systems; (4) improve processes for reviewing obligation balances; (5) improve controls for developing estimates of budget authority required for the Section 236 Interest Reduction Program; (6) more effectively manage controls over the FHA systems' portfolio; and (7) place more emphasis on monitoring lender underwriting, continue to improve early warning processes, and establish effective loan portfolio risk assessment tools for single-family insured mortgages. In addition, our reportable condition on improving the processes for reviewing obligation balances identified $708 million in monetary benefits, which we reported as "funds to be put to better use."

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. Our findings also include the following instance of noncompliance with applicable laws, regulations, and provisions of contracts and grant agreements that are required to be reported under *government auditing standards* or OMB Bulletin No. 01-02. HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with

(1) Federal Financial Management System requirements and (2) applicable accounting standards.

The audit discusses each of these conditions in detail, provides an assessment of actions taken by HUD to mitigate them, and makes recommendations for corrective actions. During the course of the audit, OIG also identified several matters that were not material to the financial statements and were separately communicated to HUD management (Audit Report: **2005-FO-0003)**.

Federal Housing Administration Financial Statements Audit

We reported on the results of KPMG, LLP's audit of FHA's financial statements for the years ending September 30, 2004 and 2003.

In KPMG's opinion, the financial statements present fairly, in all material respects, FHA's financial position as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for those years in conformity with accounting principles generally accepted in the United States of America.

The report identifies two material weakness and two reportable conditions on internal control, discusses each of these conditions in detail, provides an assessment of actions taken by FHA to mitigate them, and makes recommendations for corrective actions. The material weaknesses in internal controls in FY 2004 related to the need to (1) comply with Federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA's business and budget processes, and (2) improve FHA's management review over the credit reform estimation process. Reportable conditions in internal controls in FY 2004 related to the need to (1) more effectively manage controls over the FHA systems' portfolio and (2) place more emphasis on monitoring lender underwriting, continue to improve early warning processes, and establish effective loan portfolio risk assessment tools for single-family insured mortgages. The report also identifies one reportable instance of potential noncompliance with laws, regulations, contracts, and grant agreements that KPMG tested. During the course of the audit, KPMG also noted other internal control matters that are not material to the financial statements and are being separately communicated to FHA management. (Audit Report: **2005-FO-0002**)

Government National Mortgage Association Financial Statements Audit

In accordance with the Government Corporation Control Act, as amended, we audited the Ginnie Mae financial statements. This report presents the results of our audit of Ginnie Mae's principal financial statement for the year ending September 30, 2004. Also provided are assessments of Ginnie Mae's internal controls and compliance with laws, regulations, and provisions of contracts that could have a direct and material effect on its financial statements. Our report includes a copy of Ginnie Mae's principal financial statements for the years ending September 30, 2004 and 2003. However, the objective of our audit was to express an opinion on the fair presentation of these financial statements.

We found that Ginnie Mae's financial statement is presented fairly, in all material respects, in conformity with the U.S. generally accepted accounting principles. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses. We noted no matters material to the financial statement that require recommendations in this report. (Audit Report: **2005-FO-0001**)

Travel Card Program Audit

We audited HUD's travel card program to determine whether sufficient management controls were implemented to effectively detect inappropriate transactions.

HUD needs to improve management controls over the travel card program's training and monitoring functions. Although we found that cardholders traveling on official Government business generally used the card in accordance with governing policies, we estimated that 6.3 percent of the transactions processed during the audit period (January 2002 through September 2003) were improper in that they were for personal use—purchases or cash advances not associated with official Government travel. Additionally, cardholder accounts were not always closed in a timely manner when HUD employment was terminated and when cardholders were issued a new travel card.

We recommended that HUD improve its travel card training and monitoring program and more equitably distribute the number of cardholders assigned to each administrative officer for monitoring. We also recommended that HUD establish procedures to ensure that (i) travel card accounts are canceled when employees separate from HUD and (ii) employees are not issued more than one travel card. (Audit Report: **2005-DP-0002**)

Purchase Card Program Audit

We audited HUD's purchase card program to determine whether actions taken on the recommendations made in a 2003 audit report issued by the U.S. Government Accountability Office (GAO) on HUD's purchase card program resulted in better program management and were effective in preventing or detecting inappropriate use.

We found that the actions taken to resolve the issues reported in the 2003 GAO audit report have resulted in significant improvement in the overall management of the purchase card program. HUD has developed and put into operation several policies designed to improve card transaction approval, review, monitoring, and training procedures. While these actions have reduced the frequency of improper and questionable purchase card transactions reported in the 2003 report, we still found instances of questionable activity. We also found administrative weaknesses associated with documentation maintenance, statement reconciliations, delegations of authority, and the payment of sales tax.

We recommended that HUD improve controls over purchase card program administrative functions by making sure monitoring procedures include detailed reviews of documentation maintenance, statement reconciliations, delegations of authority, and sales tax payments. (Audit Report: **2005-DP-0003**)

Information Security Program Evaluation

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 testing found weaknesses in network security that we reported to the Acting Director for Information Technology Operations in a memorandum, dated August 6, 2004. Other weaknesses in information system security are reported in our audit report entitled FY 2004 Review of Information Systems Controls in Support of the Financial Statement Audit. Generally, we reported that improvements are needed in network security, contingency planning for information systems, and the agencywide information system security program. In our assessment, HUD has not documented and implemented an agencywide information security program in a timely manner as specified in section 3544(b) of FISMA and has not fully established the minimum set of controls provided in appendix III to Office of Management and Budget (OMB) Circular A-130, Security of Federal Automated Information Resources. However, HUD has taken steps to improve information system security and has made commendable efforts to improve its organization for an effective information system security program. (Audit Report: **2005-DP-0801**)

Information Systems Review

We reviewed general and application controls for selected information systems as part of the OIG's audit of HUD's financial statements for FY 2004. We found weaknesses and deficiencies in controls. The weaknesses and deficiencies in controls are related to HUD's noncompliance with (i) requirements for internal controls established by OMB, (ii) guidance for securing information systems issued by the National Institute of Standards and Technology (NIST), and (iii) HUD's own policies and procedures. We recommended that the Assistant Secretary for Administration/Chief Information Officer ensure that OMB requirements, FISMA, NIST guidelines, and HUD's own internal policies and procedures are implemented. The Assistant and Deputy Assistant Secretary for Administration/Chief Information Officer concurred with all applicable recommendations. (Audit Report: **2005-DP-0001**)

Investigations

During this reporting period, the OIG opened 13 investigation cases and closed 8 cases involving areas of HUD operations that do not fall under specific program categories. Judicial action taken on these cases during the period included $186,618 in investigative recoveries, seven indictments/informations, four convictions/pleas/pretrial diversions, nine administrative actions, six personnel actions, and seven arrests.

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

Conspiracy and Money Laundering

In **Tampa, FL,** defendant William Jones was sentenced in U.S. District Court, Middle District of Florida, to 108 months incarceration and 24 months supervised release and ordered to pay $77.9 million in restitution. Jones previously pled guilty to one count of conspiracy to defraud the United States and two counts of making false statements to HUD. Jones was the General Manager of GreatStone Mortgage and coconspired with several other subjects in defrauding FHA, Ginnie Mae, and Warehouse Lenders, causing one of the largest schemes and financial losses involving HUD's Streamline Refinance program in HUD's history.

GreatStone packaged and pooled more than $52 million worth of loans, which it certified to Ginnie Mae met the FHA criteria. Ginnie Mae has had to purchase $38 million in loans that did not meet FHA criteria from the portfolio. All of the loans purchased have property attached and some are performing loans. As of March 31, 2005, Ginnie Mae has written off losses of $488 thousand and has a remaining whole loan asset of $24.5 million. Signatures would then be forged on the altered/counterfeit loan documents, and the subjects would use the fraudulent documents to warehouse lenders to draw down on their lines of credit. The proceeds were then wired into accounts controlled by the subjects and ultimately laundered. The subjects laundered funds into the Cayman Islands. They created fictitious title companies, Ginnie Mae document custodians, and Ginnie Mae security trade tickets. FHA was victimized by the subject's loan origination fraud schemes and endorsed more than 10,000 loans, which included thousands of loans not conforming to FHA underwriting guidelines. GreatStone provided fraudulent audited annual financial statements to Ginnie Mae, which concealed and failed to include accurate financial information about the liabilities of GreatStone.

Personnel Action

A HUD employee, a GS-12 construction analyst, in **Houston, TX**, was sentenced to one year of confinement in a Texas Department of Corrections State jail. The employee pled guilty to two counts of felony forgery in a District Court in Houston, TX , and will serve the sentences concurrently. The guilty plea resulted from two indictments handed down in September 2003.

The investigation disclosed that the HUD employee passed two counterfeit cashier's checks in the amount of $10,000 each for the downpayment on a conventional home loan. The employee indicated to investigators that the checks were given to him as payment for architectural work performed during nonduty hours for an outside party.

Shortly before sentencing, the employee was sent a memorandum by HUD which proposed his removal for engaging in conduct unbecoming a Federal employee, citing the felony forgery, committing a State misdemeanor by his fraudulent use of a false "registered architect" stamp, engaging in prohibited outside architectural work for coworkers, and making false statements to investigators before admitting he altered a college diploma to show he received a degree in architecture.

Bid Rigging and Theft

In **Philadelphia, PA,** HUD real estate-owned preservation and protection contractors John and Rita Mancinelli, doing business as R.A. Property Services, were sentenced in U.S. District Court, Eastern District of Pennsylvania, based on their previous admission of guilt to involvement in a bid rigging scheme. John Mancinelli was sentenced to 6 months incarceration, to be followed by 12 months supervised release. Rita Mancinelli was sentenced to 18 months of supervised release. Further, they were ordered to pay $17,000 in restitution to HUD, which represents the amount of money that HUD was overcharged.

The investigation determined that, during the latter part of 1999, the Mancinellis created and submitted false bidding documents on behalf of nonexistent competitors to obtain HUD-funded property preservation work, including cleanouts and winterization, in excess of $200,000. Since they were manipulating the bidding, there was no incentive to keep costs down, and it was eventually determined that they had overcharged HUD by at least $17,000. John Mancinelli had been previously convicted for identical illegal activity in an OIG investigation 7 years earlier.

In **Baltimore, MD,** Maryland Circuit Court, Baltimore County, defendant Robert Miller, who had previously pled guilty to various felony theft charges in connection with theft of funds from prospective purchasers of HUD and Department of Veterans Affairs (VA) foreclosed properties, was sentenced to 12 years incarceration. Investigation by HUD-OIG and the Maryland State Attorney General determined that in 2001 and 2002, Miller at various times, falsely represented himself as a realtor, lawyer, mortgage broker, or investor, inducing at least 17 individuals to provide downpayments toward the purchase of a HUD- or VA-owned property, when he had no fiduciary interest in any of the properties. Miller stole at least $43,840 from these individuals and used the money for his personal benefit.

Child Exploitation

HUD-OIG Special Investigations Division (SID), **Washington, DC**, conducted a joint investigation with the Commonwealth of Pennsylvania, Office of the Attorney General, Bureau of Criminal Investigation (BCI), Child Sexual Exploitation Unit, to identify and expose a HUD employee using his HUD computer to send sexually explicit and pedophilic e-mails to an individual, whom the HUD employee believed was the father of three minor children, who would permit the employee to have sexual relations with the children. In fact, the HUD employee was communicating with a BCI undercover agent.

In an arrangement devised by SID and BCI, HUD-OIG and SID Special Agents caught the HUD employee at his desk at the HUD Philadelphia Home Ownership Center while in the act of attempting to download a file the employee believed contained a photograph of the children. SID obtained an admission from the HUD employee as to his involvement in the sending of sexually explicit and pedophilic e-mails from his HUD computer and recovered corroborating forensic evidence.

The HUD employee resigned after pleading guilty to violation of Title 18, Pennsylvania Consolidated Statutes, Section 901/6318, Criminal Attempt/Unlawful Contact with Minor, a felony. In February 2005, the defendant was sentenced to a term of imprisonment in the custody of the Pennsylvania Department of Corrections for a period of not less than 12 months and not to exceed 120 months, to be followed by a term of probation of 10 years. The defendant was also required to register as a sex offender. Before imposing the sentence, the presiding judge described the e-mails sent by the defendant from his HUD computer as "the most disgusting thing I've heard a human being say they would do to children," noting that the e-mails "went from bad to worse to disgusting to monstrous." The judge described the defendant as a "clear and present danger to the children of the Commonwealth of Pennsylvania."

Assault

In **Boston, MA,** Antonio Loura, former Section 8 landlord, was indicted by a grand jury in the District of Massachusetts, Boston, MA. Loura was indicted on one count of assault on a Federal officer. Loura was indicted after he allegedly threatened two HUD-OIG Special Agents with a knife while the agents were interviewing Loura.

OIG Hotline

In August 2004, the OIG Hotline was combined with a new fraud prevention initiative to form the Program Integrity Division (PID). The PID has a Director and seven full-time employees. The seven employees concentrate on Hotline-related work, which includes taking allegations of waste, fraud, abuse, or mismanagement in HUD or in HUD-funded programs from HUD employees, contractors, and the public and coordinating reviews with internal audit and investigative units or with HUD program offices. The Hotline is operational 5 days a week, Monday through Friday, from 10:00 a.m. to 4:30 p.m., Eastern Time.

During this reporting period, the Hotline has received and processed 8,998 complaints—76 percent received by telephone, 21 percent by mail, and 3 percent by e-mail. The Hotline also interviewed one individual who visited HUD headquarters to register a complaint about program operations. Every allegation received by the Hotline is logged into a database and tracked.

Of the complaints received, 883 were related to the mission of OIG and were addressed as Hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of Hotline case referrals by percentage.

The Hotline closed 657 cases this reporting period. The closed Hotline cases included 99 substantiated allegations. The substantiated allegations resulted in 13 administrative sanctions against HUD employees for personnel violations or investors for improprieties involved in the purchase of a home. The Department also took 86 corrective actions that resulted in $117,226 in recoveries of losses and $1,824,881 in HUD funding that could be put to better use.

