Semiannual Report to Congress

U.S. Department of Housing and Urban Development

Office of Inspector General

Semiannual Report to Congress

April 1, 2005 through September 30, 2005

Office of Inspector General

Profile of Performance

For the Period, April 1, 2005, through September 30, 2005

Audit and Investigation Results	Audit	Investigation	Hotline	Combined	FY 2005
Recommendations That Funds Be Put to Better Use[1-2]	$232,932,139			$232,932,139	$1,173,803,375
Questioned Costs[1-2]	$76,095,529			$76,095,529	$166,084,390
Indictments/Informations		768		768	1,656
Convictions/Pleas/Pretrial Diversions		567		567	1,022
Civil Actions		21		21	53
Recoveries/Receivables		$377,223,259	$196,726	$377,419,985	$877,539,815
Funds Put to Better Use		$145,461,739	$2,021,607	$147,474,143	$188,435,562
Collections from Audits	$12,997,042			$12,997,042	$20,758,563
Administrative Actions	5	1,756		1,761	2,911
Personnel Actions		38		38	72
Arrests[3]		4,096		4,096	5,882
Search Warrants		31		31	66
Weapons Seized		23		23	28
Subpoenas Issued	43	769		812	1,218

[1] *This represents all cost transactions during the period in which dollar amounts were reported with any recommendation.*

[2] *Most of the amounts of Recommendations that Funds be Put To Better Use and Recommended Questioned costs were agreed to by HUD management. These are considered Management Decisions. For recommendations that Funds Be Put To Better use, $249,184,994 had Management Decisions. Of the Recommended Questioned Costs, $53,462,902 had Management Decisions. Recommended and Management Decision amounts differ because not all Recommendations had received final determination at the end of the period, and there were some management decisions agreed to on recommendations from previous periods.*

[3] *Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.*

Inspector General's Message

It is with pride that I present the U.S. Department of Housing and Urban Development Office of Inspector General Semiannual Report that outlines our activities from April 1, 2005, to September 30, 2005.

HUD OIG is serving the American taxpayer by our constant oversight of the administration of HUD programs, through our audits of their financial statements, and through our internal control reviews. In addition, we serve the American taxpayer through our criminal and administrative investigations of white-collar crime and program abuse. Employee misconduct is thoroughly checked through our vigorous efforts to investigate and mitigate reported offenses. We continue to aggressively assess information security, report on departmental compliance and accountability, and identify management and performance challenges.

During the past 6 months we have seen HUD OIG's "return on investment" far exceed our own initial goal. During this period, OIG audits and investigations reported on or returned over 18 times more than we spent from our appropriations. I am very pleased by our increases, but we remain highly motivated and committed to achieving even greater results in 2006.

The destruction and aftermath of Hurricanes Katrina, Wilma, and Rita challenge HUD OIG with a task every bit as daunting as the reconstruction of lower Manhattan following the September 11th attack. HUD OIG's continuing oversight of the funds allocated to the Lower Manhattan Redevelopment Corporation has become somewhat of a template on how to oversee funds allocated to recovery from these natural disasters. Consequently, the HUD OIG audit, investigative and inspections staff stands ready to provide a continuing and comprehensive review of the expenditure of funds and will stand guard against those who would seek to defraud the government. In line with this added responsibility, HUD OIG has established a semipermanent base of operations in New Orleans to oversee operations in the Gulf Coast area.

Our major accomplishments for this period are highlighted in this report. HUD OIG continues to address problems plaguing single-family housing. Through comprehensive audits of poorly performing lenders and effective investigations, we are showing significant results. During the 6-month reporting period, OIG's recommendations have sought monetary recoveries through loan indemnifications exceeding $133 million , loss reimbursements of more than $10 million, and substantial civil remedies. During this semiannual reporting period, HUD OIG completed 30 external audits of Federal Housing Administration (FHA)-approved mortgage lenders and three internal audits of single-family program activities.

Our investigative workload in FHA's single-family fraud prevention also continues to grow dramatically. During this timeframe, OIG opened 140 investigative cases and closed 106 cases in this program area, resulting in 236 indictments; 222 arrests; and 169 convictions, pleas, or pretrial diversions.

One particular area in which we are having success is our collaboration with the Social Security Administration in identifying FHA mortgage insured loans with false Social Security numbers. In one such case, lenders were using false numbers to obtain mortgages for undocumented immigrants. As a result of our investigation, the lender and 11 mortgagors were successfully prosecuted, and a number of undocumented immigrants are facing deportation.

Another area of concern that we have previously reported on dealt with estimate errors. A 2000 HUD study concluded that 60 percent of all rent and subsidy calculations contained overpayment or underpayment errors totaling more than $3.2 billion. In 2005, an update to this study estimated a gross error payment of $1.2 billion. Although still a large amount, this represents a 62-percent reduction from the error estimate completed in 2000. The reduction is attributed, in part, to OIG-related activities and 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.

A major highlight contained in the report is the HUD OIG activities in rooting out public corruption. For example, East Cleveland Mayor Emmanuel Onunwor was indicted on 22 counts of Federal Racketeering Influenced Corrupt Organizations Act (RICO) conspiracy, mail fraud, public corruption, witness tampering, and violations of tax laws. Moreover, HUD OIG, along with the Federal Bureau of Investigation and the Internal Revenue Service, recently executed 13 Federal arrest warrants against a Massachusetts executive director, his family, and associates, who stole from the Springfield Housing Authority. The violations included conspiracy to commit RICO crimes, conspiracy to commit bribery, bribery, conspiracy to commit theft, extortion, conspiracy to commit mail fraud, money laundering, and obstruction of justice.

In closing, I want to acknowledge the extraordinary efforts of our auditors, investigators, inspectors and support personnel who form the core of HUD OIG. During the last 6 months, scores of our employees have been selected for awards and commendations by the President, the President's Council on Integrity and Efficiency, U.S. Attorneys' Offices, the Department of Justice, elected officials, and editorial boards, providing evidence of the superior work they have performed. I again want to thank them for their dedication and service to the American taxpayers and their commitment to eliminate waste, fraud, and abuse.

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 U.S. Department of Housing and Urban Development (HUD) funds. The majority of contributing factors to the ROI are the results from reviews of external parties who administer or benefit from HUD-funded programs. HUD refers many matters such as these to OIG for audit or investigation, as appropriate.

Our target ROI ratio for FY 2005 was 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 $103,166,236. The ROI in dollars computed on an 8 to 1 ratio would be $825,329,884 million. We are pleased to report that for FY 2005 our ROI is 23 to 1 – far exceeding a goal of 8 to 1.

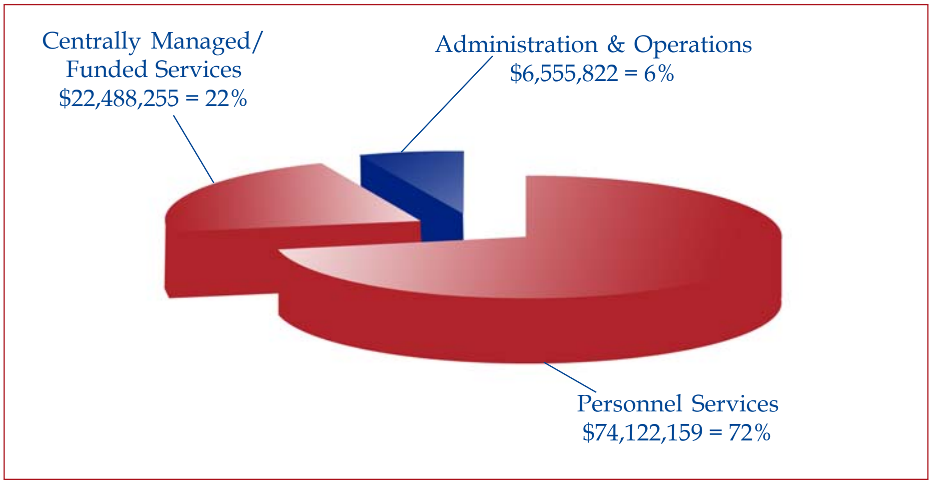
	October 1, 2004 - March 31, 2005	April 1, 2005 - September 30, 2005	Fiscal Year 2005
Return on Investment	**28 to 1**	**18 to 1**	**23 to 1**

[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."