Chart 6.2: Hotline Cases Opened by Program

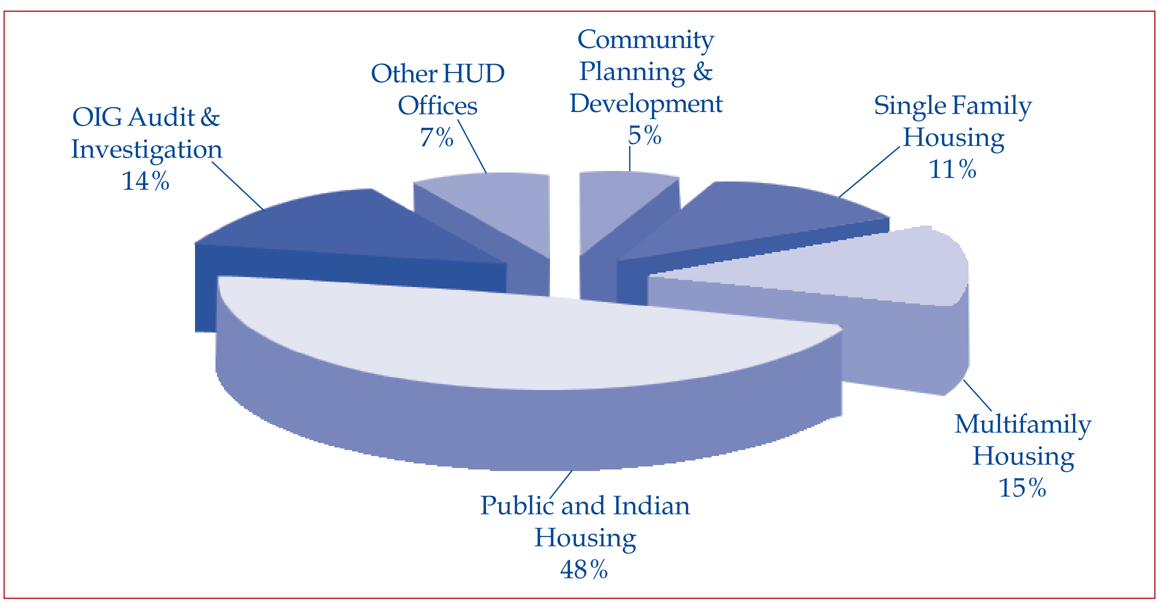
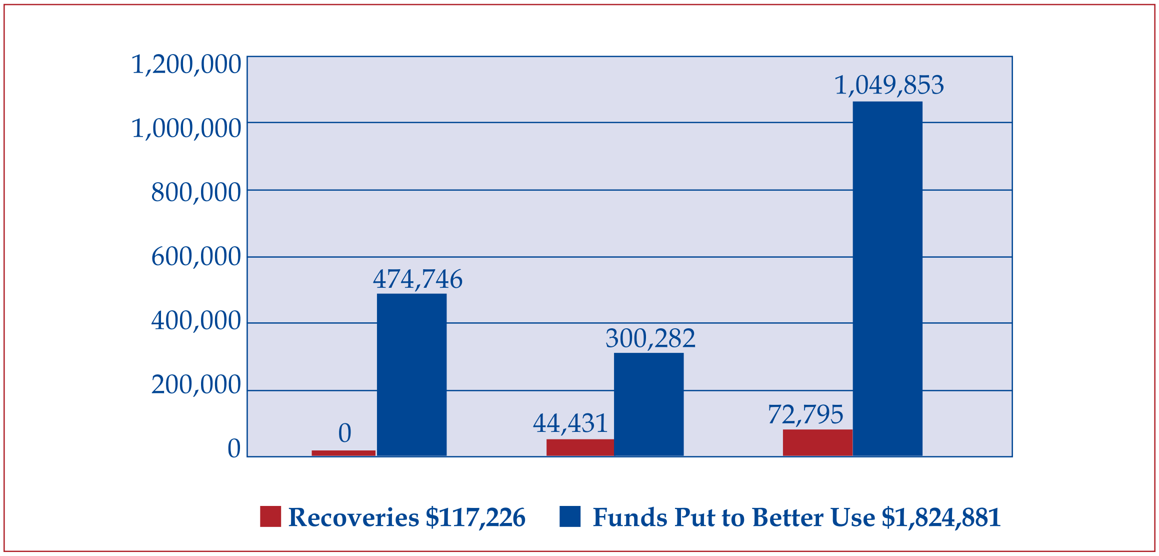
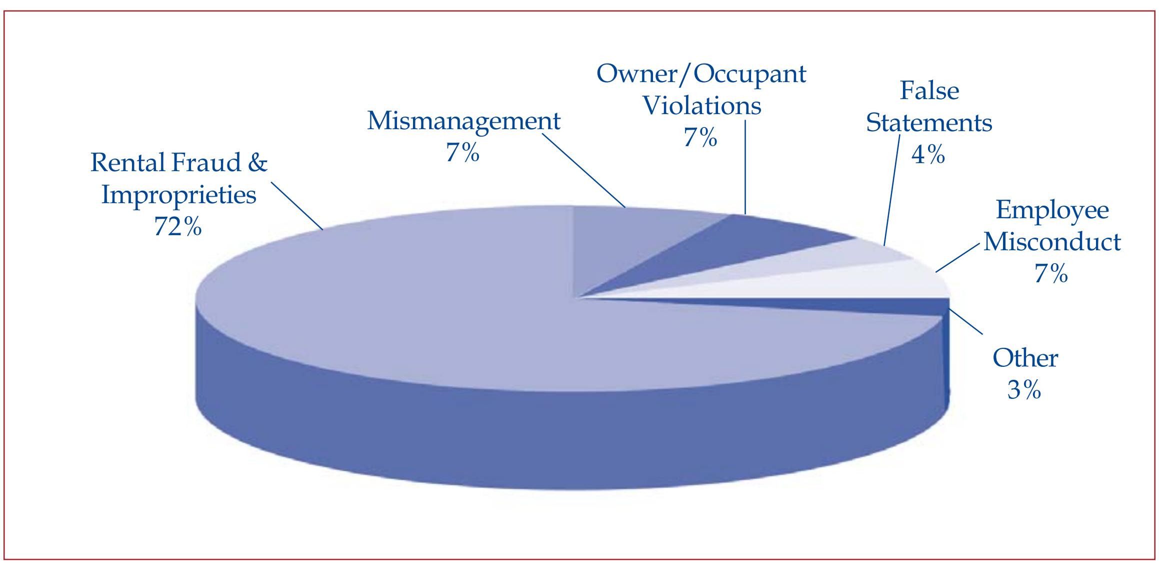


Chart 6.3: Hotline Dollar Impact from HUD Program Offices

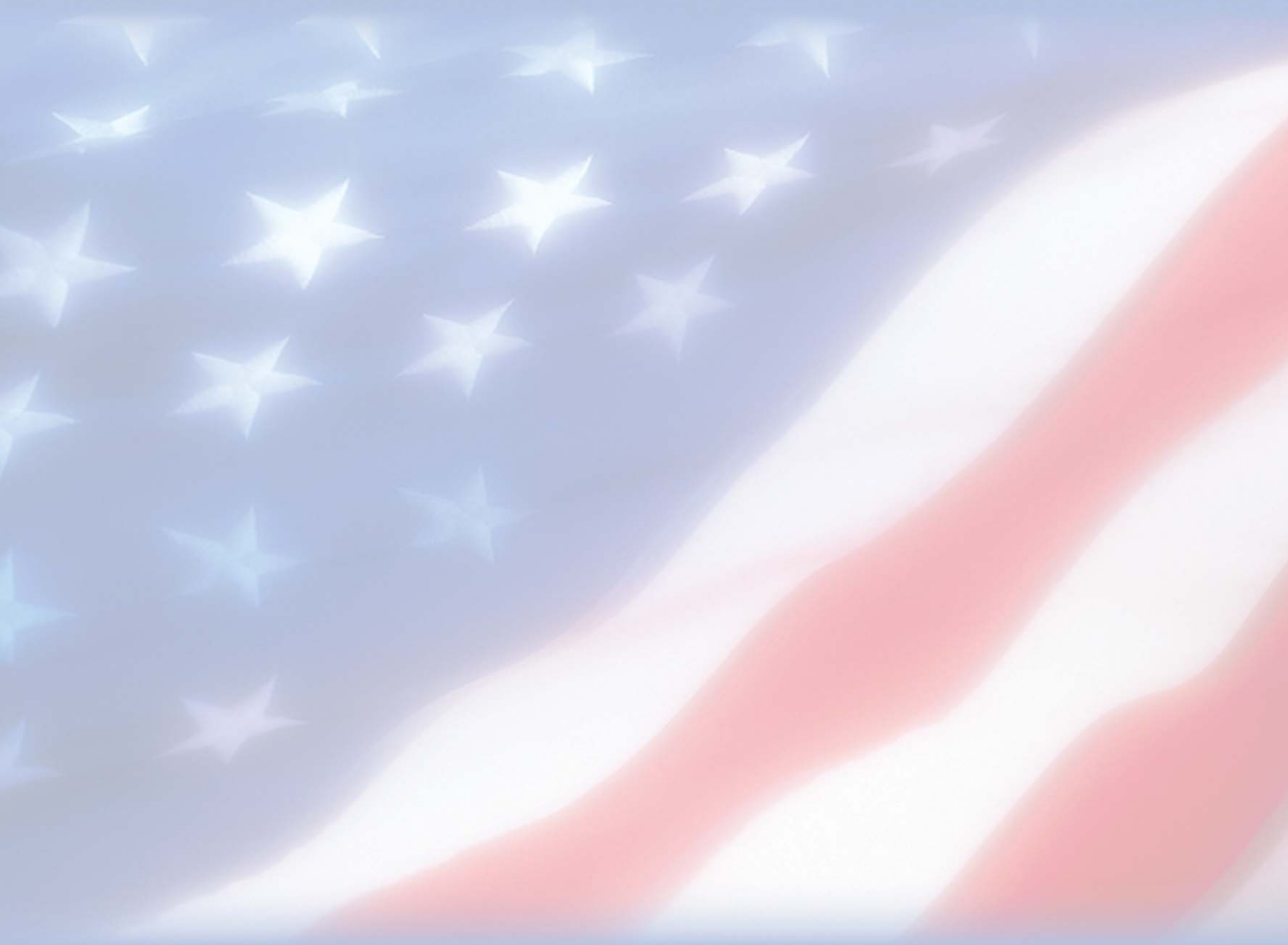


The recoveries included Section 8 tenants, who must reimburse housing authorities for assistance to which they were not entitled, based on improper reporting of income or household composition. Some of the funds that could be put to better use were the result of cases in which homebuyers submitted false documentation to qualify to purchase homes financed by FHA loans. The following chart illustrates the issue breakdown of the substantiated allegations by percentage.

Chart 6.4: Substantiated Cases by Type of Complaint Received by Hotline



Chapter 7



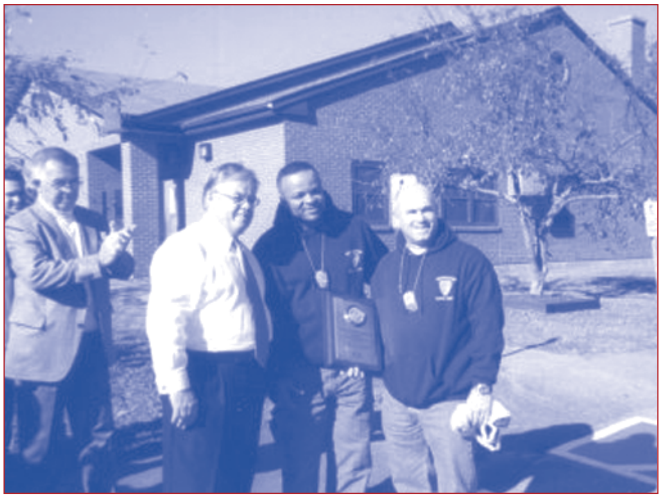
Outreach Efforts

To foster cooperative, informative, and mutually beneficial relationships with agencies and organizations whose intent is to assist in the accomplishment of the U.S. Department of Housing and Urban Development's (HUD) mission, the Office of Inspector General (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; we also provide information about OIG's role and function.

Inspector General (IG) Kenneth Donohue spoke at a press conference in **Worcester, MA**, to an audience of 60 individuals from the local television stations, newspapers, and radio stations and residents of the Worcester Housing Authority (WHA) at the Great Brook Valley Public Housing Development. IG Donohue announced three new HUD-OIG initiatives. The first was an agreement signed between HUD-OIG, WHA, and the Massachusetts Department of Revenue that will allow the WHA to match reported tenant income against the State wage data. The WHA is the first public housing authority in Massachusetts to be able to do income matching. The second was the success of the ongoing efforts of HUD-OIG, the WHA Public Safety Department, the Worcester Police Department (WPD), and the Massachusetts State Police (MSP) Violent Fugitive Apprehension section to arrest fugitive felons living in either public housing or Section 8 units. The operation has resulted in more than 50 arrests. The third was the continuing efforts of HUD-OIG, the WHA Public Safety Department, and the WPD in addressing the illegal/unauthorized residents living in WHA public housing developments, resulting in their eviction or inclusion on the lease.

Also speaking at the press conference were U.S. Congressman James McGovern; Raymond Mariano, Executive Director, WHA; Worcester Police Chief Gary Gemme; and representatives from, the Worcester County District Attorneys Office and the WHA Board of Commissioners. All the speakers praised the cooperation among the various agencies. After the press conference, IG Donohue presented the WPD Gang Unit with a plaque to recognize its "Dedication and Commitment to the Children Living in Worcester Public Housing Communities." IG Donohue visited the WPD summer camp last summer and wanted to officially recognize their efforts.

Inspector General Kenneth Donohue addresses the Worcester Housing Authority.



Inspector General Kenneth Donohue at the Worcester police department summer camp.