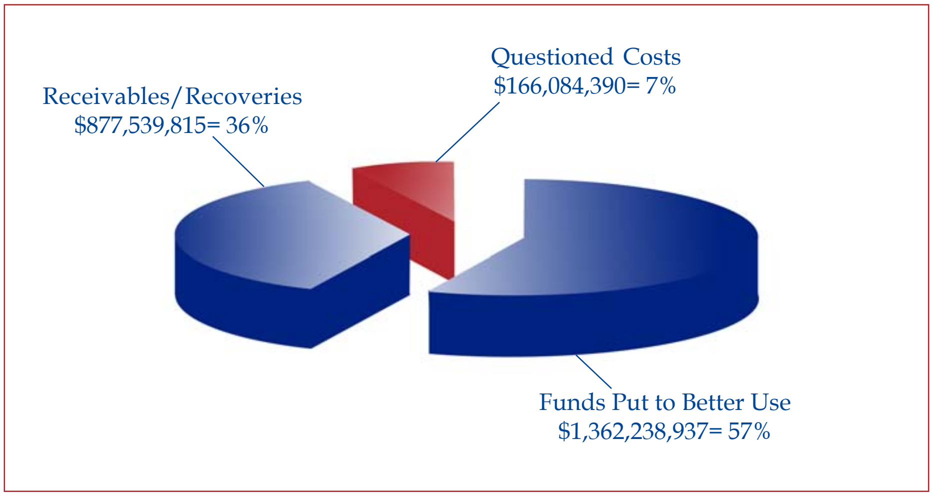
[2] "Questioned costs" are "a cost that is questioned by the Office because of (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that at the time of the audit, such cost 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.

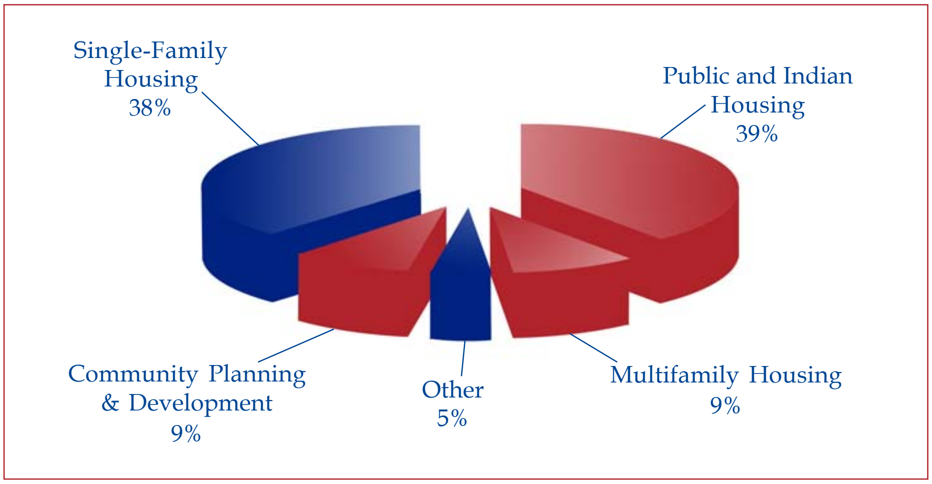
OIG Cost of Operations for FY 2005
$103,166,236



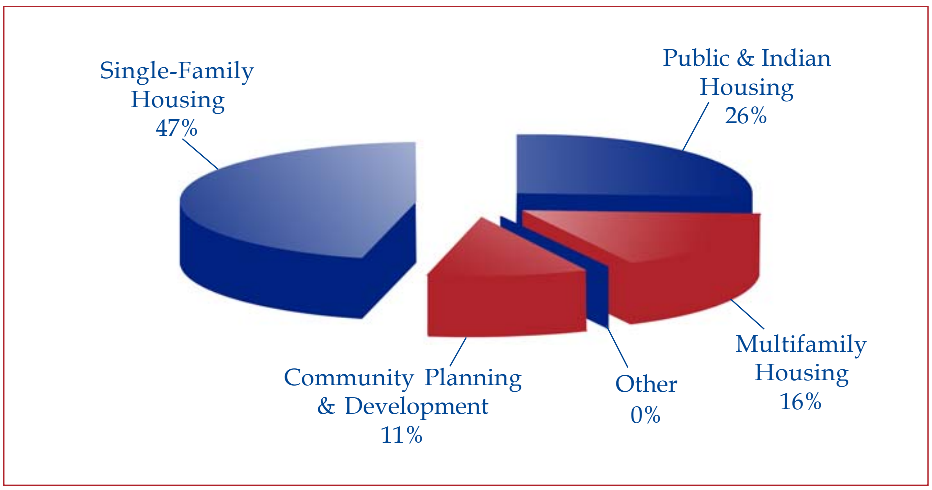
OIG Results for FY 2005
$2.4 Billion Captured



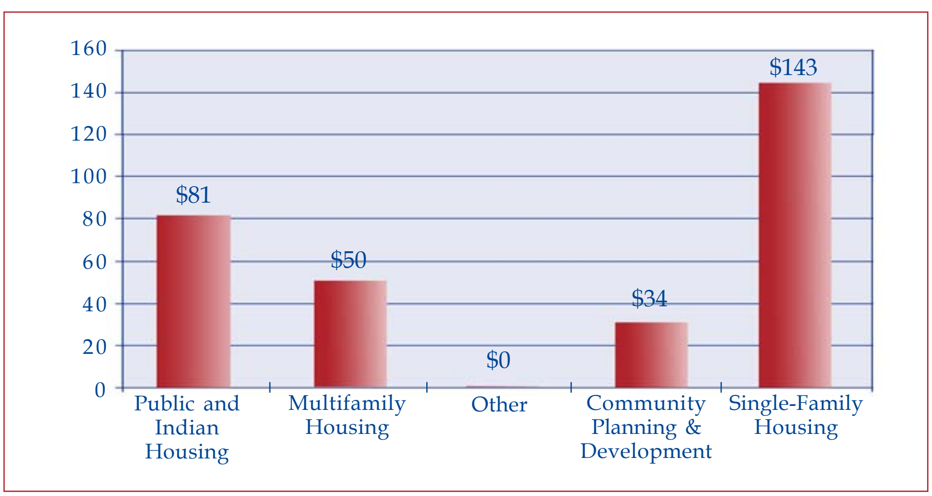
Audit Reports Issued by Program



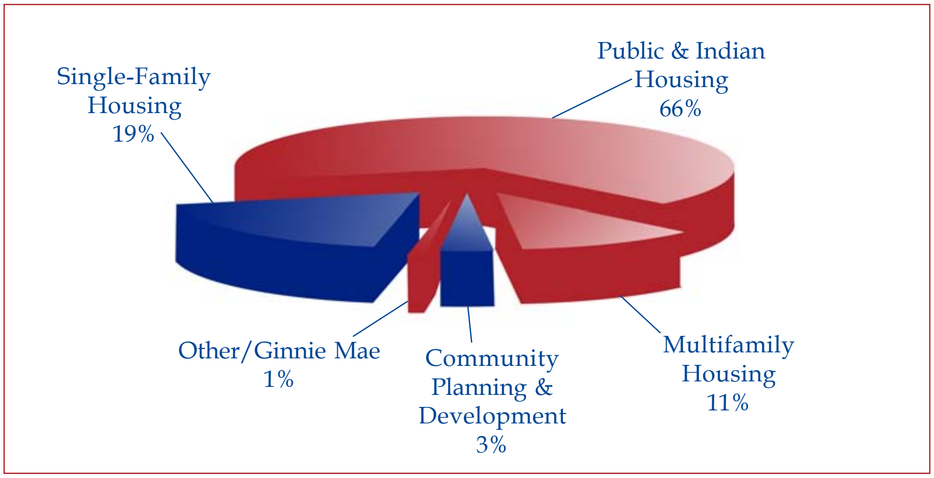
Monetary Benefits Identified by Program



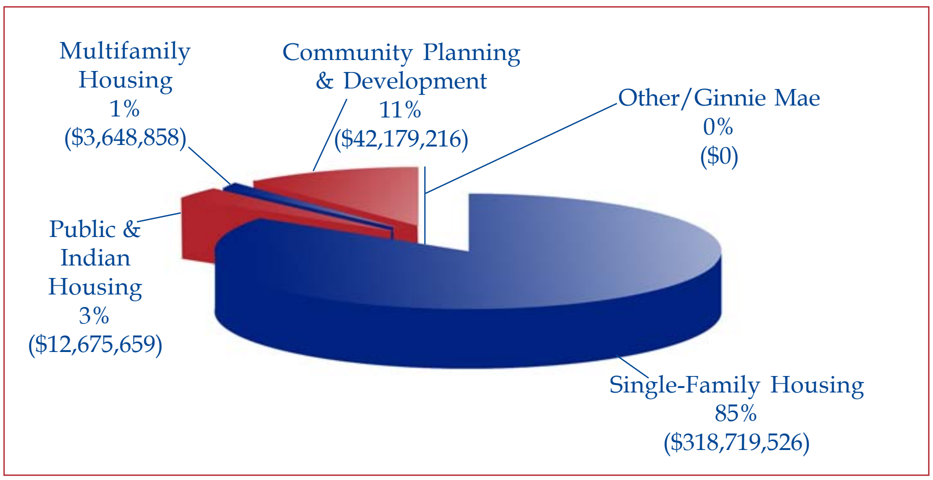
Monetary Benefits Identified in Millions of Dollars