Additionally, IG Donohue was the guest speaker on a Worcester radio talk show WTAG 580 with Raymond Mariano and Jordan Levy, the host of the show. IG Donohue discussed the role of HUD-OIG and the success of HUD-OIG initiatives in Worcester and throughout the country.

IG Donohue, along with OIG Assistant Special Agent in Charge (ASAC) Ruth Valdes, met with the **Palm Beach County, FL**, Sheriff Ric Bradshaw and presented an appreciation plaque to Palm Beach County Sheriff's Colonel Michael Gauger, honoring him for his work as a Fraud Investigator at the Palm Beach County Housing Authority over the last year. Colonel Gauger is a 33-year employee of the Sheriff's Office who worked recently with HUD-OIG addressing Section 8 subsidized fraud as part of the Section 8 Fraud Initiative. Colonel Gauger promised continual support of OIG's initiative through the Sheriff's Office Community Policing program. IG Donohue addressed press issues during the presentation from the Palm Beach Post and the local Channel 9 TV station, which provided positive information relating to the national Section 8 Fraud Initiative.

On the same day, IG Donohue and ASAC Valdes met with Palm Beach County Housing Authority Executive Director (ED) Barry Seaman to discuss additional strategies to address tenant fraud in Authority developments. ED Seaman thanked IG Donohue for OIG's support in addressing Section 8 subsidized tenant fraud, and IG Donohue pledged continual OIG support through the Authority's Section 8 Fraud Initiative.

Special Agent In Charge (SAC) Peter Emerzian, Regional Inspector General for Audit (RIGA) John Dvorak, and ASAC Maureen Nelting gave a presentation, "Tackling Fraud in Public Housing," to approximately 150 members attending the midwinter conference of the New England Council of the National Association of Housing and Redevelopment Officials being held in **Uncasville, CT**. SAC Emerzian discussed OIG's upcoming Rental Subsidy Fraud Initiatives, as well as the mission of the IG. ASAC Nelting discussed tenant, landlord, and public housing authority employee fraud. RIGA Dvorak talked about the Office of Audit, management controls, and Web sites that may be helpful.

SAC Emerzian and ASAC Diane H. DeChellis of HUD-OIG met with **Boston, MA,** Police Department (BPD) Superintendent Paul F. Joyce, Jr., and Deputy Superintendent Paul A. Fitzgerald to discuss HUD-OIG's authority and mission, as well as to discuss the benefits of cooperation between HUD-OIG and the BPD. During this meeting, discussions included developing a Fugitive Felon Initiative involving BPD, Boston Housing Authority (BHA) Police, MSP and HUD-OIG in Federal housing sites in Boston.

In **Framingham, MA**, SAC Emerzian and ASAC DeChellis met with MSP Lt. Colonel John D. Kelly, Detective Captain Brian X. Lilly, and Detective Captain Michael J. Saltzman to discuss HUD-OIG's authority and mission, as well as to discuss the benefits of cooperation between HUD-OIG and the MSP. During this meeting, discussions included developing a Fugitive Felon Initiative in Federal housing sites in the State of Massachusetts with the MSP, HUD-OIG, and local police departments in Massachusetts.

In Boston, MA, SAC Emerzian and ASAC DeChellis met with BPD Commissioner Kathleen O'Toole and Superintendent Paul F. Joyce, Jr., to discuss OIG's authority and mission, as well as to discuss the benefits of cooperation between OIG and the BPD. During this meeting, discussions included developing a Fugitive Felon Initiative involving BPD, BHA Police, MSP, and OIG in Federal housing sites in Boston, MA.

In **Boston, MA**, SAC Emerzian invited Julie Shaffer, Director, Quality Assurance Division, to meet with the Boston Office of Investigation in an effort to generate additional single-family investigations in Region 1. As a result, Ms. Shaffer discussed single-family fraud trends in Region 1 and provided training on the availability and use of the computerized single-family programs. Ms. Shaffer also answered program questions relating to ongoing single-family investigations in New England.

SAC Emerzian, ASACs Dechellis and Nelting, Acting RIGA Heath Wolfe, and Director of HUD's Quality Assurance Division Julie Shaffer made a joint HUD and OIG presentation to the Massachusetts Board of Real Estate Appraisers' conference held in **Dedham, MA**. The presentation was well attended with more than 150 appraisers at the conference. SAC Emerzian provided an overview of the OIG and presented a case study on a single-family investigation involving appraisers. RIGA Wolfe and ASAC Dechellis discussed the respective roles of the Offices of Audit and Investigation. ASAC Nelting detailed the investigative methods and criminal schemes common in single-family investigations. Ms. Shaffer provided guidance to program problems encountered by the appraisers. At the conclusion of the presentation there was a question and answer session with the OIG staff and Ms. Shaffer. The highlight was at the end of the presentation when one of the appraisers thanked HUD and our staff for "helping prevent America's neighborhoods from becoming slums."

SAC Nadine Gurley made a presentation in **Columbia, SC**, on single-family fraud to the South Carolina Appraisal Institute. SAC Gurley discussed fraud awareness regarding loan origination fraud and common schemes used in committing mortgage fraud. Approximately 65 appraisers representing all areas of South Carolina attended the presentation.

In **Uncasville, CT**, SAC Emerzian, RIGA John Dvorak, and ASAC Nelting spoke at the New England Council of the National Association of Housing and Redevelopment Official's Conference on "Protecting Your Agency from Fraud." The presentation briefly covered what constitutes fraud, highlighted several case studies that were successfully prosecuted, and emphasized that in preventing fraud, sound management controls are critical to housing due to the nature of their activities and the relatively large amount of HUD funds handled. There were approximately 160 persons who attended this conference.

SAC Emerzian presenting at the New England Council of the National Association of Housing and Redevelopment Official's Conference on "Protecting Your Agency from Fraud."

ASAC Lori J. Chan and Special Agents (SAs) Keith Fong and Eric Huhtala met with the Chief of Police for the **Sacramento, CA**, Police Department. During the meeting, they gave the Chief an overview of the functions of OIG and informed him of various programs to include Section 8 and Fugitive Felon. The Chief invited them to attend his INFOTEC meeting later that day where they gave the same presentation to all of the Commanding staff of the Sacramento Police Department. Approximately 30 individuals were in attendance to include the Chief, his Deputy Chiefs, Captains, Lieutenants, and some Sergeants. The presenters received positive feedback, made contacts, and exchanged business cards.

In **San Juan, PR**, ASAC Noel Rosario and SA Edwin Bonano met with Lt. Garcia, Director of the Puerto Rico Police Extraditions and Special Arrest Unit. The main purpose of this meeting was to explain and discuss OIG's authority and the Fugitive Felon Initiative, which involved the local police, and HUD-OIG investigations in public housing areas. ASAC Rosario and SA Bonano provided Lt. Garcia with a list of the fugitive felons wanted by other local and Federal authorities. An agreement was made to work jointly on this initiative. A few days later, with the assistance of Lt. Garcia's group, OIG was able to arrest three of the most wanted fugitive felons.

In **San Juan, PR**, ASAC Noel Rosario and SA Bonano met with the Commissioner of the Financial Institutions, Mr. Alfredo Padilla, and Mr. Aponte Asdrubal, Director of Enforcement of the institution. During the meeting, there was a discussion of the HUD-OIG mission and authority and the need for joint efforts between OIG and the Commission of Financial Institutions to combat the existing fraud scheme on the single-family housing loan programs. The Commissioner and the Director of Enforcement agreed to provide help on this Mortgage Fraud Initiative.

As part of HUD-OIG's outreach program, ASAC George Dobrovic and SA Patrick Jefferson provided a presentation on trends in mortgage fraud to the Mortgage Society of Ohio (MSO), held at the Holiday Inn, **Independence, OH**. The MSO is a nonprofit organization of financial institutions, title companies, mortgage companies, and credit reporting agencies, which holds monthly meetings to provide its membership with topics of interest to improve customer service. The issue of OIG becoming a trusted resource and partner in the barrier against FHA loan fraud was stressed, with the association president requesting a return presentation in 2005. Approximately 40 people were in attendance.

Region 6 ASAC Brad Geary provided a presentation involving HUD and bankruptcy fraud to the U. S. Trustee's Office at the Department of Justice National Advocacy Center in **Columbia, SC**. The session concentrated on the role that HUD-OIG plays in investigating real estate schemes and how fraud and false statements within the U.S. Bankruptcy Court play a role in these frauds. Approximately 50 people were in attendance.

In furtherance of the HUD's National Fugitive Felon Initiative, beginning in March of 2005, HUD-OIG Special Agents implemented the Louisiana National Fugitive Felon Initiative. Along with members of the United States Marshals Service (USMS), two sweeps have been conducted in **New Orleans, LA**, in public housing and Section 8 programs, resulting in five arrests of individuals who are wanted either locally or nationally. These individuals will be referred for eviction through the Housing Authority of New Orleans. This initiative is ongoing and will be worked throughout the State of Louisiana in an effort to eradicate wanted persons from public housing and Section 8 programs. HUD-OIG, along with members of USMS, led this initiative.

Television court Judge Joe Brown was in Indianapolis, IN, to accept honors from city officials and HUD-OIG for helping to bring attention to housing fraud. The **Indianapolis, IN**, Housing Agency presented Brown with a plaque after two Indianapolis cousins (Rhonda Revere Simmons and Pamela S. Hamler) appeared on his show and gave information that led authorities to charge them and four others with welfare fraud and theft.

RIGA Joan Hobbs of the Pacific/Hawaii Region spoke before a crowd of about 150 certified public accountants at their annual Western Region Real Estate Conference held at **Indian Wells, CA.** During the conference, Joan Hobbs provided information on the mission of HUD-OIG and the results of the many audits performed in the area of single-family loan fraud.

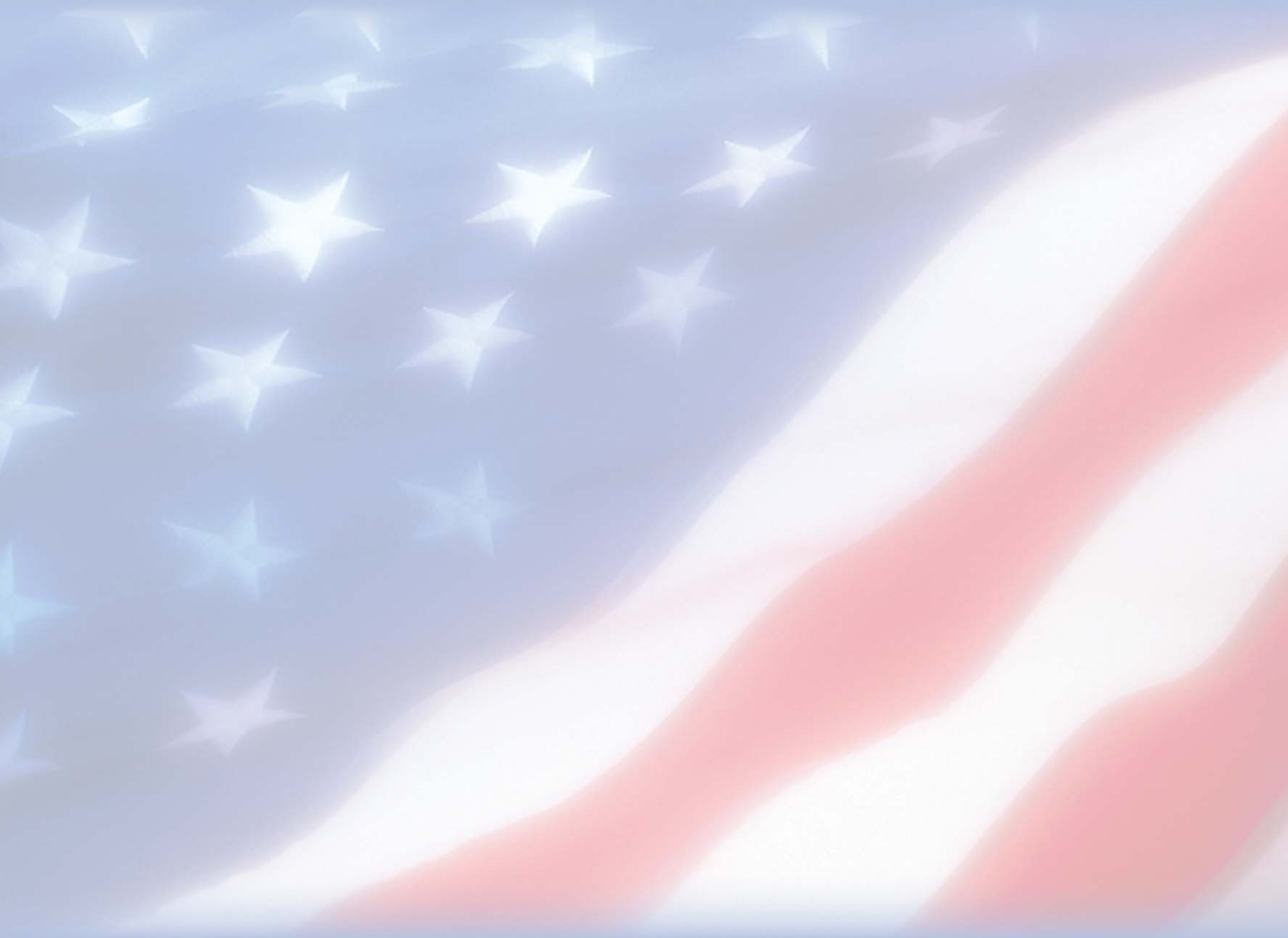
Assistant Regional Inspector General for Audit (ARIGA) Cris O'Rourke and RIGA John Dvorak from Region 1 spoke at the **Massachusetts S**ection 8 Administrators conference about the OIG mission. The topics included, the Inspector General Act, IG's mission, what the IGs are authorized to do, who oversees the IG, HUD management and employee responsibilities, organizational structure of OIG, what the Office of Audit does, audit plans and audit followup, and how OIG focuses on HUD's top management challenges. Approximately 100 people attended.