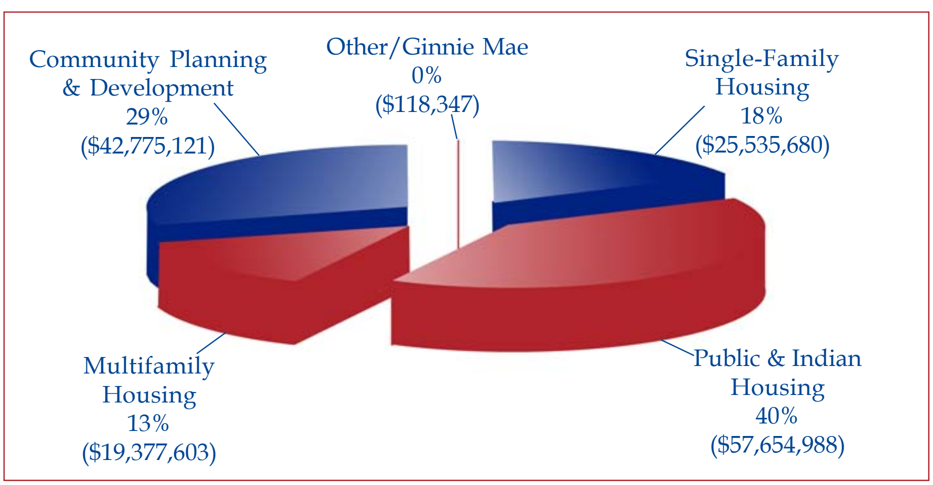
Investigation Cases Opened by Program (Total: 591)



Investigation Recoveries by Program (Total: $377,223,259)



Investigation Funds Put to Better Use (Total: $145,461,739)



Investigation Charts

Acronyms List

AIDS	Acquired Immune Deficiency Syndrome
ARCATS	Audit Resolution and Corrective Action Tracking System
ARIGA	Assistant Regional Inspector General in Charge
ASAC	Assistant Special Agent in Charge
CDBG	Community Development Block Grant
CID	Criminal Investigation Division
CPD	Office of Community Planning and Development
DEA	Drug Enforcement Administration
DOJ	U.S. Department of Justice
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHASL	Federal Housing Administration Subsidiary Ledger
FHASL	FHA Subsidiary Ledger
FIRMS	Facilities Integrated Resources Management System
FY	Fiscal Year
GAO	Government Accountability Office
GNMA	Government National Mortgage Association (aka Ginnie Mae)
HAP	Housing Assistance Payment
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HOME	Home Ownership Made Easy
HOPWA	Housing Opportunities for Persons with AIDS
HRRC	Hurricane Recovery and Response Center
HUD	U.S. Department of Housing and Urban Development
IAFCI	International Association of Financial Crimes Investigators
IG	Inspector General
IRS	Internal Revenue Service
JTTF	Joint Terrorism Task Force

LAS	Loan Accounting System
MFIS	Multifamily Insurance System
MTW	Moving to Work
NAHRO	National Association of Housing and Redevelopment Officials
OA	Office of Audit
OI	Office of Investigation
OIG	Office of Inspector General
OMB	Office of Management and Budget
OND	Officer Next Door
PFCRA	Program Fraud Civil Remedies Act
PHA	Public Housing Authorities
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda
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
SSA	Social Security Administration
SSN	Social Security Number
TEAM	Total Estimation and Allocation Mechanism
TND	Teacher Next Door
USDA	U.S. Department of Agriculture
USMS	U.S. Marshal's Service
VA	U.S. Department of Veterans Affairs
VOE	Verifications of Employment
VOR	Verifications of Rent

Table of Contents

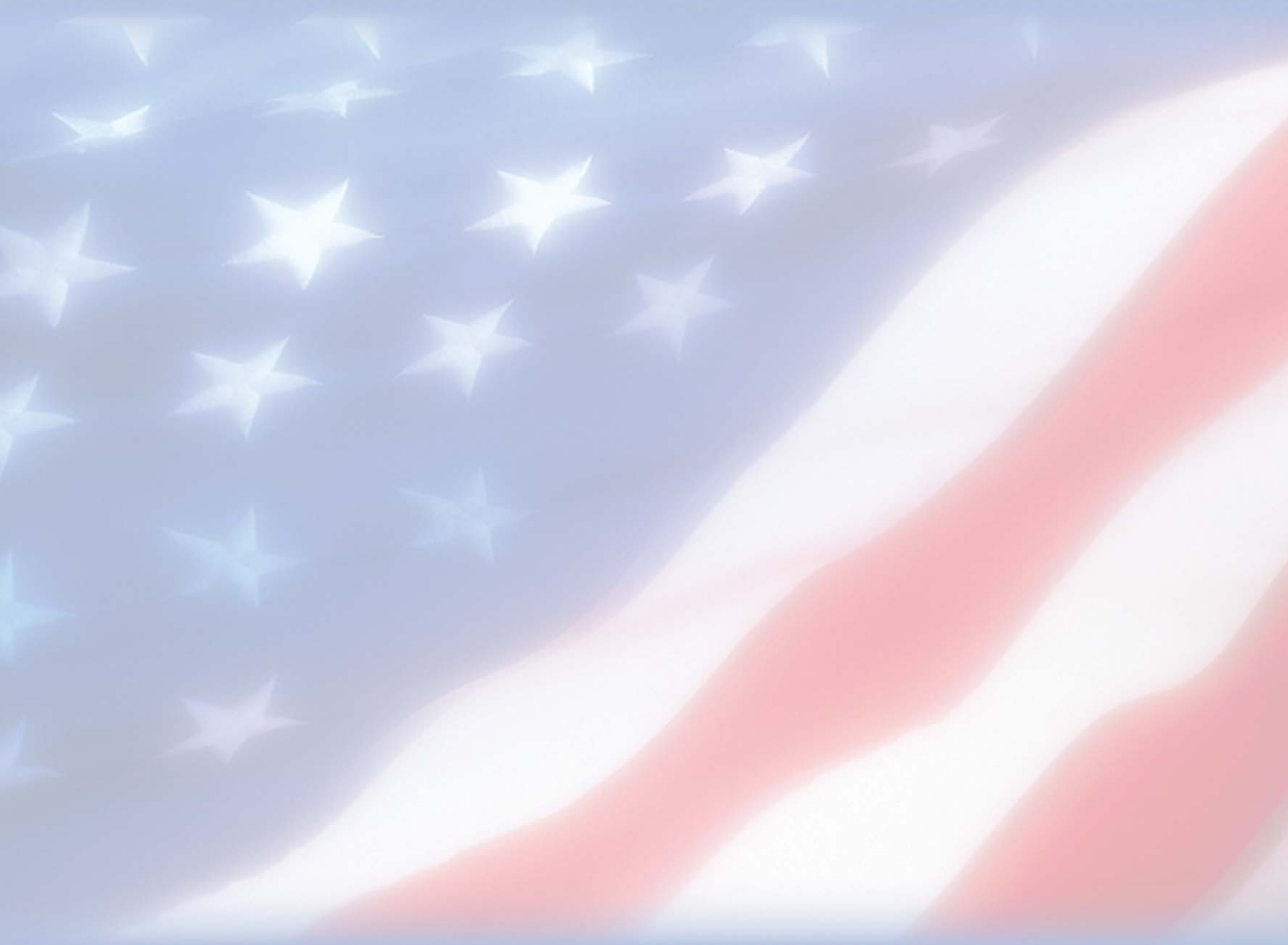
Chapter 1 - HUD's Management and Performance Challenges	**1**
The HUD Office of Inspector General	2
Major Issues Facing HUD	2
Chapter 2 - HUD's Single Family Housing Programs	**11**
Audits	12
Investigations	24
Chapter 3 - HUD's Public and Indian Housing Programs	**59**
Audits	60
Investigations	77
Chapter 4 - HUD's Multifamily Housing Programs	**103**
Audits	104
Investigations	110
Chapter 5 - HUD's Community Planning and Development Programs	**115**
Audits	116
Investigations	121
Chapter 6 - Other Significant Audits and Investigations/OIG Hotline	**129**
Audits	130
Investigations	132
OIG Hotline	135
Chapter 7 - Outreach Efforts	**137**
Chapter 8 - Review of Policy Directives	**149**
Proposed Rules	150
Proposed Notices	152
Mortgagee Letter	154
Chapter 9 - Audit Resolution	**157**
Delayed Actions	158
Federal Financial Management Improvement Act of 1996	160
Appendix 1 - Audit Reports Issued	**161**
Appendix 2 - Tables	**169**
Table A - Audit Reports Issued Prior to Start Period with No Management Decision as of September 30, 2005	170
Table B - Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 2005	172
Table C - Inspector General Issued Reports with Questioned and Unsupported Costs as of September 30, 2005	182
Table D - Inspector General Issued Reports with Recommendations that Funds Be Put to Better Use as of September 30, 2005	183
HUD OIG Operations Telephone Listing	**185**

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.	*149-155*
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	*1-147, 157-160*
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	*11-147*
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.	*11-147*
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 and the total dollar value of questioned and unsupported costs.	*11-147*
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.	*No Instances*
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	*No Instances*
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	*160*

Chapter 1



HUD's Management and Performance Challenges

Management & 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, the Office of Inspector General (OIG) has forged a strong alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. OIG strives to make a difference in HUD's performance and accountability and is committed to its statutory mission of detecting and preventing fraud, waste, and abuse as well as promoting the effectiveness and efficiency of government operations. While organizationally OIG is located within the Department, it operates independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. HUD OIG's 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) 2005, FHA's outstanding mortgage insurance portfolio was about $434 billion. Ginnie Mae, through its mortgage-backed securities program, gives issuers access to capital markets through the pooling of federally insured loans.

With about 8,800 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 diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries in its housing 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 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 HUD on GAO's high-risk list.

As of the end of FY 2005, HUD's PMA scoring status showed significant improvement for six of the eight initiatives applicable to HUD with a total of two "green," five "yellow," and one "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. HUD's baseline score for improved financial performance remains at "red" because of material weaknesses and a disclaimer of opinion received on HUD's 2004 consolidated financial statements. It is noteworthy, however, that HUD was the first agency to receive a "green" baseline goal score on reducing improper payments.

Each year in accordance with the Reports Consolidated 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. OIG submitted its latest assessment on October 18, 2005. These reported challenges are the continued focus of OIG's audit and investigative efforts. HUD is working to address these challenges and in some instances, has made significant 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.

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.

<u>Financial Management Systems</u>. Since FY 1991, OIG has annually reported that the lack of an integrated financial system in compliance with all Federal Financial Management System requirements is a weakness in internal controls. While some progress has been made, a number of long-standing deficiencies remain. For the past several years, OIG's 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.

HUD has completed certification and accreditation for 41 of its 44 financial management systems. However, the quality of the underlying documents and the actual certification and accreditation process varied by application. While a number of vulnerabilities were closed, additional vulnerabilities, identified through oversight activities, were not corrected before accreditation. In addition, certification and accreditation of the general support systems on which these applications reside has not been completed and is ongoing.

The weaknesses noted in OIG's FY 2004 Consolidated Financial Audit relate to the need to

- Comply with Federal Financial Management System 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 challenges 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 FHA 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 Federal Financial Management System requirements. In FY 2004, FHA completed the implementation of its core financial system 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, OIG considers 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 HUD's resource management tools by which the Department identifies, justifies, analyzes, and makes recommendations 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 were 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 workforce 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.

HUD is currently in the process of integrating REAP and the 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. FHA's single-family insurance programs enable millions of first-time, minority, low-income elderly, and other underserved households to realize the benefits of homeownership. HUD manages about $368 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.

HUD has taken a number of actions to reduce risks to homebuyers including the following:

- Established an automated systems control to preclude the predatory lending practice of "property flipping" on FHA-insured loans;
- Established an "appraiser watch" process, wherein appraisers with poor performance records are automatically targeted for monitoring and disqualification from program participation if they violate FHA standards;
- Established an automated underwriting system, the Technology Open to Approved Lenders (TOTAL) Scorecard, to increase lender efficiency through more consistent, objective evaluations of the credit worthiness of borrowers; and
- Initiated a process for the electronic verification of Social Security numbers to further reduce fraud in FHA applications.

While GAO and OIG have reported improved monitoring of lender underwriting and default tracking and expanded loss mitigation to help reduce mortgage foreclosures, HUD needs to further strengthen lender accountability 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 gave priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. The audits targeted lenders with high default rates. OIG's detailed testing focuses on mortgage loans that defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late endorsed loans, inadequate quality controls, and other operational irregularities. OIG's recommendations have sought monetary recoveries through loan indemnifications exceeding $133 million, loss reimbursements of more than $10 million, and appropriate civil remedies. During the current semiannual reporting period, OIG completed 30 external audits of FHA-approved mortgage lenders as well as three internal audits of single-family program activities. Additionally, OIG's investigative workload in single-family fraud prevention continues to grow dramatically. During the current semiannual period, OIG opened 140 investigative cases and closed 106 cases in the single-family housing program area, resulting in 236 indictments, 222 arrests, and 169 convictions/pleas/pretrial conversions.

The OIG's 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. OIG developed a comprehensive training course on auditing single-family lenders and conducting single-family fraud investigations. To date, 154 auditors have completed the single-family lender audit training course.

<u>Public and Assisted Housing Program Administration.</u> 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 is a criterion for housing agencies' performance in both the Public Housing Assessment System and the Section 8 Management Assessment Program. HUD's goal is to obtain 85 percent reporting of tenant data into the system.

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 OIG's annual audits of HUD's financial statements.

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 2005, an update to this study estimated a gross error payment of $1.2 billion. Although still a large amount, this represents a 62 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, OIG's investigative and audit focus concentrates on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. To comply with a congressional request, OIG conducted 24 external audits of the Section 8 Housing

Choice Voucher program during the current semiannual reporting period. OIG also hired an additional professional appraiser to assist in evaluating housing quality requirements as part of our audit efforts. In total, these external audits addressed 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. OIG's recommendations for these audits questioned costs of more than $29 million and identified more than $29 million that could be put to better use.

Administering Programs Directed Toward Victims of Hurricanes Katrina and Rita. The recent hurricanes devastated many gulf coast communities and displaced millions of people. Initially, the Federal Emergency Management Agency (FEMA) was to be responsible for the temporary housing (up to a year) of evacuees while HUD was to be responsible for finding permanent housing. To date, HUD has received $79 million to provide transitional housing (up to 18 months) for those individuals who had received HUD housing assistance prior to being displaced. HUD reports that there are more than 700,000 HUD-assisted or insured housing units including elderly housing that housed approximately 2 million individuals in the affected region. This new mission of providing transitional and permanent housing for so many displaced people poses significant management and performance challenges for HUD.

HUD has taken a number of actions to address the more immediate housing assistance issues and challenges, including

- Establishing a Hurricane Recovery and Response Center (HRRC), an emergency management division chaired by the Assistant Secretary for Housing-Federal Housing Commissioner that serves as the HUD Headquarters command post and reports directly to the Secretary;
- Establishing a field operations office in Baton Rouge, LA, and dispatching HUD specialists with expertise on manufactured housing, reconstruction, and community planning;
- Working with the United States Conference of Mayors and the National Association of Counties to coordinate the identification of housing opportunities nationwide;
- Identifying vacant public housing units and available vouchers nationwide;
- Temporarily waiving numerous program requirements to make it easier for disaster displaced individuals who previously received housing assistance to obtain housing assistance in their new locations;
- Modifying or awarding contracts to provide various contractor services to address the housing assistance needs of the displaced hurricane victims; and
- Identifying about 6,000 HUD-owned properties within a 500-mile radius of the disaster region and authorizing management and marketing contractors to rehabilitate the properties to make them available for housing.

Now that HUD has started the process of providing housing assistance to displaced individuals, it is extremely important that Agency officials work closely with OIG to ensure that reasonable controls over the use of funds are put in place to mitigate, to the extent possible, the risk of fraud, waste, and abuse. To this end, OIG established a task force to deal exclusively with audit and investigative matters that arise from HUD's disaster recovery and reconstruction responsibilities. It is also important that HUD work closely with FEMA to coordinate the various housing actions undertaken by both Agencies.

■ ■ ■

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 33 reports: 3 internal audits and 30 external audits in the single-family housing program area. These reports disclosed more than $10 million in questioned costs and more than $133 million in recommendations that funds be put to better use. OIG reviewed 30 home and branch offices of FHA single-family mortgage lenders.

Chart 2.1: Single-Family Housing Reports Issued

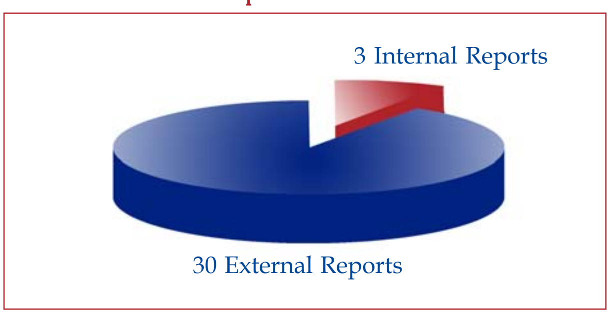
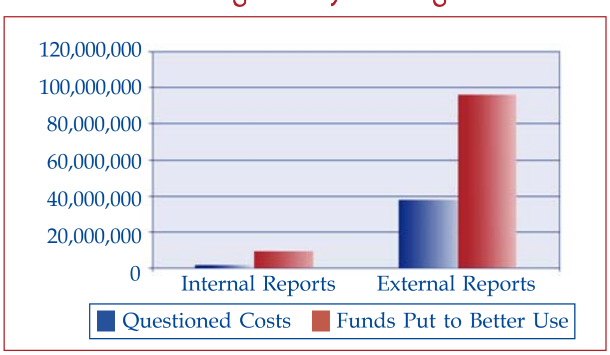


Chart 2.2: Single-Family Housing Dollars



Mortgagees, Loan Correspondents, and Direct Endorsement Lenders

The U.S. Department of Housing and Urban Development (HUD) OIG audited National City Mortgage Company of **Miamisburg, OH**, a lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program. OIG selected National City for audit because of its high late endorsement rate. The objective was to determine whether National City complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests.