RIGA Ron Hosking served as a guest speaker in the Performance Auditing class at the University of Kansas in **Lawrence, KS**. Performance Auditing is a graduate level course designed to "introduce students to performance auditing and to explain the relevance of performance auditing to broader issues in public administration." RIGA Hosking provided the students with information about the history and organization of the OIGs, how OIG plans and conducts its audits, how it issues and resolves its audit reports, and how it evaluates and measures its performance.

In **Houston, TX**, Senior Auditor Angela Wilson of the Houston Office of Audit spoke at the Public Housing Authority Peer Group Meeting held on January 19, 2004. Auditor Wilson gave a presentation on OIG's audit efforts to counteract rental assistance overpayments. The audience included more than 50 directors, staff members, and management agents of Houston area public housing authorities. Auditor Wilson shared background information on OIG, why the Inspector General is focusing its audit efforts on the Section 8 program, and the results of some completed housing authority audits.

Region 5 ARIGA Thomas Towers gave a presentation on February 24, 2005, to Michigan Brokers/Agents in HUD's **Detroit** Field Office. The presentation covered the mission and functions of both OIG and the Office of Audit. There were approximately 40 attendees who were interested in buying and selling HUD properties.

Chapter 8



Review of Policy Directives

Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, the OIG reviewed 117 policy notices. This chapter highlights some of the OIG recommendations on these notices as well as other policy directives.

Establishment of Amnesty Programs at Public Housing Agencies Resulting from Income and Rent Determinations

The following information was included in the September 30, 2004 Semiannual Report to Congress, and the U.S. Department of Housing and Urban Development (HUD) had not reached a final decision on our comments. The draft Public and Indian Housing 2004 Notice of Funding Availability (NOFA) provides requirements to housing agencies that plan to offer tenants amnesty as a result of the Upfront Income Verification System detecting a difference between the tenants' claims of income and the income reported by their employers or agencies providing income assistance. The Department initiated the Upfront Income Verification System to reduce subsidy errors caused by tenants who are underreporting or not reporting their income.

We did not concur with this draft notice because it inappropriately empowers housing agencies to decide who will be prosecuted. Title 28, U.S.C., paragraph 516, states that the Attorney General of the United States is responsible for deciding who will be prosecuted for a Federal offense. In the Tenth Amendment to the United States Constitution, the determination on who will be prosecuted under State law is reserved to State authorities.

OIG has investigated many cases involving tenants who falsely reported their incomes. These investigations resulted in successful prosecutions or other remedial actions. Currently, OIG has pending investigations involving tenants who have defrauded the Office of Public and Indian Housing assistance programs. The draft notice threatens to jeopardize current investigations and to undermine the fairness of past convictions.

The Office of Public and Indian Housing has not issued the draft notice and is reconsidering its provisions.

Proposed Rules

Followup on the Electronic Submission of Applications for Grant and Other HUD Financial Assistance

The following information was included in the September 30, 2004, Semiannual Report to Congress, and HUD had not reached a final decision on our comments. HUD issued a proposed rule to inform potential applicants for HUD grants or other Federal financial assistance about how to submit their applications to HUD electronically. We did not concur with this rule originally because we found that the system was not being used to the extent predicted and the proposed rule failed to ensure that the internal mechanisms at HUD could accommodate the **grants.gov** data inflow. The Office of Management and Budget (OMB) stated that only 327 grants had been processed since the system went online in March 2004 and it planned to receive 15,000 grant applications in the first year. We found that HUD had failed to test or record the process of system-to-system interfaces to ensure that data would flow directly into HUD's databases. Without the proper interface, HUD would not be able to use **grants.gov** in an efficient and effective manner. HUD also did not obtain a risk assessment from system owners to mitigate control weaknesses. This program is one of the 24 Federal cross-agency e-government initiatives focused on improving access to services via the Internet. The vision for **grants.gov** is for it to be a simple, unified source for electronically applying for, funding, and managing grant opportunities.

We now concur with the proposed rule since HUD is working toward being in full compliance with the OMB requirements. In conjunction with HUD's release of this year's "SuperNOFA," a notice that makes available $2.26 billion in funding through an unprecedented 53 grant opportunities. HUD's Secretary announced that all applicants will be in compliance with **grants.gov**. For fiscal year (FY) 2005, electronic submission is mandatory unless the applicant receives a waiver from this regulatory requirement. The only other exception is for those applying for funding through HUD's Continuum of Care homeless assistance programs. The departmental Grants Management and Oversight Division has observed initial favorable results based on the limited number of calls by potential applicants, compared to a year ago, regarding the application process. HUD attributes the upfront planning for the smooth transition from paper application to electronic.

Conversion of Developments from Public Stock: Methodology for Comparing Costs of Public Housing and Tenant-Based Assistance

The following information was included in the September 30, 2004 Semiannual Report to Congress and HUD had not reached a final decision on our comments. The United States Housing Act of 1937, as amended, mandates that when a development in the low-income program costs more to operate than comparable units in the Section 8 Housing Choice Voucher (Voucher) program, the units in the low-income program must be converted to the Section 8 Voucher program. To implement the statute, the Office of Public and Indian Housing circulated a draft rule on the conversion of developments from the low-income program: Methodology for Comparing Costs of Public Housing and Tenant-Based Assistance.

HUD's appropriations act for the last several years mandated that none of the funds made available through the act may be used until a risk assessment is conducted and any risks identified are appropriately mitigated. Further, departmental policy provides that a rule may not be published until the risk assessment has been completed. We did not concur with the issuance of the draft rule because the Department has not conducted a risk assessment on the conversion program as required by the appropriations act and HUD internal policy.

Section 9(g)(3) of the Quality Housing and Work Responsibility Act limits the number of units being replaced by the housing agency to the number of units in the housing agency inventory on October

1, 1999. We did not concur with the proposed rule because HUD has not published the number of units in each housing agency inventory on October 1, 1999, as a control measure for preventing housing agencies from constructing new units exceeding the amount allowed.

The Department's draft rule does not preclude housing agencies from constructing new units to replace units converted from the low-income program to the Section 8 Voucher program. Further, we did not concur with this decision because HUD's draft rule did not mandate that the housing agency ensure operating costs for the newly constructed units do not exceed those for comparable units in the Section 8 Voucher program.

The Office of Public and Indian Housing is currently revising the draft rule.

Public Housing Capital Fund

This proposed rule governs public housing agencies' use of HUD-provided funds for either the development of new housing or the modernization of existing housing, as well as activities to improve existing management. The proposed rule was circulated to implement the provision in section 9 of the 1937 Housing Act, as amended. HUD's appropriations act in FY 2001 provided capital funds of $3 billion and about $2.5 billion in FYs 2002 through 2004 or approximately $10.5 billion since FY 2001.

HUD's appropriation act in 2001 and every act since then contain a general provision mandating a risk assessment be conducted before the regulation is prepared. We did not concur with the proposed rule because HUD had not completed the required risk assessment.

The Housing Act of 1937, as amended, allows housing agencies to develop units using capital funds and also limits the replacement units to the number of units in the housing agency inventory on October 1, 1999. HUD has not circulated a report identifying the number of units in inventory on October 1, 1999, for each housing agency. We did not concur with the proposed rule because HUD has not published the number of units in each housing agency inventory on October 1, 1999, as a control measure to insure the housing agencies do not build more units than allowed under the statute.

The Office of Public and Indian Housing is considering OIG's comments. The proposed rule has not been published as of the close of this semiannual reporting period.

FR-4712-01 Disposition of HUD-Acquired Single Family Property-Good Neighbor Next Door

The following information was included in the September 30, 2004 Semiannual Report to Congress and HUD had not reached a final decision on our comments. HUD proposed a rule to expand the eligibility of the Officer Next Door and Teacher Next Door programs (OND/TND) to tribal police officers, firefighters, and emergency rescue workers under a "Good Neighbor Next Door" title. The program gives a first offer to purchase advantage and typically a 50-percent price discount to these potential buyers of HUD single-family properties that are located in urban revitalization areas.

We commented that the proposed changes to the OND/TND program appear to remain vulnerable to abuse and may never achieve the stated purpose of reducing neighborhood crime rates and urban blight. OND/TND program abuses were documented in a previous audit report (Audit Report No. 2001-AT- 0001) and individual guilty pleadings to criminal convictions. As to achieving the program's purpose, a recent HUD study of OND/TND in Rialto, CA, and Spokane, WA, concluded that there must be a sufficient concentration of OND/TND properties in the revitalization zones to effectively reduce crime rates. Many HUD properties sold early in the program were not in the targeted areas of greatest need and, therefore, contributed little to the program's goals. While program changes have corrected this problem, HUD has not demonstrated that a sufficient number of properties can be made available in the targeted areas nationwide to effect measurable neighborhood change. Timely and sufficient property availability is a systemic flaw in the program design not easily corrected, and, consequently, expanding eligibility to other special occupations is not warranted.

The Department was reviewing our comments at the end of the semiannual reporting period.

Use of Housing Capital and Operating Funds for Financing Activities

OIG does not concur with the proposed rule for the following reasons:

Public Law 108-199, section 411, as well as HUD's appropriations acts for the last several years, mandated that none of the funds made available through the act may be used for any program, project, or activity when it is known that the program, project, or activity is not in compliance with Federal laws relating to risk assessment. The proposed rule is subject to this provision because development activities must obtain environmental reviews and the statute for environmental reviews contains the risk assessment provision. The Department has not conducted a risk assessment.

The Housing Act of 1937, as amended in section 9(g)(3), allows housing agencies to develop units using capital funds but limits the development of new units to the number of units in the housing agency inventory on October 1, 1999. HUD has not circulated a report identifying the number of units in inventory on October 1, 1999, for each housing agency, and HUD has not established a control method to ensure the housing agencies do not build more units than allowed under the statute.

The Housing Act of 1937, as amended in section 33 on the conversion of distressed public housing to tenant-based assistance, mandated that the low-income program units that cost more to operate than comparable units in the Section 8 Voucher program must be converted to the Section 8 Voucher program. HUD's proposed rule does not provide controls to ensure compliance by the housing agencies.

Nineteen projects were not subject to existing controls because they were approved by the Office of Policy, Programs, and Legislative Initiatives before the program was transferred to the Office of Public Housing Investments. The Office of Public Housing Investments established an improved control structure for processing applications; however, due to the existing workload, the staff has not reevaluated the projects approved by Office of Policy, Programs, and Legislative Initiatives. OIG is concerned about the ratio of workload to staff capacity and the approval of projects not subject to the improved control measures.

The Public and Indian Housing Information Center (PIC) system was evaluated in connection with the internal audit. The PIC system does not contain a module for the bond program. OIG is concerned that there is not an adequate information system to control the workload flow and facilitate monitoring.

The proposed rule states that OMB determined this rule is a "significant regulatory action." OMB issued new guidelines for regulatory analysis in Circular A-4, effective January 1, 2005. The proposed rule contains the statement of proposed need required by OMB Circular A-4; however, it does not contain an examination of alternative approaches, an evaluation of the benefits and costs–quantitative and qualitative–of the proposed action, and the main alternatives as mandated by OMB Circular A-4.

The proposed rule discusses pledging funds from the capital fund. The Housing Act of 1937, as amended, provides in section 30 that the Secretary may authorize a public housing agency to mortgage or otherwise grant a security interest in any public housing project or other property of the public housing agency. It is OIG's understanding that pledging is associated exclusively with capital assets because to complete the pledging transaction, the investor must perfect the security instrument by having the local governmental entity publicly record on the face of the asset ownership document that the asset is pledged and this process can only be accomplished with a physical asset. Future funding can be encumbered, as opposed to pledging, through various financial instruments. We did not concur with the proposed rule because it exceeds the authority provided to HUD in the statute by authorizing the pledging of funds.

Our nonconcurrence with the proposed rule is under review by the Department.

Mortgagee Letters

Premium Pricing on FHA-Insured Mortgages

HUD drafted a mortgagee letter to allow premium pricing of Federal Housing Administration (FHA)-insured mortgages to fund the homebuyer's required 3-percent cash investment or downpayment. Premium pricing may be used currently to pay the homebuyer's closing costs and prepaid expenses. HUD believes that premium pricing will help cash-short but otherwise credit-worthy borrowers buy their first homes.

We nonconcurred because the proposed mortgagee letter places no obligation on the lender to use premium pricing for the borrower's benefit. Based on recent mortgagee audits, premium pricing was not producing the intended benefit. Instead of helping FHA homebuyers pay closing costs, lenders used the monies from premium pricing to compensate the loan officers or earn higher profits.

Our nonconcurrence with the proposed rule is under review by the Department.