National City submitted 2,071 late requests for endorsement out of 68,730 loans tested. The loans were either delinquent or otherwise did not meet HUD's requirement of six consecutive timely payments after delinquency but before submission to HUD. National City also incorrectly certified that both the mortgage and escrow accounts for 133 loans and the escrow account for taxes, hazard insurance premiums, and mortgage insurance premiums for 497 loans were current.

OIG recommended that HUD require National City to (1) indemnify it for any future losses on 529 loans with a total mortgage value of more than $63.5 million and take other appropriate administrative actions up to and including civil money penalties and (2) reimburse it more than $2.3 million for the losses it incurred on 57 loans and for any future losses from nearly $3.2 million in claims paid on 45 insured loans with a total mortgage value of nearly

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.

$5 million, once the associated properties are sold. OIG also recommended that HUD take appropriate administrative action against National City for violating the requirements in effect when it submitted 804 loans with a total value of more than $99.6 million without the proper 6-month payment histories. Further, OIG recommended that HUD determine legal sufficiency of the certifications made. If legally sufficient, HUD should pursue remedies under the Program Fraud Civil Remedies Act (PFCRA) against National City and/or its principals for incorrectly certifying that the mortgage and/or the escrow account for taxes, hazard insurance premiums, and mortgage insurance premiums were current for 630 loans submitted for FHA insurance endorsement. (Audit Report: **2005-CH-1015**)

HUD OIG audited late endorsement payment histories at Washington Mutual Bank, **Seattle, WA**, because of its high number of late single-family loan submissions for FHA insurance during calendar years 2002 and 2003. The objective was to determine whether Washington Mutual's late requests for endorsement complied with HUD's payment history requirements.

From March 2002 to October 2004, Washington Mutual improperly submitted 609 loans having delinquent payments within 6 months of the submission date. This occurred because Washington Mutual did not have adequate controls to ensure that its employees followed HUD's requirements regarding late requests for insurance endorsement.

OIG recommended that HUD take appropriate administrative action up to and including recovery of losses on approximately $1.1 million in paid claims and indemnification of more than $18 million for loans that were not current when submitted for endorsement. OIG also recommended that HUD take appropriate administrative action against Washington Mutual for violating the requirements in effect when it submitted loans. (Audit Report: **2005-SE-1006)**

In connection with a review of an FHA-approved loan correspondent, HUD OIG identified 10 loans that Washington Mutual Bank of **Seattle, WA**, sponsored, which did not appear to be properly underwritten.

Washington Mutual did not comply with HUD regulations, procedures, and instructions in underwriting six of the mortgages. The deficiencies involved unverified property repairs required to support the appraised value, unsupported income, improper refund of gift funds to the borrower, unsupported assets, and questionable ownership of one property. Washington Mutual also charged prohibited fees on five loans, three of which were also identified as improperly underwritten loans.

OIG recommended that HUD take appropriate administrative action against Washington Mutual for not complying with HUD underwriting requirements. This action, at a minimum, should include requiring indemnification for three actively insured loans with original mortgage amounts totaling more than $223,000, two loans on which HUD has incurred losses of more than $87,000, and one loan that is overinsured by approximately $1,400. (Audit Report: **2005-KC-1009**)

HUD OIG reviewed FHA loans sponsored by Wells Fargo of **Des Moines, IA**. During an audit of an FHA-approved loan correspondent, OIG identified 11 loans sponsored by Wells Fargo that did not appear to have been properly originated according to HUD regulations. Because the sponsor of the loans is ultimately responsible for loan processing deficiencies, OIG addressed these deficiencies to Wells Fargo to determine whether it complied with HUD regulations, procedures, and instructions when processing the mortgages.

Wells Fargo did not comply with HUD regulations, procedures, and instructions for processing 10 of the 11 FHA-insured single-family mortgages OIG reviewed. Underwriting deficiencies included overstated income, income stability not verified, understated liabilities, creditworthiness not fully considered, unresolved inconsistencies, and insufficient or ineligible compensating factors. For nine loans, Wells Fargo did not ensure that the appraisal met HUD requirements. In addition, Wells Fargo allowed the loan correspondent to charge more than $11,000 in loan discount points without reducing the borrowers' interest rates. As a result, the risk to the insurance fund was increased, four ineligible borrowers received financing, and nine borrowers incurred excessive costs for their loans.

OIG recommended that HUD take appropriate administrative action against Wells Fargo for not complying with HUD requirements. At a minimum, this should include indemnifying HUD more than $383,000 for three loans, reimbursing HUD for the more than $64,000 loss on one loan, and reimbursing appropriate parties for the more than $11,000 in unearned fees. OIG further recommended that HUD ensure Wells Fargo has implemented sufficient controls to provide reasonable assurance that its underwriting complies with HUD regulations, procedures, and instructions. (Audit Report: **2005-FW-1019**)

HUD OIG audited Security Atlantic Mortgage Company, Inc., a lender located in **Edison, NJ**. The objectives of the audit were to determine whether Security Atlantic (1) approved loans in accordance with HUD requirements, which include following prudent lending practices, and (2) developed and implemented a quality control plan that complied with HUD requirements.

Security Atlantic (1) did not follow HUD requirements in the approval of 16 loans valued at more than $3.2 million, resulting in an unnecessary risk to the FHA insurance fund; (2) charged borrowers more than $11,000 in ineligible and/or unsupported fees; (3) did not comply with HUD tier pricing regulations, resulting in more than $60,000 in inappropriate charges on 38 loans; and (4) could not document that it complied with HUD regulations regarding commitment fees. Further, Security Atlantic did not implement its quality control plan in accordance with HUD's and its own requirements.

OIG recommended that HUD require Security Atlantic to indemnify HUD for potential losses and/or claims on loans with significant underwriting deficiencies; reimburse borrowers for ineligible, unsupported, and inappropriate charges; and implement a quality control process in accordance with HUD requirements. (Audit Report: **2005-NY-1007**)

HUD OIG reviewed FHA loans sponsored by Allied Home Mortgage Corporation of **Houston, TX**. During an audit of an FHA-approved loan correspondent, OIG identified four loans sponsored by Allied that did not appear to have been properly originated according to HUD regulations. Because the sponsor of the loans is ultimately responsible for loan processing deficiencies, OIG addressed these deficiencies to Allied to determine whether it complied with HUD requirements.

Allied did not comply with HUD regulations, procedures, and instructions in the processing of the four loans. It overstated the borrower's income for two loans and understated the borrower's liabilities for one loan. For all four loans, Allied did not ensure that the appraisal met HUD requirements. In addition, Allied allowed the loan correspondent to charge three borrowers more than $1,900 in loan discount points without reducing their interest rates. As a result, the risk to the insurance fund was increased, and three borrowers incurred excessive costs for their loans.

OIG recommended that HUD take appropriate administrative action against Allied for not complying with HUD requirements. At a minimum, this should include indemnifying HUD more than $123,000 for one of the loans and reimbursement of the more than $1,900 in unearned fees. OIG further recommend that Allied be required to take action to improve the quality of its appraisals. (Audit Report: **2005-FW-1017**)

HUD OIG audited the Union Federal Bank of Indianapolis (also known as Union Federal Savings Bank of Indianapolis) in **Fort Wayne, IN**. Union Federal is a supervised lender approved to originate FHA mortgage loans using HUD's single-family direct endorsement process. OIG selected Union Federal for audit because of its high late endorsement rate. The review objectives were to determine whether Union Federal complied with HUD's regulations, procedures, and instructions in the submission of late insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

OIG's audit tests of 662 loans identified 12 that were improperly submitted for endorsement. Ten loans that remain FHA-insured increase the risk to the FHA insurance fund by more than $1.1 million.

OIG recommended that HUD require Union Federal to (1) indemnify HUD for any future losses on nine loans with a total mortgage value of approximately $966,000 and (2) reimburse HUD for any future loss for a claim on one insured loan once the property is sold. (Audit Report: **2005-CH-1009**)

HUD OIG audited Fairfield Financial Mortgage Group, Inc., **Danbury, CT**, a lender approved by HUD to originate FHA-insured single-family mortgages. The objectives were to determine whether Fairfield Financial complied with HUD regulations, procedures, and instructions in the origination of FHA loans and whether Fairfield Financial's quality control plan, as implemented, met HUD requirements.

Fairfield Financial improperly originated 4 of the 24 loans reviewed. These four loans contained deficiencies that affected the insurability of the loans, including unsupported income, underreported liabilities, excessive qualifying ratios, and derogatory credit information. As a result, HUD insured loans that placed the insurance fund at risk for more than $1.2 million. In addition, Fairfield Financial did not properly disclose to borrowers more than $11,000 for commitment fees in 20 of the 24 loans reviewed. Further, Fairfield Financial's quality control plan, as implemented, did not meet HUD requirements. As a result, HUD lacks assurance that Fairfield

Financial is able to ensure the accuracy and completeness of its loan origination operations.

OIG recommended that HUD require Fairfield Financial to (1) indemnify HUD against future losses on the four loans for more than $1.2 million and (2) revise its procedures to ensure that each borrower charged a commitment fee is properly informed, in writing, of the fee, the amount of the fee, and the purpose of the fee and that the fee charged coincides with the amount disclosed to the borrower. Additionally, HUD should require Fairfield Financial to implement controls to ensure that it follows HUD's quality control requirements and verify that it has implemented proper controls. (Audit Report: **2005- BO-1007**)

HUD OIG audited City Bank's **Puyallup, WA**, branch office because it had one of the highest defaults to claim percentages for HUD-approved lenders located within the State of Washington. The objectives were to determine whether City Bank's Puyallup branch originated HUD-insured loans in accordance with HUD requirements and prudent lending practices.

City Bank did not originate 10 of the 24 loans reviewed in accordance with HUD requirements or prudent lending practices. The 10 loans contained deficiencies that should have precluded their approval, including loans with excessive debt-to-income ratios and no valid compensating factors, lack of borrower income stability, improper source of funds verification, unacceptable borrower credit histories, and deficient appraisal reviews by the underwriter. As a result, City Bank placed HUD's single-family insurance fund at risk for 10 unacceptable loans with original mortgages totaling more than $1.5 million. HUD remains at risk or has incurred losses totaling more than $1.4 million relating to these 10 loans.

OIG recommended that HUD take appropriate administrative action against City Bank, as available under the Mortgage Review Board and/or other authority. At a minimum, this action should include seeking appropriate reimbursement and/or indemnification totaling more than $1.4 million for the 10 loans that were improperly originated and underwritten, including more than $600 in loss mitigation costs related to one of the loans. (Audit Report: **2005-SE-1007**)

HUD OIG audited Broad Street Mortgage Company's **San Antonio, TX**, branch office because of an unusually high loan default rate. The objective was to determine whether Broad Street followed HUD loan origination requirements for the 30 loans selected for review.

Broad Street did not follow HUD loan origination requirements for minimum investment in approving 24 of the 26 loans that involved nonprofit gifts. The lender and sellers used a gift program to circumvent the minimum investment requirements. The sellers marked up the sale prices of the homes and increased the sales contracts to cover their contribution to nonprofit downpayment assistance programs. Broad Street then approved the mortgages based on the marked up prices and questionable appraised values. This increased the borrowers' homeownership costs and risk of default as well as HUD's risk of insurance loss. In addition, Broad Street's quality control plan needed improvement and was not fully implemented.

OIG recommended that HUD require Broad Street to indemnify HUD for 24 loans, reimburse the insurance fund for any of the loans reviewed that have been foreclosed, and amend and fully implement its quality control plan. (Audit Report: **2005-FW-1010**)

HUD OIG audited Corinthian Mortgage Corporation, a direct endorsement lender located in **Mission, KS**, because its default rate was significantly higher than HUD's Kansas City field office's average over the past 2 years. The audit objectives were to determine whether Corinthian properly developed and implemented a quality control plan and whether it properly originated FHA loans.

Corinthian's quality control process did not comply with HUD requirements. It did not ensure that it conducted sufficient and timely quality control reviews. It also did not take prompt corrective action when quality control reports identified material deficiencies. Further, it did not follow HUD requirements when processing and underwriting FHA loans and improperly originated 3 of the 44 loans OIG reviewed. Corinthian submitted one loan with a serious misstatement. As a result, HUD insured four loans that placed the insurance fund at risk for more than $472,000.

OIG recommended that HUD take appropriate administrative action against Corinthian, including at a minimum, indemnification for the three actively insured loans and reimbursement for losses already incurred on the remaining loan. Corinthian should also reimburse the appropriate parties for unallowable costs charged to borrowers. (Audit Report: **2005-KC-1006**)

HUD OIG audited KB Home Mortgage Company of **Los Angeles, CA**, a lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program. OIG selected KB for audit because of its high late endorsement rate. The primary objective was to determine whether KB complied with HUD's regulations, procedures, and instructions in the late submission of insurance endorsement requests. The secondary objective was to determine whether KB established and implemented a written quality control plan in accordance with HUD requirements.

KB improperly submitted only 13 of 1,083 loans for late endorsement during the period August 11, 2002, through April 11, 2004. By establishing a new process for loan submission in 2003, KB substantially reduced the number of loans submitted for late endorsement. However, of the 13 loans totaling more than $1.7 million, two were conveyed to HUD and resulted in losses, three were terminated through streamline refinances, and eight remain active. Because the borrowers were behind on 5 of the 13 loans when they were endorsed and there were late payments on the other eight loans that occurred within 6 months of being submitted, KB increased HUD's insurance risk. Data entered into KB's automated system were often erroneous and may have contributed to the incidence of late endorsed loans. KB's current written quality control plan, adopted in 2003, meets HUD requirements.

OIG recommended that HUD take administrative action up to and including the recovery of losses on more than $79,000 in paid claims and indemnification of loans with a total mortgage value of more than $537,000. OIG also recommended that HUD take appropriate administrative action against KB for violating the requirements in effect when it submitted loans without proper 6-month payment histories. In addition, OIG recommended that HUD require KB to establish and implement written policies and procedures to ensure loans submitted for late endorsement meet late submission requirements and to reasonably ensure that valid and reliable data are obtained, maintained, and accurate. (Audit Report: **2005-LA-1007**)

HUD OIG audited the **Cherry Hill, NJ**, branch of Gateway-Funding Diversified, a direct endorsement lender approved to originate FHA single-family mortgage loans, because it had a high default rate. The objective was to determine whether Gateway complied with HUD regulations, procedures, and instructions in the origination of FHA loans.

Of the 32 loans we selected for review, the Cherry Hill branch did not fully comply with FHA requirements for seven of the loans valued at more than $690,000. Gateway did not exercise due diligence in the review of assets, liabilities, and income; did not verify rental history; and approved loans with excessive debt-to-income ratios.

OIG recommended that HUD request indemnification from Gateway on FHA loans valued at more than $690,000, which it issued contrary to HUD's loan origination procedures, and require Gateway to develop internal procedures to more closely monitor its underwriting process. (Audit Report: **2005-PH-1015**)

HUD OIG audited Golden First Mortgage Corporation, a lender located in **Great Neck, NY**. The objectives of the audit were to determine whether Golden First (1) approved insured loans in accordance with HUD requirements, which include following prudent lending practices, and (2) developed and implemented a quality control plan that complied with HUD requirements.

Golden First did not always follow prudent lending practices and HUD regulations in its loan origination and underwriting processes. In 5 of the 20 loans reviewed, Golden First did not adequately verify employment, income, and/or assets. As a result, the FHA insurance fund incurred a loss associated with one loan and continues to assume a risk with the other four loans. Golden First also did not ensure that (1) loans defaulting within the first 6 months were reviewed, (2) quality control reviews were conducted in a timely manner, and (3) management responses and planned corrective actions were adequately documented.

OIG recommended that HUD require Golden First to (1) indemnify HUD more than $1.1 million against future losses on the four loans currently insured with material underwriting deficiencies; (2) reimburse HUD more than $259,000 for the amount of claims and associated fees paid on one loan with a material underwriting deficiency; (3) establish and implement underwriting processing procedures that comply with HUD requirements; and (4) develop and implement quality control, loan documentation, and retention procedures in compliance with HUD requirements. (Audit Report: **2005-NY-1009**)

HUD OIG audited KB Home Mortgage Company's insured loan originations in the **Phoenix, AZ**, metropolitan area due to high default and claim rates. The objective was to determine whether KB originated HUD-insured loans in accordance with prudent lending practices and HUD requirements.

KB did not originate the 19 loans reviewed in compliance with HUD requirements or prudent lending practices. All 19 loans involved origination deficiencies that should have precluded their approval, including false employment data, overstated income, understated liabilities, unacceptable credit histories, improper treatment of downpayment gifts and/or interest rate buydowns, resulting in overinsured mortgages, inaccurate or excessive qualifying ratios without compensating factors, and borrower overcharges for unsupported or unallowed fees. As a result, KB Placed HUD's single-family insurance fund at risk for 19 unacceptable loans with original mortgages totaling more than $2.5 million, and borrowers were overcharged $9,400. HUD remains at risk and/or has incurred losses totaling more than $1.2 million related to 15 of the 19 loans.