Streamline (k) Limited Repair Program

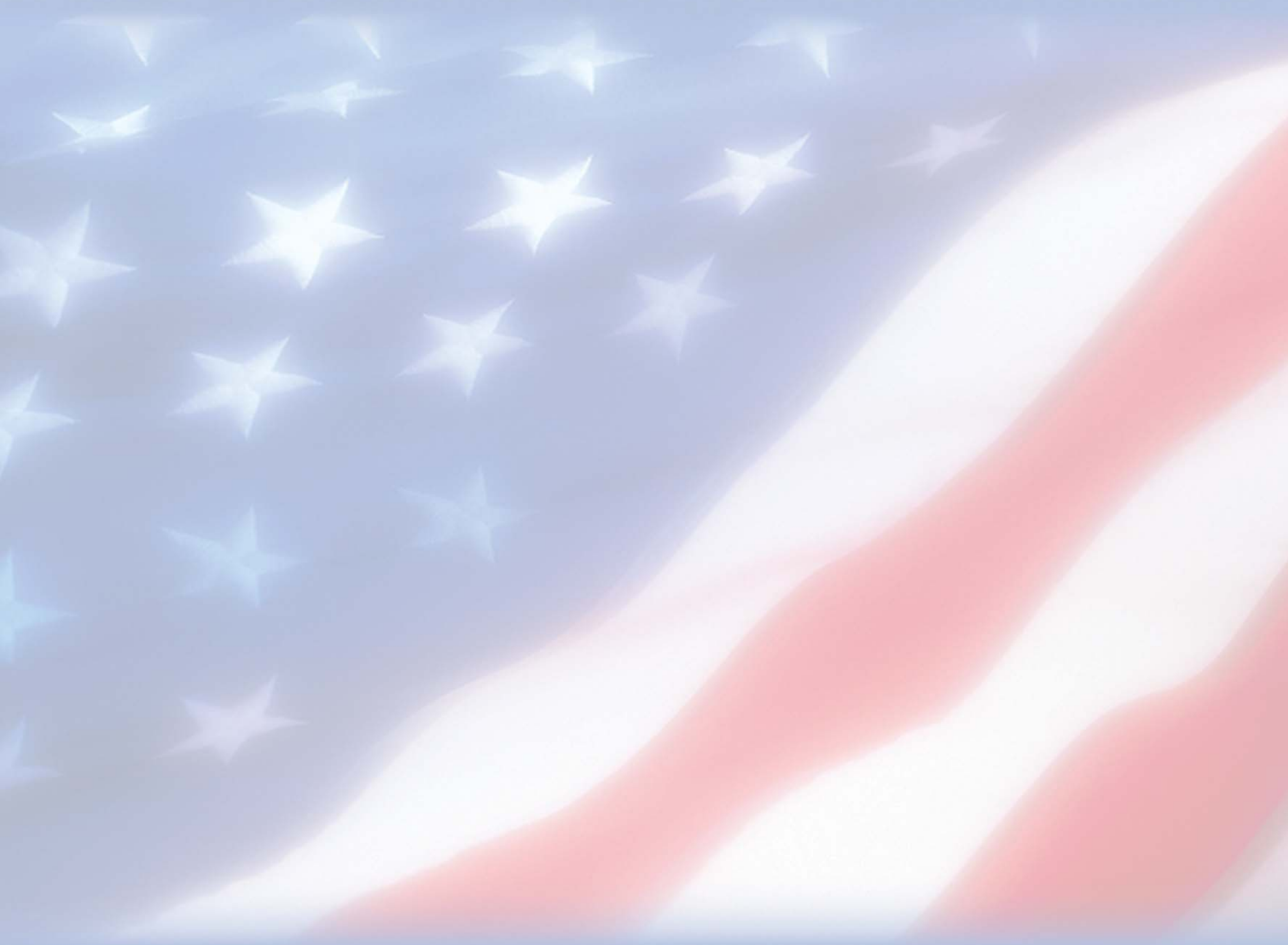
HUD drafted a mortgagee letter to reduce documentation and control requirements governing the 203(k)

Rehabilitation Home Mortgage Insurance program, an acknowledged higher risk FHA insurance program. The Streamline (k) allows special treatment of purchased properties that qualify for eligible repairs between $5,000 and $15,000. Under the standard 203(k) program, lenders and borrowers rely primarily on consultants to ensure contractor work quality and timely completion. However, the Streamline (k) eliminates the consultant. Borrowers must develop a work plan, estimate costs, identify the vendor or contractor, and inspect the work.

We commented that relaxing controls could expose first-time purchasers with no or limited experience in home improvement projects to unreliable contractors and unsatisfactory workmanship. We also questioned as excessive a proposed $500 supplemental loan origination fee to be paid by the borrower.

Our comments on the proposed rule are under review by the Department.

Chapter 9



Audit Resolution

In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon 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 significant pending issues on which resolution action has been delayed. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996.

We are proud to note that for the eighth consecutive semiannual period, there are no outstanding management decisions on audit recommendations over 6 months old to be reported to Congress. In addition to this chapter on audit resolution, see appendix 2, table A, "Audit Reports Issued Before Start of Period with No Management Decision at March 31, 2005," and table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of March 31, 2005."

Delayed Actions

Audits of HUD's FY 1991 through 2004 Financial Statements

First Issued June 30, 1992. HUD has been preparing consolidated financial statements under the requirements of the Chief Financial Officers Act for 14 years, beginning with fiscal year (FY) 1991. Various internal control weaknesses have been reported in these audits.

As a result of the FY 2004 financial audit process, we reported HUD's need to comply with Federal Financial Management System requirements, including the need to enhance the Federal Housing Administration's (FHA) information technology systems to more effectively support FHA's business and budget processes and improve FHA's management review of the credit reform estimation process. While there has been progress, material weaknesses continue with respect to the need to (1) complete improvements to financial systems and (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance. Corrective action plans to resolve these issues have continued to change, with final action targeted by the end of calendar year 2006.

Audits of FHA's FY 1991 through 2004 Financial Statements

First Issued March 27, 1992. FHA has prepared financial statements for 14 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2004 financial statements discussed FHA's need to improve its review of the credit reform estimation process as a material weakness. The finding revealed that FHA management did not adequately review the underlying data supporting the assumptions in the estimation cash flow or functionality models. This resulted in material errors in the FHA mark to market loan loss reserve and the liability for loan guarantee claim projections and calculations. 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 and budget processes and (2) continue to improve early warning and loss prevention for single-family insured mortgages through more emphasis on monitoring lender underwriting and more effective use of loan portfolio risk assessment tools. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to more effectively manage controls over its information systems' general and application level security controls. FHA's latest action plan continues to report progress toward resolving these remaining long-standing issues, with final actions targeted over the next 1 to 3 years.

Significant Revised Management Decisions

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

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

Issued October 20, 2000. Due to inadequate planning and management of human and financial resources, the Housing Authority of the City of Miami Beach (HACMB) wasted more than $2 million in a failed effort to provide housing and social services. The HACMB had not broken ground or developed final plans to fund, construct, and operate a women and children's housing and resource center. The center had been delayed for more than 5 years, and the HACMB had lost or was at risk of losing almost all of the $5.8 million originally committed to fund the project. Further, the City was considering a road construction project that may have prevented the HACMB from constructing the center on the planned site or recovering its full investment in the site. The HACMB's failure to complete the project deprived the City's low-income community of needed housing and social services.

The audit recommended that the HACMB immediately complete the planned sale of the existing site for its fair market value and use the proceeds to reimburse the Section 8 and bond construction funds in proportion to the share of costs paid from each fund. In February 2001, the Office of Housing agreed to require the HACMB to obtain an appraisal of the site that is acceptable to HUD and to provide a copy of the recorded deed conveying the site to a bona fide purchaser for the full value. The HACMB was also to provide a copy of the closing statement, showing the sale price and support for distribution of the proceeds to the Section 8 and bond construction funds. At that time, HUD expected that the sale of the site would occur by February 2002, with full implementation of solutions by March 2002.

In January 2005, following several target completion date extensions, HUD requested a revised management decision. HUD believes that, under the current administration, the HACMB will be successful with its development plans. Therefore, HUD officials recommended a revised management decision to no longer require the sale of the site (appraised at more than $2 million). HUD, however, will require the HACMB to use a portion of the development loan to reimburse the Section 8 program for the $980,000 used to purchase the land. A nonprofit arm of the HACMB will be established to develop the site, and the site will remain under the ownership of the HACMB. OIG agreed with the revised management decision, and final action was taken on March 31, 2005. (Report No. 2001-AT-1001)

Wood Hollow Place Apartments, Texas City, TX

Issued November 18, 2002. Our audit memorandum found the management agent of Wood Hollow Apartments, Texas City, TX, had improperly paid advances, loans, and other fees totaling more than $220,000. The improper payments occurred because the project experienced cash flow problems and the management agent did not follow the regulatory agreement and other HUD regulations. The improper payments weakened the project's financial condition and put the project at the risk of default.

The audit recommended that HUD require the management agent to cease making improper distributions and repay the ineligible and unsupported amounts. In December 2002, HUD multifamily housing officials agreed that the management agent should repay the ineligible and unsupported funds and began action to seek civil recovery of the funds. In August 2004, HUD informed OIG that recovery of the funds was not possible and civil and criminal avenues for recovery had been exhausted. However, to protect its interests, HUD foreclosed on the property and took actions to sanction responsible parties. In October 2004, HUD notified OIG that the note had been sold on September 15, 2004, for $1,005,578. On January 6, 2005, HUD revised the management decision and corrective actions to allow the alternative actions taken to satisfy the recommendations. OIG agreed with the revised management decision. While OIG did not obtain recovery of the $220,000 identified as ineligible and unsupported, we recorded the $1,005,578 in sale proceeds as funds to be put to better use. (Report No. 2003-FW-1801)

Section 8 Housing Program, Kankakee County Housing Program

Issued November 26, 2003. An audit of the Kankakee County Housing Authority's (Authority) Section 8 housing program found that the Authority's management controls over its program were very weak. The Authority lacked adequate procedures and controls over housing quality standards and administrative processes. The Authority's Section 8 units contained health and safety violations. We found a total of 873 housing quality standards violations in 47 of the 50 units inspected. The Authority failed to properly enforce its ordinance governing the licensing of housing units occupied by persons other than the owners. Further, the Authority did not maintain adequate controls over its use of Section 8 funds. We recommended that HUD's Acting Director, Recovery and Prevention Corps, Cleveland Field Office, assure that the Authority implements procedures and controls to correct the weaknesses cited in this report. Additionally, we recommended that the Acting Director (1) take administrative actions against the Authority's former Executive Directors and its Board of Commissioners for failing to administer the Authority according to Federal, City of Kankakee, and its own requirements; (2) provide training and technical assistance to the Authority's staff and its Board of Commissioners regarding their duties and responsibilities; and (3) issue a notice of default to the Authority as permitted by section 15 of the consolidated annual contributions contract. OIG believed that

HUD's default notice would help ensure that the Authority used its $2.2 million in Section 8 program funds appropriately.

In March 2004, HUD's Acting Director, Recovery and Prevention Corps, agreed to implement the following corrective actions:

- Issue a notice of substantial default of the Authority's consolidated annual contributions contract.

- Require the Authority to contract out administration of its Section 8 program to an alternate management entity for a period of 2 years.

At that time, HUD expected that the Authority would be able to obtain an alternate management entity. However, after two unsuccessful attempts, the Authority was unable to find an entity to administer its program.

In January 2005, HUD revised the management decision and corrective actions, and we agreed to the revisions. HUD will not issue a notice of substantial default and will allow the Authority to continue to administer its program for 1 year. HUD agreed to evaluate the Authority's program by December 31, 2005, to determine whether the Authority should continue to administer its program. (Report No. 2004-CH-1001)

Citizen's Complaint Upfront Grant and HOME Loan Spanish Village Community Development Corporation, Houston, TX

Issued April 28, 2003. In response to a citizen's complaint, our audit of the upfront grant and HOME loan provided to the Spanish Village Community Development Corporation (SVCDC), Houston, TX, found that SVCDC had not completed HUD-funded renovations on the Spanish Village Apartments in more than 4 years after it was required to by agreements between HUD and SVCDC. The upfront grant agreement, sales contract, and special warranty deed required SVCDC to complete the renovations by September 1998. Due to the lack of administrative capacity to carry out the requirements, SVCDC only completed the first phase of the renovations, and these renovations did not meet HUD standards. As a result, residents of the property continued to live in substandard conditions. On March 12, 2003, the Fort Worth HUD office declared a default under the upfront grant agreement and gave SVCDC the option to either (1) sell the property to a nonprofit entity with the capacity and experience to complete the rehabilitation and assign the remaining grant funds to that entity within 60 days or (2) deed the property back to HUD as required by the special warrant deed.

The audit recommended that the Director of Multifamily Housing Property Disposition continue with the remedial action he started by establishing an acceptable plan of action if SVCDC did not comply with HUD's options as stated in the default letter of March 12, 2003.

On August 27, 2003, the Director, Multifamily Housing Division, stated that he had referred the matter to the Regional Office of General Counsel (OGC) to attempt to acquire title to the property through the courts. If the SVCDC could transfer the property to a new ownership entity acceptable to HUD before the matter was referred to the Department of Justice for affirmative litigation, he would cancel his request and allow assignment of the remaining upfront grant funds to the new entity to rehabilitate the property. He said the Regional OGC would make a litigation referral to Headquarters OGC by December 31, 2003, and OGC would review the referral, consult with the Assistant Secretary for Housing, and decide by March 31, 2004, as to whether the matter would be referred to the Department of Justice for litigation.

On February 7, 2005, the Director, Multifamily Housing Division, revised the management decision and deobligated the remaining grant funds of almost $1.5 million. He said the project will continue to provide affordable housing, but the Department does not wish to pursue legal action to reacquire the project because of the potential increased cost burden to the Government. Also, the legal action would impede future repairs to the complex and probably result in more deterioration. Therefore, HUD requested this finding be closed. We agreed with the revised management decision. Despite numerous attempts, neither the SVCDC nor any of the proposed owners provided documentation to support the assignment of the upfront grant funds. (Report No. 2003-FW-1004)

Significant Management Decision with Which OIG Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which it is in disagreement. During the current reporting period, there was one significant management decision with which we disagreed.

United States Veterans Initiative, Inc. - Supportive Housing Program Grantee

Issued September 27, 2004. U.S. Veterans Initiative, Inc., a Supportive Housing Program grantee based in Inglewood, CA, did not meet cash-matching fund requirements for $7.2 million in Supportive Housing Program funds expended. Our recommendations for addressing the deficiencies included requiring U.S. Veterans Initiative and/or its continuums, the Los Angeles Homeless Services Authority (LAHSA) and the City of Long Beach, to repay HUD from nonfederal funds for the Supportive Housing Program grant expenditures that did not have the required matching funds.

In an effort to reach a management decision on this report, we agreed that the Office of Community Planning and Development (CPD) could seek guidance and clarification from other Federal agencies involved, HUD's OGC, and the Office of Management and Budget (OMB). The issues revolve around (1) a determination of what constitutes matching funds under the Supportive Housing Program; (2) what level of support is needed from the grantee, and whether failure to meet matching requirements invokes the Debt Collection Act; and (3) what action HUD will take if it is determined that the grantee has not fulfilled the requirements of the grant agreement. We worked with CPD and agreed that it could seek clarification from other Federal agencies that are supplying matching funds as to whether their funds can be used as the match. Further, we agreed that CPD would seek guidance from HUD-OGC on questions relating to what constitutes matching funds under the Supportive Housing Program and defining what level of support is required by the grantee.