OIG recommended that HUD take appropriate administrative action against KB under the Mortgagee Review Board and/or other authority. At a minimum, this should include seeking appropriate monetary sanctions for 15 loans totaling more than $1.2 million and requiring KB to reimburse the borrowers or HUD for $9,400 in unearned, unallowable, or excessive fees. (Audit Report: **2005-LA-1011**)

HUD OIG reviewed five FHA loans sponsored by First Magnus' branch office in **Las Vegas, NV**. During a prior review of an FHA-approved loan correspondent, OIG identified loans sponsored by First Magnus that did not appear to have been originated according to HUD regulations. As a loan sponsor, First Magnus is responsible for approving the loans; therefore, OIG reviewed First Magnus' underwriting procedures to determine whether First Magnus complied with HUD requirements.

First Magnus did not comply with HUD requirements because it approved loans for borrowers who were ineligible for FHA-insured mortgages. Loan files contained false and otherwise questionable documentation. First Magnus also did not perform quality control reviews during the time that four of the five loans OIG reviewed were closed. As a result, the FHA insurance fund was placed at risk.

OIG recommended that HUD take appropriate administrative action against First Magnus. The action, at a minimum, should include requiring First Magnus to repay more than $204,000 in claims and losses incurred on four loans and indemnify HUD more than $127,000 for any future losses associated with one loan that is in foreclosure. (Audit Report: **2005-LA-1010**)

HUD OIG audited loans that National City Mortgage Company underwrote at the **Altamonte Springs, FL,** and **Alpharetta, GA**, branch offices for seven loan correspondents that originated loans for properties located in central and northern Florida. National City is a direct endorsement lender with headquarters located in Miamisburg, OH. OIG selected the two branch offices and the seven loan correspondents because their default rates were significantly higher than the Florida average.

National City did not follow HUD requirements when underwriting 9 of the 19 FHA-insured loans reviewed for compliance. The loans contained deficiencies that affected the credit quality (insurability) of the loans. National City's underwriters did not adequately evaluate information presented by its loan correspondents for compliance with requirements before approving the loans. The underwriters also allowed questionable information to be entered into the systems used for automated underwritten loans. As a result, HUD insured nine loans that placed the FHA insurance fund at risk for more than $326,000 in questioned costs and resulted in more than $153,000 in funds that could be put to better use.

OIG recommended that HUD take appropriate administrative action against National City. This action should, at a minimum, include requiring indemnification of more than $153,000 for two defaulted loans, more than $159,000 for claims paid on two loans, and reimbursement of approximately $166,000 for losses incurred for five loans. (Audit Report: **2005-AT-1014**)

HUD OIG audited First Source Financial USA, a loan correspondent headquartered in **Henderson, NV**. The overall audit objective was to determine whether First Source approved FHA-insured loans in accordance with HUD requirements and to determine whether First Source implemented an acceptable quality control plan.

First Source (1) allowed nonemployees and unapproved branches to originate and process FHA-insured loans, (2) originated and processed FHA loans with false information and known misrepresentations, and (3) allowed questionable lending practices by collecting unearned fees. As a result, there were excessive defaults and foreclosures, an increased risk to the FHA insurance funds, and actual losses of more than $159,000.

OIG recommended that First Source (1) pay civil money penalties for originating and processing loans with nonemployees, having unapproved branches, cobrokering FHA loans with another mortgage company, allowing loan officers to simultaneously work for real estate companies, and Real Estate Settlement and Procedures Act (RESPA) violations; (2) repay more than $159,000 in losses HUD incurred on six loans; and (3) refund unearned yield spread premiums. (Audit Report: **2005-LA-1003**)

HUD OIG audited Aspen Home Loans in **American Fork, UT**, because of loan origination and quality control deficiencies identified in a prior audit. Our audit objectives were to determine whether Aspen complied with HUD regulations, procedures, and instructions in the origination of insured loans selected for review and whether Aspen's quality control plan, as implemented, met HUD's requirements.

Aspen did not comply with HUD regulations, procedures, and instructions in the origination of any of the 11 loans selected for review. Self-employed independent contractors originated loans, and Aspen operated out of unapproved branch offices. OIG also identified one loan that did not have a proper verification of employment.

Aspen's quality control plan was incomplete and inadequate as implemented. For example, (1) the required number of quality control reviews was not performed; (2) the owner, who also originates insured loans, was the only quality control reviewer; (3) quality control reviews were not performed or reported accurately; (4) the owner did not know about the HUD requirement that all early default loans be reviewed in addition to the normal random sample selection; and (5) the owner was the branch manager for three separate office locations.

OIG recommended that HUD require Aspen to (1) change its policies and procedures for the origination and review of its insured loans to fully comply with all HUD regulations, (2) obtain the necessary branch approval, (3) cease origination of insured loans at unapproved branches, and (4) indemnify one insured loan not originated in accordance with HUD requirements. In addition, OIG recommended that Aspen be referred to the Mortgagee Review Board for appropriate action since during its Title II monitoring review, HUD identified deficiencies similar to those OIG found in the area of quality control. (Audit Report: **2005-DE-1004**)

HUD OIG audited Citywide Home Loans in **Salt Lake City, UT**, because of loan origination and quality control deficiencies identified in a prior audit. The audit objectives were to determine whether Citywide complied with HUD regulations, procedures, and instructions in the origination of insured loans selected for review and whether Citywide's quality control plan, as implemented, met HUD's requirements.

Citywide did not comply with HUD regulations, procedures, and instructions in the origination of 20 of the 23 loans selected for review. Citywide used independent loan officers to originate insured loans. HUD prohibits this practice because it represents an increased risk to the insurance fund.

Citywide's quality control reviews were not performed in a timely manner, and corrective actions taken for deficiencies identified were not documented. Citywide used a contractor to implement its quality control plan. The contractor completed only 42 percent of the required quality control reviews of the loan files within the required 90-day timeframe.

OIG recommended that HUD require Citywide to bring its loan origination policies and procedures for insured loans into full compliance with HUD regulations and to fully implement its quality control process. (Audit Report: **2005-DE-1003**)

HUD OIG reviewed Residential Lending Corporation, operating from its home office in **Duluth, GA**. Residential was a direct endorsement lender, approved to originate and approve FHA-insured single-family mortgages. OIG selected Residential due to its high default and claim rates.

Residential did not obtain the required independent audit for the fiscal year ending December 31, 2004, and planned to liquidate company assets without notifying HUD. Thus, Residential could not support that it had the $250,000 net worth needed to maintain its HUD approval to originate and approve FHA-insured mortgages.

OIG made no recommendations because Residential voluntarily terminated its HUD approval during our review on May 9, 2005. (Audit Report: **2005-AT-1801**)

HUD OIG reviewed AIM Financial, Inc., **Caledonia, MI**, a former loan correspondent approved to originate FHA-insured loans. OIG initiated the review based on a citizen's complaint to its office. The objective was to determine whether AIM originated FHA-insured loans according to HUD's requirements.

Before its approval as an FHA lender, AIM originated FHA-insured loans using the name and FHA number of another lender. AIM submitted 10 loans for insurance, falsely certifying that it was Bedford, an FHA-approved lender. In 6 of the 10 cases, Charles Gahan, acting on behalf AIM, executed the lender certification using Bedford's name, address, and lender identification number.

OIG referred Mr. Gahan to HUD's Office of General Counsel for administrative sanctions under PFCRA. HUD filed a complaint against Mr. Gahan, seeking civil penalties. HUD executed a settlement agreement with Mr. Gahan without an admission of wrongdoing, for $15,000. Mr. Gahan issued a check payable to HUD for the $15,000 settlement amount. (Audit Report: **2005-CH-1803**)

Single-Family Insurance Claims

HUD OIG audited the process HUD uses to pay FHA single-family insurance claims. OIG scheduled the audit because the annual FHA dollar disbursement for insurance claims is a significant disbursement activity of the Department.

For most FHA single-family insurance claims, HUD management and system controls are adequate and effective in ensuring that only eligible and adequately supported costs are accepted and paid. However, these controls are not sufficient to prevent the payment of interest that is disallowed for lenders' noncompliance with FHA foreclosure timeframes and reporting rules. HUD paid approximately $28.2 million in disallowed interest accruals not identified by HUD's systems on claims paid from October 1, 2000, to September 30, 2003. Payment of disallowed interest occurred because some lenders did not adjust their claims to comply with FHA requirements.