OIG and CPD could not agree as to whether OMB is the appropriate agency to determine whether a failure to comply with the matching requirements constitutes a Federal debt. A precondition to the application of the Debt Collection Act is the existence of a "debt" or "claim," which for purposes of the Debt Collection Act,

> …means any amount of funds or property that has been determined by an appropriate official of the Federal Government to be owed to the United States by a person, organization, or entity other than another Federal agency. A claim includes, without limitation...the unpaid share of any non-Federal partner in a program involving a Federal_payment and a matching, or cost-sharing, payment by the non-Federal partner.... [31 U.S.C. § 3701(b)(1)(E)]

Thus, pertinent to this matter, a "debt" or a "claim" has two aspects: (1) a determination by a Federal official with appropriate jurisdiction, and (2) that there is an unpaid share of a matching or cost-sharing obligation by a nonfederal entity.

If the Debt Collection Act is applicable, then two main obligations control Federal agency action, as follows:

The head of an executive, judicial, or legislative agency—

- shall try to collect a claim of the United States Government for money or property arising out of the activities of, or referred to, the agency; [31 U.S.C. § 3711(a)(1)]
- may compromise a claim of the Government of not more than $100,000 (excluding interest) or such higher amount as the Attorney General may from time to time prescribe that has not been referred to another executive or legislative agency for further collection action, except that only the Comptroller General may compromise a claim arising out of an exception the Comptroller General makes in the account of an accountable official…. [31 U.S.C. § 3711(a)(2)]

Regarding the latter authority to compromise "debts" and "claims" in excess of $100,000, the Debt Collection Act is not explicit, but—with respect to HUD debts—it appears to reserve that authority to OMB. [see 31 U.S.C. § 3702(a)(4)].

OIG believed that either CPD must seek guidance from OMB or HUD-OGC must coordinate with OMB on this matter. If OMB or HUD-OGC with OMB's concurrence determines the failure to provide the excess match is a debt, then, pursuant to statute, CPD should attempt to collect the debt and defer to OMB's instructions if the debt exceeds $100,000. CPD did not agree to seek guidance from or to coordinate the issue with OMB.

On March 30, 2005, OIG referred the disagreement to the Deputy Secretary. On April 4, 2005, the Deputy Secretary made a final decision on the actions for which an agreement could not be made. The Deputy Secretary concluded that the failure to provide a budgeted match over the statutory requirement is not a debt to HUD under 31 U.S.C. § 3701(b)(1).

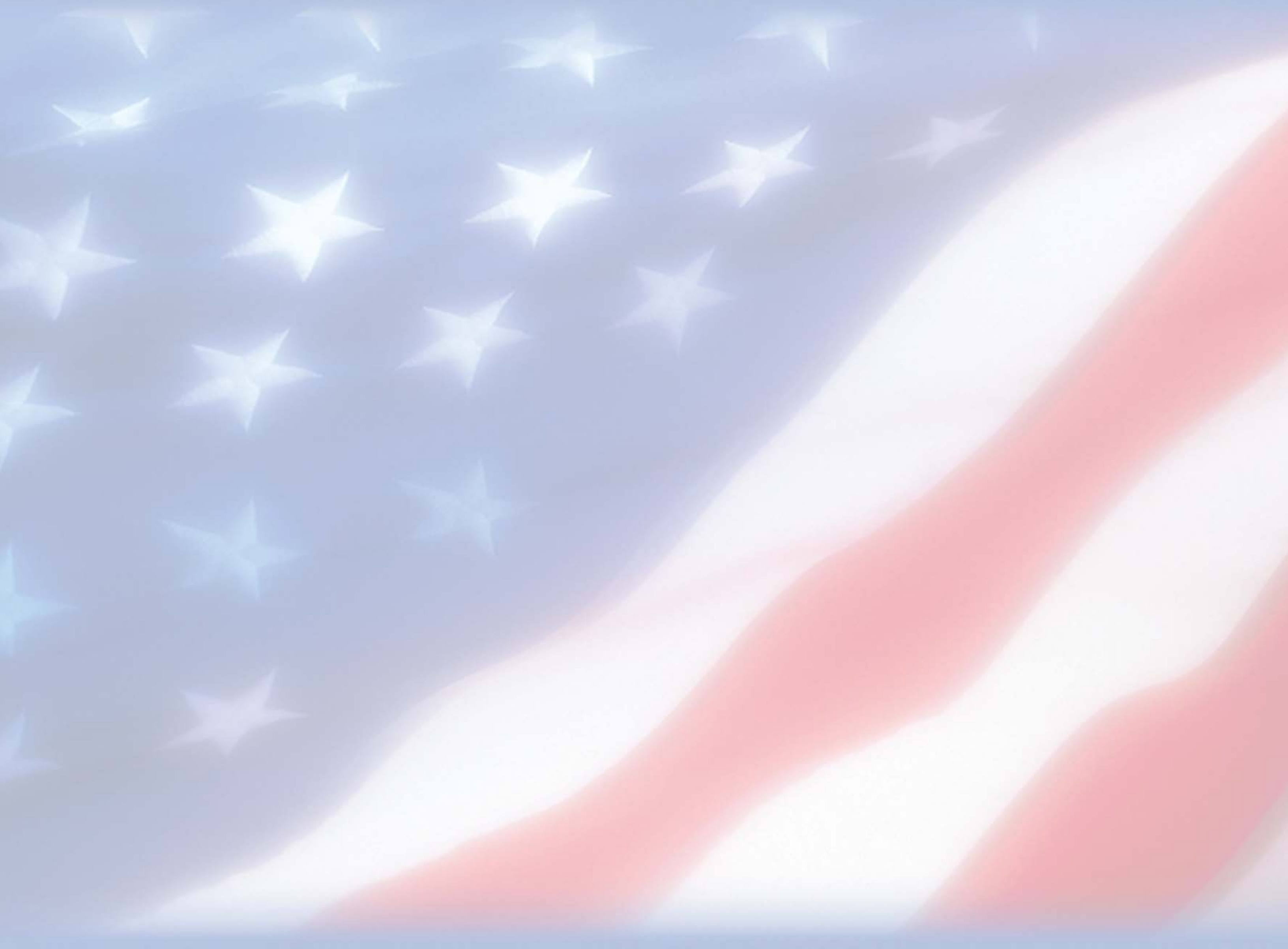
We disagree with this determination and stand by our conclusion that HUD should seek guidance from OMB to determine whether the matching funds are subject to provisions of the Debt Collection Act. (Report No. 2004-LA-1008).

Federal Financial Management Improvement Act of 1996

The Federal Management Improvement Act of 1996 (FFMIA) requires that HUD implement a remediation plan that will bring financial systems into compliance with Federal Financial Management System requirements within 3 years or obtain 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 its 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 2004, the Department continued to report that 4 of its 46 financial management systems were not in substantial compliance with FFMIA. Our supplemental report regarding HUD's FY 2004 financial statements cites additional financial management system weaknesses, addressing how HUD's financial management systems remain substantially noncompliant with Federal financial management requirements. We also cited weaknesses regarding HUD/FHA's limited ability to effectively monitor budget execution related to certain funds control processes. With the implementation of the FHA Subsidiary System, the Department became substantially compliant with the FFMIA Standard General Ledger provision. The FHA Subsidiary General Ledger Project is a multiphase project to be completed by FY 2007.

■ ■ ■

Appendix 1



Audit Reports Issued

Internal Reports

10 Audit Reports

Administration (2 Reports)

2005-DP-0001	Fiscal Year 2004 Review of Information Systems Controls in Support of the Financial Statements Audit, 10/19/2004.
2005-DP-0003	Control Over HUD's Purchase Card Program Needs Improvement To Ensure Documentation and Monitoring Requirements are Met, 02/02/2005.

Chief Financial Officer (3 Reports)

2005-DP-0002	Control Over HUD's Travel Card Program Needs Improvement, 12/01/2004.
2005-DP-0004	HUD's Compliance with Joint Financial Management Improvement Program Core Financial System Management and General Ledger Management Requirements, 03/04/2005.
2005-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Year 2004 Financial Statements, 11/15/2004. Better Use: $708,000,000.

Federal Housing Oversight (1 Report)

2005-KC-0001	The Office of Federal Housing Oversight is Comparable to Other Federal Financial Regulators in Its Allocation of Resources and Staffing, 03/16/2005.

Government National MortgageAssociation (1 Report)

2005-FO-0001	Audit of the Government National Mortgage Associations Fiscal Year 2004 Financial Statements, 11/12/2004.

Housing (2 Reports)

2005-FO-0002	Audit of the Federal Housing Administration's Financial Statements for Fiscal Year 2003-2004, 11/15/2004.
2005-PH-0001	Criteria Governing Local Government Participation in HUD's Single Family Property Disposition Discount Sales Program, 03/29/2005.

Public and Indian Housing (1 Report)

2005-FW-0001	Housing Authority Employee Pension Plan Forfeiture, Public and Indian Housing, 10/08/2004. Better Use: $5,300,000.

Audit-Related Memorandums*

Chief Financial Officer (1 Report)

2005-DP-0801	Annual Evaluation of HUD's Information Security Program, 10/01/2004

* The memorandum 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 results, or to report the results of civil actions or settlements.

External Reports

48 Audit Reports

Community Planning and Development (4 Reports)

2005-CH-1008 City of Decatur, IL, Neighborhood Renewal Program, 03/30/2005.

2005-FW-1001 City of New Orleans, LA, Section 108 Program, Louisiana ArtWorks, 11/05/2004. Questioned: $22,382; Unsupported: $17,723.

2005-FW-1005 The New Orleans African-American Museum, New Orleans, LA, 02/25/2005. Questioned: $1,073,044; Unsupported: $298,434; Better Use: $859,684.

2005-NY-1003 Lower Manhattan Development Corporation, Community Development Block Grant Disaster Assistance Funds, New York, NY, 03/23/2005. Questioned: $141,347.

Housing (24 Reports)

2005-AT-1003 American Mortgage Express Corporation d.b.a. American Residential Mortgage Corporation, Mt Laurel, NJ, 11/18/2004. Questioned: $103,794; Better Use: $307,544.

2005-AT-1005 Pan American Financial Corporation, Nonsupervised Direct Endorsement Lender, Guaynabo, PR, 01/27/2005. Questioned: $209,889; Better Use: $1,391,208.

2005-AT-1007 Interstate Financial Mortgage Group Corporation, Nonsupervised Direct Endorsement Lender, Miami, FL, 03/15/2005. Questioned: $147,817; Better Use: $1,057,905.

2005-AT-1008 Trust America Mortgage, Inc., Nonsupervised Direct Endorsement Lender, Cape Coral, FL, 03/25/2005. Questioned: $130,504; Better Use: $977,709.

2005-CH-1001 Prestige Mortgage Group, Inc., Nonsupervised Loan Correspondent, Springfield, OH, 10/27/2004. Questioned: $13,543; Unsupported: $13,543; Better Use: $1,890,739.

2005-CH-1002 Washington Mutual Bank, Underwriting of Federal Housing Administration-Insured Loans, Downers Grove, IL, 11/29/2004. Questioned: $456,164; Unsupported: $393,801.

2005-CH-1004 Lakewood Care Center, Multifamily Equity Skimming, Milwaukee, WI, 12/22/2004. Questioned: $1,021,056.

2005-CH-1005 Wood Hills Assisted Living Facility, Multifamily Equity Skimming, Kalamazoo, MI, 01/12/2005. Questioned: $518,633.

2005-CH-1006 Flagstar Bank FSB, Supervised Direct Endorsement Lender, Troy, MI, 03/07/2005. Better Use: $251,103.

2005-CH-1007 RBC Mortgage Company, Nonsupervised Mortgagee, Houston, TX, 03/29/2005. Questioned: $50,576; Unsupported: $24,510; Better Use: $16,282,212.

2005-DE-1001 First Source Financial USA, HUD Approved Nonsupervised Loan Correspondent, Midvale, UT, 10/13/2004. Questioned: $410,188; Better Use: $2,205,329.

2005-FW-1002	Domicile Property Management, Inc., Multifamily Management Agent, San Antonio, TX, 11/19/2004. Questioned: $2,290,291; Unsupported: $1,469,926; Better Use: $352,053.
2005-FW-1003	Heartland Health Care Center of Bethany, OK, 12/10/2004. Questioned: $18,728,748; Unsupported: $16,418,588.
2005-FW-1004	American Property Financial, Nonsupervised Loan Correspondent, San Antonio, TX, 01/28/2005. Questioned: $175,970; Unsupported: $10,812; Better Use: $3,300,991.
2005-KC-1001	Karim Enterprises, DBA Prime Mortgage, St. Charles, MO, 10/04/2004. Better Use: $376,102.
2005-KC-1003	Leader Mortgage Company, Lenexa, KS, 01/25/2005. Questioned: $3,896; Better Use: $911,738.
2005-LA-1803	Wachovia Mortgage Corporation, Direct Endorsement Mortgagee, Scottsdale, AZ, 11/22/2004. Questioned: $150,264; Unsupported: $112,092; Better Use: $2,331,795.
2005-NY-1002	First United Mortgage Company, Inc., Nonsupervised Mortgagee, Cranford, NJ, 12/28/2004. Questioned: $6,277; Unsupported: $2,504; Better Use: $2,482,438.
2005-PH-1003	The Town of Clifton, VA's Participation in the Single Family Property Disposition Discount Sales Program, 12/21/2004. Questioned: $355,470; Unsupported: $242,965.
2005-PH-1005	Fleet National Bank, Mortgagee Review, Philadelphia, PA, 01/20/2005. Better Use: $659,049.
2005-PH-1006	Mortgagee Review of the Peoples National Bank Branch Office, Towson, MD, 02/16/2005. Better Use: $2,369,959.
2005-SE-1002	National City Mortgage, Federal Way, WA, Branch, 12/16/2004. Questioned: $5,506; Better Use: $235,660.
2005-SE-1003	Oregon Housing and Community Services, Salem, OR, 02/09/2005. Questioned: $3,375,047; Unsupported: $1,982,052; Better Use: $286,318.
2005-SE-1004	Wells Fargo Bank, NA, Fife, WA, Branch, Supervised Mortgagee Loan Underwriting, 03/24/2005. Questioned: $667,181; Unsupported: $600,726; Better Use: $882,319.

Public and Indian Housing (20 Reports)

2005-AT-1001	The Housing Authority of the City of Carrollton, GA, 11/01/2004. Questioned: $1,242,264; Unsupported: $1,183,839; Better Use: $1,489,819.
2005-AT-1002	The Housing Authority of the City of Charleston, SC, 11/15/2004. Questioned: $15,637,414; Unsupported: $15,637,414; Better Use: $400,000.
2005-AT-1004	The Housing Authority of the City of Durham, NC, 11/19/2004. Questioned: $7,808,748; Unsupported: $953,477; Better Use: $8,287,142.

2005-AT-1006	The Jefferson County Housing Authority, Birmingham, AL, 02/24/2005. Questioned: $3,757,802; Unsupported: $3,361,785; Better Use: $771,076.
2005-BO-1001	Waterbury, CT, Housing Authority, Audit of Selected Programs, 10/13/2004. Questioned: $1,526,890; Unsupported: $850,049; Better Use: $2,512,565.
2005-CH-1003	Royal Oak Township Housing Commission, Public Housing Program, Ferndale, MI, 11/29/2004. Questioned: $416,076; Better Use: $435,372.
2005-DE-1002	Boulder County Housing Authority, Boulder, CO, 03/09/2005. Questioned: $556,923; Unsupported: $123,784.
2005-FW-1006	Housing Authority of the City of Houston's Contractor, Houston, TX, 03/25/2005. Questioned: $1,154,142; Unsupported: $1,140,915; Better Use: $1,180,720.
2005-FW-1007	Housing Authority of the City of Houston's Contractor, Houston, TX, 03/29/2005. Better Use: $26,132,380.
2005-KC-1002	The Housing Authority of St. Louis County, St. Louis, MO, 11/15/2004.
2005-LA-1001	The Housing Authority of the County of San Joaquin, Stockton, CA, 11/18/2004. Questioned: $518,559; Unsupported: $4,201; Better Use: $2,980,328.
2005-LA-1002	The Housing Authority of Maricopa County, Mixed-Finance Development Activities, Phoenix, AZ, 03/14/2005. Questioned: $7,723,035; Unsupported: $6,470,775.
2005-LA-1805	The Housing Authority of the City of Los Angeles, CA, Resident Management Corporations/Resident Advisory Councils, 01/21/2005. Questioned: $1,785,450; Unsupported: $894,592.
2005-NY-1001	Glens Falls, NY, Housing Authority, Low-Rent Public Housing and Section 8 Housing Choice Voucher Programs, 11/10/2004. Questioned: $384,085; Unsupported: $384,085; Better Use: $745,352.
2005-PH-1001	Lehigh County Housing Authority, Emmaus, PA, 10/15/2004. Questioned: $93,834; Better Use: $3,079,345.
2005-PH-1002	The Huntington, WV, Housing Authority, 12/02/2004. Questioned: $320,524; Better Use: $46,371.
2005-PH-1004	Corrective Action Verification Review of the Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs, Audit Report Number 2001-PH-1003, 12/21/2004. Questioned: $70,430; Better Use: $30,610,264.
2005-PH-1007	Lehigh County Housing Authority, Emmaus, PA, 03/09/2005. Questioned: $4,755,323; Unsupported: $4,028,698; Better Use: $1,585,107.
2005-PH-1008	The Housing Authority of the City of Pittsburgh, PA, Moving to Work Demonstration Program, 03/24/2005. Better Use: 102,600,000.

2005-SE-1001	Tulalip Tribes Housing Authority, Marysville, WA, 10/21/2004. Questioned: $5,178,314; Unsupported: $5,178,314.

Audit-Related Memorandums*

General Counsel (1 Report)

2005-CH-1802	Program Fraud Civil Remedies Act, AIM Financial, Inc., Kentwood, MI, 03/31/2005. Questioned: $35,000.

Housing (6 Reports)

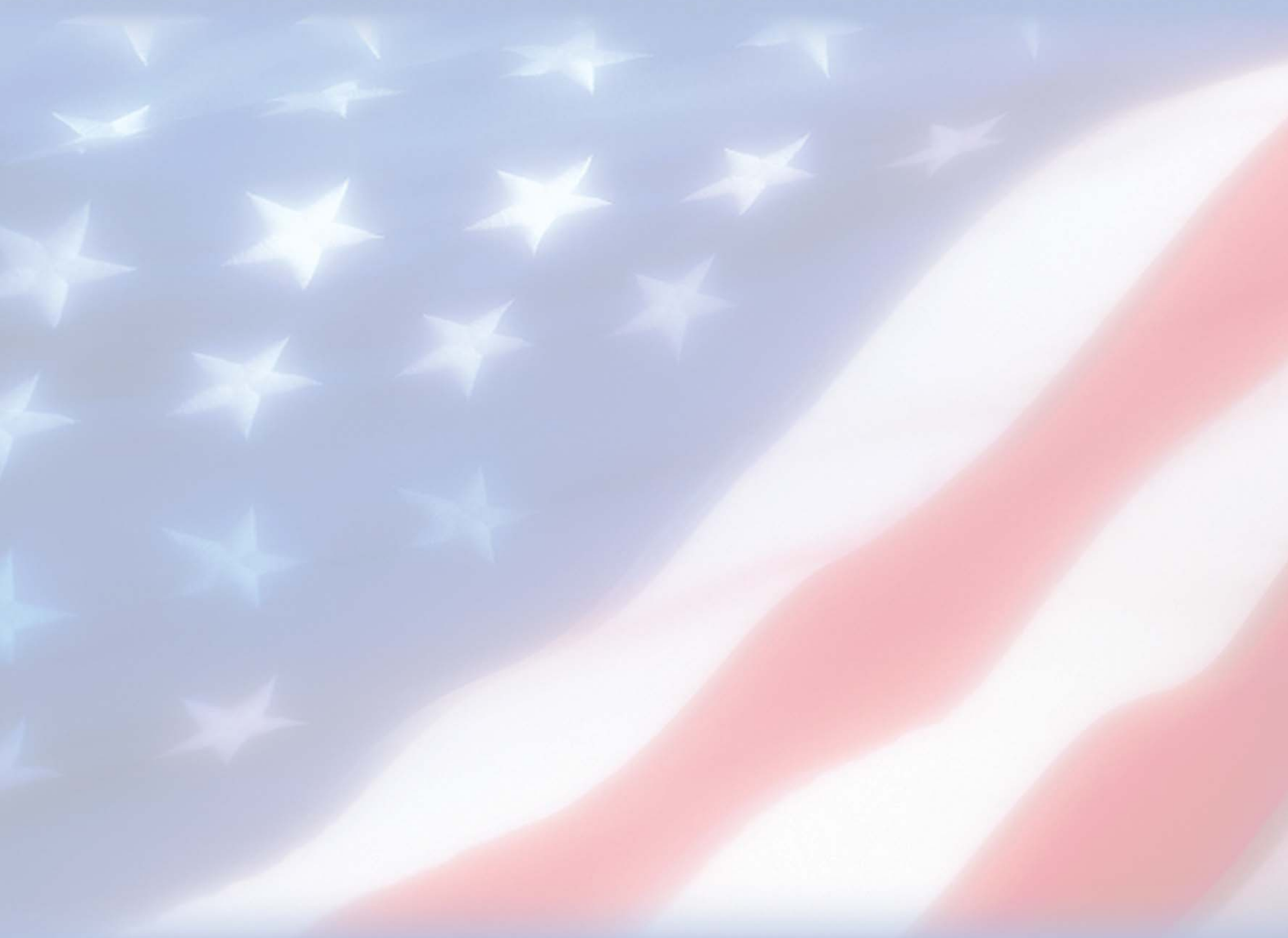
2005-BO-1002	Massachusetts Housing Finance Agency, Multifamily Property Demonstration Disposition Program, Boston, MA, 01/19/2005.
2005-CH-1801	RVA Properties Inc., Multifamily Equity Skimming, Farmington Hills, MI, 12/22/2004. Questioned: $271,940; Unsupported: $248,701.
2005-FW-1801	Highland Meadows Apartments, FHA 112-11106, Dallas, TX, 11/02/2004. Questioned: $124,426.
2005-LA-1801	The Carmichael, CA, Rehabilitation Center, Federal Housing Administration Project Number 136-43061, 11/04/2004. Questioned: $4,093,215.
2005-LA-1804	Canoga Care Center, Canoga Park, CA, 01/03/2005. Better Use: $3,321,917.
2005-NY-1802	Arlington Arms, Multifamily Project No. 031-35237, Jersey City, NJ, 01/21/2005. Questioned: $11,799.

Public and Indian Housing (2 Reports)

2005-LA-1802	The Housing Authority of the City of Los Angeles, CA, Nonprofit Organizations, 11/05/2004.
2005-NY-1801	City of Niagra Falls, NY, Section 8 Housing Choice Voucher Program, 12/14/2004.

* The memorandum 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 results, or to report the results of civil actions or settlements.

Appendix 2



Tables

Table A
Audit Reports Issued Prior to Start of Period with No Management Decision at 03/31/2005

** Significant Audit Reports Described in Previous Semiannual Reports*

Report Number & Title	Reason for Lack of Management Decision	Issue Date/Target for Management Decision
	Nothing to Report	

Table B
Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 03/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
1997-CH-1010	Major Mortgage Corporation, Section 203(K) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	06/01/2005
1999-FO-0003	HUD Fiscal Year 1998 Financial Statements	03/29/1999	09/30/1999	Note 1
2000-FO-0002	Federal Housing Administration, Audit of FY 1999 Financial Statements	02/29/2000	08/09/2000	12/31/2005
2000-FO-0003	Attempt to Audit the FY 1999 Financial Statements, HUD	03/01/2000	09/29/2000	Note 1
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	09/30/2005
2001-SF-1802	Audit of HUD Earthquake Loan Program (HELP) Funds, Woodland Hills, CA	02/08/2001	06/14/2001	Note 1
2001-FO-0002	Federal Housing Administration, Audit of Fiscal Year 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	Audit of HUD Fiscal Year 2000 Financial Statements	03/01/2001	07/18/2001	Note 2
2001-SF-1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/2001	07/24/2001	Note 1
2001-CH-1007	Detroit, MI, Housing Commission, Hope VI Program	05/16/2001	09/13/2001	06/30/2011
2001-PH-0803	Philadelphia, PA, Homeownership Center, Single Family Disposition Activities	06/14/2001	06/14/2001	10/11/2005
2001-AT-0001	Nationwide Audit Results on the Officer/Teacher Next Door Program	06/29/2001	01/29/2002	02/15/2006
2002-SF-0001	Nonprofit Participation, HUD Single Family Program	11/05/2001	08/30/2002	Note 1
2002-CH-1801	Housing Authority of the City of Evansville, IN	01/29/2002	05/18/2002	05/15/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-FO-0002	Federal Housing Administration, Audit of FY 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	HUD, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/27/2002	08/16/2002	Note 1
2002-PH-1001	Williamsport, PA, Community Development Block Grant and Home Investment Partnership Programs	03/19/2002	08/27/2002	11/15/2005
2002-BO-1001	City of Worcester, MA, CDBG Program	03/27/2002	08/29/2002	07/01/2005
2002-BO-1003	Newport, RI, Resident Council, Inc.	04/30/2002	09/16/2002	01/15/2008
2002-AT-1002	City of Tupelo, MS, Housing Authority Housing Programs Operations	07/03/2002	10/31/2002	04/30/2010
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	Note 2
2002-AT-1808	Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Training Assistance Grant	09/20/2002	03/31/2003	Note 2
2002-NY-1005	The Legal Aid Society, New York, NY, Outreach and Training Assistance Grant and Public Entity Grant	09/23/2002	03/31/2003	Note 2
2002-DE-1005	Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants	09/25/2002	03/31/2003	Note 2
2002-DE-1002	Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-FW-1003	New Mexico Public Interest Education Fund, Albuquerque, NM, Outreach and Training Assistance Grant and Public Entity Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1002	Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1003	Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT0020MD	09/30/2002	03/31/2003	Note 2
2002-PH-1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT98012MD	09/30/2002	03/31/2003	Note 2
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2003-DE-1001	Sicangu Wicoti Awanyakepe Corp, Rosebud, SD, Indian Housing Block Grant Program	10/08/2002	02/28/2003	07/31/2005
2003-AT-1801	South Carolina Regional Housing Authority No. 3, Barnwell, SC	10/09/2002	02/06/2003	10/31/2005
2003-CH-1003	Tenants United for Housing, Inc., Chicago, IL, Outreach and Training Assistance Grants	10/29/2002	03/31/2003	Note 2
2003-SE-1001	Community Alliance of Tenants, Portland, OR, Outreach and Training Assistance Grant	10/31/2002	03/31/2003	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-KC-1801	University Forest Nursing Care Center, University City, MO	11/14/2002	02/24/2003	Note 1
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	Note 2
2003-AT-1001	Northwestern Regional Housing Authority Public Housing Programs, Boone, NC	01/09/2003	06/02/2003	01/09/2006
2003-FO-0002	Federal Housing Administration Audit of Fiscal Year 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	12/31/2006
2003-PH-1002	Philadelphia, PA, Housing Authority, Contracting and Purchasing Activity	01/27/2003	06/11/2003	04/30/2005
2003-FO-0004	Audit of HUD's Financial Statements Fiscal Years 2002 and 2001	01/31/2003	05/22/2003	10/31/2005
2003-NY-1001	Marion Scott Real Estate, Inc., Management Agent, New York, NY	02/12/2003	06/13/2003	Note 2
2003-FW-1001	Housing Authority of the City of Morgan City, LA, Low-Rent Program	02/21/2003	06/20/2003	12/31/2005
2003-KC-1803	Richmond Terrace Retirement Center, Richmond Heights, MO	03/24/2003	06/19/2003	10/01/2005
2003-NY-1003	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	03/25/2003	07/16/2003	Note 2
2003-CH-1014	Coshocton, OH, Metropolitan Housing Authority, Public Housing Program	03/28/2003	07/28/2003	04/30/2047
2003-DE-0001	HUD Office of Multifamily Housing Assistance Restructuring's Oversight of the Sec 514 Program Activities	03/31/2003	03/31/2003	Note 2
2003-FW-1004	Spanish Village Community Development Corporation, Houston, TX, Upfront Grant & HOME Loan	04/28/2003	08/18/2003	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-CH-0001	HUD's Oversight of Empowerment Zone Program	05/07/2003	09/11/2003	09/30/2005
2003-BO-1003	City Of Bridgeport, CT, Home Investment Partnership Program	05/16/2003	09/16/2003	07/31/2005
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL	06/13/2003	10/10/2003	Note 2
2003-KC-0001	Survey of HUD's Administration of Section 3 of the HUD Act of 1968	06/24/2003	07/10/2003	Note 2
2003-AO-0002	HUD Training Academy	07/15/2003	10/24/2003	Note 2
2003-BO-1004	Brockton, MA, Housing Authority, Portability Features of the Section 8 Housing Choice Voucher Program	07/17/2003	10/16/2003	04/30/2005
2003-CH-1018	Chicago, IL, Housing Authority, Outsourced Property Management Contracts Review	07/18/2003	01/14/2004	12/31/2005
2003-NY-1005	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	09/30/2003	01/28/2004	03/31/2007
2004-KC-1001	East Meyer Community Association, Use of HUD Grant Funds, Kansas City, MO	11/24/2003	03/29/2004	11/30/2005
2004-FO-0001	Federal Housing Administration Audit of Fiscal Year 2003 and 2002 Financial Statements	11/25/2003	02/25/2004	Note 2
2004-CH-1001	Kankakee, IL, County Housing Authority, Section 8 Housing Program	11/26/2003	03/24/2004	12/31/2005
2004-CH-1002	Waukesha County CDBG and HOME Investment Partnership Programs, Waukesha, WI	11/26/2003	04/29/2004	06/30/2005
2004-PH-0001	Procedures for Filing Uniform Commercial Code Continuation Statements	11/26/2003	04/14/2004	04/14/2005
2004-DP-0001	Fiscal Year 2003 Review of Information Systems Controls in Support of the Financial Statements Audit	12/01/2003	05/28/2004	06/30/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-BO-1004	Danbury, CT, Housing Authority, Capital Fund Program	12/05/2003	04/05/2004	12/01/2008
2004-BO-1005	Springfield, MA, Housing Authority	12/10/2003	04/23/2004	02/28/2007
2004-DE-0001	Nationwide Review of Indemnification for Claims on Single-Family Insured Loans	12/15/2003	04/13/2004	04/15/2005
2004-FO-0003	HUD Audit of Fiscal Year 2003 and 2002 Financial Financial Statements	12/19/2003	07/20/2004	09/30/2005
2004-SE-1002	Scheller-Hess-Yoder and Associates, Nonsupervised Loan Correspondent, Portland, OR	01/09/2004	05/05/2004	05/31/2005
2004-AT-0001	Public Housing Authority Development Activities	01/13/2004	05/20/2004	05/13/2005
2004-AT-1001	Housing Authority of the City of Cuthbert, GA, Administration of Housing Development Activities	01/15/2004	05/14/2004	12/31/2006
2004-BO-0006	Portability Features of the Section 8 Housing Choice Voucher Program	01/15/2004	05/14/2004	04/30/2005
2004-PH-1002	Allegheny County Housing Authority, Public Housing Drug Elimination Grant Program, Pittsburgh, PA	01/16/2004	05/14/2004	05/14/2005
2004-FW-1001	City of Little Rock, AR, Housing Authority, Procurement and Asset Control	01/26/2004	05/25/2004	05/19/2005
2004-AO-0001	Award and Administration of Lead-Based Paint Hazard Reduction Grants	02/06/2004	06/30/2004	07/01/2005
2004-BO-1006	Nuestra Casa: Project Management Operations, Boston, MA	02/18/2004	05/24/2004	05/24/2005
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	03/31/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-FW-1002	Jester Trails Apartment, Multifamily Project, Houston, TX	02/26/2004	05/18/2004	05/16/2005
2004-KC-1002	Timberlake Care Center, Use of Project Funds, Kansas City, MO	03/10/2004	07/08/2004	07/08/2005
2004-DE-1002	Treehouse Mortgage, LLC, Nonsupervised Loan Correspondent, Denver, CO	03/11/2004	07/07/2004	10/31/2005
2004-FW-1003	City of New Orleans, LA, Section 108 Loan Program, Jazzland Theme Park	03/15/2004	09/07/2004	05/13/2005
2004-PH-0003	HUD's Oversight of the Philadelphia, PA, Housing Authority's Moving to Work Program	03/17/2004	08/16/2004	08/16/2005
2004-LA-1001	Keystone Mortgage and Investment Company, Nonsupervised Loan Correspondent, Phoenix, AZ	03/24/2004	06/25/2004	09/15/2005
2004-NY-1001	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	03/25/2004	06/30/2004	05/31/2005
2004-PH-1004	Carbondale Nursing Home, Section 232 Project Operations, Carbondale, PA	03/25/2004	07/23/2004	07/22/2005
2004-PH-1005	Petersburg, VA, Redevelopment and Housing Authority, Nonfederal Entities	03/25/2004	06/01/2004	04/01/2005
2004-FW-1004	Housing Authority of the City of Corpus Christi, TX, Financial Management of HUD Programs	03/26/2004	07/23/2004	10/15/2009
2004-SE-1003	Uptown Towers Apartments, Portland, OR	03/26/2004	06/10/2004	05/01/2005
2004-AT-1006	Puerto Rico Public Housing Administration, San Juan, PR	04/22/2004	07/12/2004	07/11/2005
2004-FW-1006	San Antonio, TX, Housing Authority, HOPE VI Program	04/26/2004	12/08/2004	07/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-AT-1007	Housing Authority of the City of Asheville, NC	04/28/2004	07/01/2004	04/28/2005
2004-LA-1003	Homewide Lending Corporation, Nonsupervised Mortgagee, Los Angeles, CA	05/19/2004	09/01/2004	09/30/2005
2004-AT-1009	Housing Authority of the City of Northport, AL	05/20/2004	09/13/2004	09/13/2005
2004-SE-1004	Seattle, WA, Housing Authority, Moving to Work Demonstration Program	05/21/2004	09/20/2004	12/31/2005
2004-PH-1007	City of McKeesport, PA, CommunityDevelopment Block Grant Program	05/28/2004	09/24/2004	03/31/2009
2004-PH-1008	Safe Haven Outreach Ministry, Incorporated, Washington, DC	06/30/2004	08/31/2004	04/22/2005
2004-CH-1005	Connexions Enterprise, Inc., Supportive Housing Program, Chicago, IL	06/17/2004	09/21/2004	09/08/2005
2004-FW-0001	Management Controls over Grantee and Subgrantee Capacity, Community Planning and Development, Washington, DC	06/18/2004	10/14/2004	10/27/2005
2004-DE-1003	Housing Authority of the City of Greeley, CO, and Weld County Housing Authority Tenant Selection and Continued Occupancy Activities	06/22/2004	10/20/2004	10/31/2005
2004-FW-1007	City of New Orleans, LA, Desire Community Housing Corporation	06/22/2004	09/20/2004	04/30/2005
2004-CH-1006	Housing Authority of the City of Evansville, IN, Housing Assistance Payment Savings Refunding Agreements	06/23/2004	08/26/2004	06/30/2008
2004-PH-1009	First Funding, Incorporated, Nonsupervised Loan Correspondent, Largo, MD	06/29/2004	10/25/2004	10/31/2005
2004-LA-1005	Guild Mortgage Company DBA, Residential Mortgage Bankers, San Diego, CA	07/09/2004	11/06/2004	12/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-AT-0002	Effectiveness of the Departmental Enforcement Center	07/12/2004	12/13/2004	12/31/2005
2004-KC-1003	Wells Fargo Home Mortgage, Nonsupervised Direct Endorsement Lender, Des Moines, IA	07/16/2004	03/25/2005	01/31/2006
2004-AT-1011	Opelika, AL, Housing Authority, Public Housing Programs	07/23/2004	07/23/2004	04/30/2005
2004-KC-1004	Gershman Investment Corporation, Nonsupervised Direct Endorsement Lender, Clayton, MO	07/28/2004	11/12/2004	11/30/2005
2004-AT-1012	Housing Authority of the City of Durham, NC	08/02/2004	11/29/2004	12/31/2020
2004-PH-1010	Lambeth Apartments, Section 236/Section 8, Multifamily Housing Review, Pittsburgh, PA	08/04/2004	10/02/2004	08/01/2005
2004-KC-1005	The City's Housing Program and The Role of the Housing and Economic Development Finance Agency, Kansas City, MO	08/11/2004	08/17/2004	10/31/2005
2004-AT-1013	Housing Authority of the City of Lakeland, FL	08/19/2004	12/15/2004	11/30/2005
2004-SE-1006	Apreva, Inc., Nonsupervised Mortgagee, Bellevue, WA	08/19/2004	01/11/2005	07/31/2006
2004-CH-1008	Cornerstone Mortgage Group, Limited Nonsupervised Loan Correspondent, Inverness, IL	09/10/2004	01/05/2005	01/31/2006
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD	09/10/2004	01/06/2005	09/30/2006
2004-FW-1008	United Properties Management, Inc., Multifamily Management Agent, Little Rock, AR	09/14/2004	01/13/2005	11/30/2005
2004-NY-1004	Lower Manhattan Development Corporation, Community Development Block Grant Disaster Assistance Funds, New York, NY	09/15/2004	01/12/2005	06/30/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-NY-1804	Buffalo, NY, Municipal Housing Authority, Micro Loan Program	09/15/2004	01/04/2005	12/10/2005
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR	09/17/2004	02/23/2005	06/30/2005
2004-LA-1007	Housing Authority of Maricopa County, Phoenix, AZ	09/22/2004	01/14/2005	01/20/2006
2004-CH-1009	Decatur Mortgage Company, LLC, Nonsupervised Loan Correspondent, Indianapolis, IN	09/23/2004	02/24/2005	12/09/2005
2004-LA-1008	United States Veterans Initiative, Inc., Inglewood, CA	09/27/2004	03/31/2005	01/04/2006
2004-NY-1005	Jersey City, NJ, Housing Authority, Section 8 Contract Administrator	09/27/2004	12/17/2004	04/29/2005
2004-DE-1004	New Freedom Mortgage Corporation, Single Family Direct Endorsement Mortgagee, Salt Lake City, UT	09/29/2004	01/28/2005	06/30/2005
2004-FW-1010	Housing Authority of the City of Houston, TX, Housing Choice Voucher Subsidy Standards	09/29/2004	12/17/2004	10/31/2005
2004-KC-0001	The Office of Federal Housing Oversight Exceeds its 60 Percent Statutory Requirement, but Has Cost Weaknesses in its Controls Over Allocating Costs for that Requirement	09/30/2004	01/27/2005	09/01/2005

AUDITS EXCLUDED:

26 audits under repayment plans

27 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 Report with Questioned and Unsupported Costs at 03/31/2005
(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	28	62,366	16,236
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	10	15,915	5,066
A3	For which additional costs were added to reports in beginning inventory	-	1,604	473
A4	For which costs were added to noncost reports	1	861	0
B1	Which were issued during the reporting period	45	87,524	62,048
B2	Which were reopened during the reporting period	0	0	0
	Subtotals (A + B)	84	168,270	83,823
C	For which a management decision was made during the reporting period	46[1]	119,367	55,844
	(1) Dollar value of disallowed costs			
	Due HUD	23[2]	66,273	21,939
	Due program participants	27	43,355	26,951
	(2) Dollar value of costs not disallowed	14[3]	9,738	6,954
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	16	20,700	8,794
E	For which no management decision had been made by the end of the reporting period	22 <55>[4]	28,204 <28,105>[4]	19,184 <19,180>[4]

[1] 29 audit reports also contain recommendations with funds to be put to better use.
[2] 6 audit reports also contain recommendations with funds due program participants.
[3] 12 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 Report with Recommendations That Funds Be Put to Better Use at 03/31/2005
(Thousands)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	19	468,753
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	5	14,126
A3	For which additional costs were added to reports in beginning inventory	-	1,982
A4	For which costs were added to noncost reports	0	0
B1	Which were issued during the reporting period	38	938,890
B2	Which were reopened during the reporting period	0	0
	Subtotals (A + B)	62	1,423,751
C	For which a management decision was made during the reporting period	35[1]	1,207,900
	(1) Dollar value of recommendations that were agreed to by management		
	Due HUD	19[2]	1,142,390
	Due program participants	17	59,342
	(2) Dollar value of recommendations that were not agreed to by management	4[3]	6,167
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	17,438
E	For which no management decision had been made by the end of the reporting period	20 <31>[4]	198,412 <198,412>[4]

[1] *29 audit reports also contain recommendations with questioned costs.*
[2] *1 audit report also contains recommendations with funds due program participants.*
[3] *4 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 recognize 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.

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Faxing the OIG Hotline: 202-708-4829

Sending written information to:

Department of Housing and Urban Development
Inspector General Hotline (GFI)
451 7th Street, SW
Washington, DC 20410

Emailing the OIG Hotline: hotline@hudoig.gov

Internet:
http://www.hud.gov/complaints/fraud_waste.cfm

All information is confidential, and you may remain anonymous.

Semiannual Report to Congress

Semiannual Report to Congress
as of March 31, 2005

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OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

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