OIG recommended that HUD (1) establish and implement performance goals for the default monitoring requirements HUD expects lenders to meet and create a plan to obtain additional information necessary for HUD to establish performance goals to accurately measure lender performance for the foreclosure completion timeframe or alternative methods for measuring lender performance, (2) create and implement a plan of action that HUD should follow to ensure lenders meet performance goals, and (3) finalize disputed monetary findings in a timely manner and collect delinquent debts in accordance with the Debt Collection Act. (Audit Report: **2005-DE-0001**)

Preforeclosure Sale Program

HUD OIG audited HUD's preforeclosure sale program. The objectives of the audit were to (1) determine what abuses occurred within the preforeclosure sale program and how they impacted losses to the FHA insurance fund and (2) evaluate HUD's controls over preforeclosure sales and preforeclosure sale claim processing.

Investors abused the HUD preforeclosure sale program and obtained properties through preforeclosure sales below fair market value. OIG identified 102 properties that were sold through preforeclosure for at least $2.4 million less than their fair market value, resulting in excessive insurance claims to HUD. Additionally, HUD's claims processing system allowed for payment of at least 52 preforeclosure sale claims that were excessive by amounts totaling approximately $5.1 million.

OIG recommended that HUD implement controls to minimize abuse of the preforeclosure sale program and to ensure excessive preforeclosure sale claims are not paid. (Audit Report: **2005-LA-0001**)

Title 1 Loan Claims

HUD OIG audited Title 1 loan claims collection activity administered by HUD's Financial Operations Center, Asset Recovery Division, in **Albany, NY**. The objectives of the audit were to determine whether the Center administered its Title 1 debt collection activities (1) in compliance with applicable laws and regulations and (2) in an effective manner to provide optimal benefit to HUD. Our work covered Title 1 claim collection activity during FY 2003-2004.

While the Center was generally complying with applicable laws and regulations, there were weaknesses in controls over Title 1 debt collections. Specifically, (1) significant amounts of payments were received directly at the Center instead of at the established lock box or via electronic funds transfer; (2) adequate controls had not been established over the receipt, recording, and processing of collections at the Center; and (3) procedures for processing debt payments had not been updated.

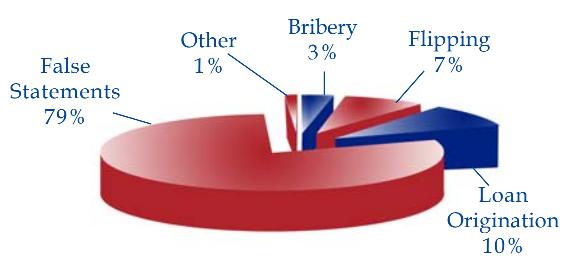
OIG recommended that the director of the Center establish and implement controls and procedures to ensure that (1) debtor payments are submitted directly to the lock box or are made via electronic funds transfer, (2) all incoming mail containing debt payments is opened at a single location within the Center and in the presence of two individuals, and (3) all payments received at the Center are properly recorded and reconciled to the lock box receipts. (Audit Report: **2005-NY-0001**)

Investigations

During this reporting period, OIG opened 110 investigation cases and closed 212 cases in the single-family housing program area. Judicial action taken on these cases during the period included $318,719,526 in investigative recoveries, $25,535,680 in funds put to better use, 236 indictments/informations, 169 convictions/pleas/pretrial diversions, 80 administrative actions, 7 civil actions, and 222 arrests.

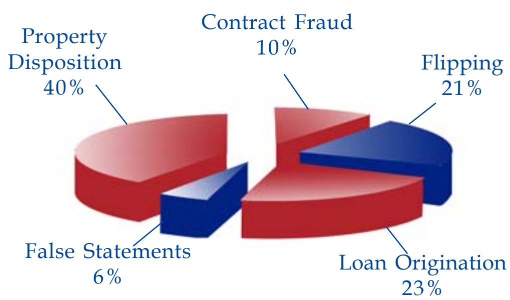
Some of the investigations discussed in this report were conducted jointly with Federal, State, and local law enforcement agencies. The results of OIG's more significant investigations are described below.

Chart 2.3: Single-Family Investigative Recoveries



Total: $318,719,526

Chart 2.4: Single-Family Funds Put to Better Use



Total: $25,535,680

Loan Origination/Property-Flipping

After a lengthy investigation, during which HUD OIG focused investigative efforts on fraud that had occurred in the origination and issuance of loans insured through the HUD 203(k) loan program, numerous search, seizure, and arrest warrants were executed; and numerous guilty pleas were entered. Defendant Beatrice Sukdeho, also known as Ahillia Surujballi, of **New York, NY**, owner of many real estate companies that flipped properties to various not-for-profits, was sentenced in Federal court to 15 months incarceration, 5 years probation, $8,913,012 in restitution, and a $300 special assessment. Sukdeho was sentenced on two separate counts of making false statements to HUD for insurance, knowing that the mortgage applicants'/not-for-profits' income and sources of money used for downpayments and closing costs were fraudulent. These HUD 203(k) loans were originated from Ryan's Express Equities and Mortgage Lending of America, both now defunct mortgage companies that were previously based out of Long Island, NY.

Three arrests were made in **Springfield, MA,** by Federal law enforcement officers following a Federal indictment. The 69-count Federal indictment charges 13 defendants with wire fraud and conspiracy to launder money in a property-flipping scheme. The remaining 10 defendants surrendered on October 5, 2005, for an initial appearance hearing. Ten of the thirteen defendants were previously indicted on September 2, 2004, in connection with this property-flipping scheme. The scheme, which included more than 70 properties in the Springfield, MA, area, involved HUD real estate owned (REO) properties purchased

3 more accused in land-flip case

By STEPHANIE BARRY
sbarry@repub.com

SPRINGFIELD – One year after 10 local men were accused of participating in a real estate fraud scheme spanning seven years and netting millions from unsophisticated buyers, three more defendants were added Wednesday.

Affordable Mortgage Co. president Lawrence V. Lynch, 53, of Wilbraham, used car salesman Edgar Corona, 27, of Springfield, and Kathryn Zepka, 57, were arrested early that morning. They face multiple counts of federal fraud and money-laundering conspiracy.

They are accused in a new, 69-count indictment unsealed in U.S. District Court Wednesday along with the original 10 defendants. Internal Revenue Service investigators said the group participated in a long-running "land-flip" scheme in which they recruited first-time buyers to purchase run-down homes.

The players – lawyers, real estate brokers, appraisers, lenders and others – nudged the buyers through a mortgage process, inventing assets and salaries and inflating the value of properties, the indictment said. They bought and sold homes in quickie transactions, making big profits and leaving the homeowner to drown in debt and default on the mortgage, according to the indictment.

The allegations in the new indictment cover dozens of properties in Greater Springfield turned over between 1995 and 2002. The indictment expands one from 2004, adding more properties, charges and $1.5 million more in fraud.

Assistant U.S. Attorney William M. Welch II said the original defendants defrauded banks, buyers and the government, which insures the mortgages, for $15 million.

Lynch owns the Wilbraham mortgage company at 2701 Boston Road. He assisted the scheme by obtaining loans for buyers and partnered with one of the original 10 defendants in a company called Tiffy Corp. to buy and sell real estate, according to the indictment.

Affordable Mortgage's Web site bears the slogan: "We can help make your dreams come true."

Please see Case, Page B2

with FHA-insured mortgages totaling more than $5,900,000. The indictment charges the defendants with 68 counts of wire fraud and one count of conspiracy to commit money laundering. Included in the indictment is forfeiture count for up to $15 million. The defendants allegedly obtained single-family properties at prices upward to 200 percent over the purchase price from HUD, using FHA mortgages.

In **Allentown, PA**, defendant Philip Garland was sentenced in U.S. District Court, Eastern District of Pennsylvania, to 18 months incarceration, to be followed by 3 years supervised release, and ordered to pay restitution to HUD of $1.5 million for losses resulting from foreclosed FHA loans. Defendant Richard Myford, a partner of Garland, was sentenced to 17 months incarceration, to be followed by 3 years supervised release, fined $3,000, and ordered to repay $850,000 to HUD. Loan officer Judy Gemmill of Allentown, PA, was convicted in U.S. District Court, Eastern District of Pennsylvania, of conspiracy and various false statements charges relating to her involvement with four other defendants in the making of at least 50 fraudulent FHA-insured mortgages in and around Lancaster, PA. Additional defendants who previously pled guilty are scheduled to be sentenced. The investigation disclosed that over a 5-year period, the defendants conspired with a real estate agent and two loan officers to sell up to 100 new homes to unqualified buyers, most of whom were unsophisticated first-time purchasers. The defendants provided the funds for the required downpayments and disguised this through the use of false letters from friends, family members, employers, charitable organizations, etc. In certain cases, they required the buyers to execute a promissory note to cover the amount of funds improperly advanced, which was never disclosed on official loan documents or at settlement, as required. Real estate agent David Herb and loan officer James Ballantyne have previously pled guilty in this case.

In **Houston, TX**, a United States Attorney indicted Lawrence Benham for his alleged role in a multi-million-dollar fraud scheme. Benham was arrested on September 9, 2005. Benham was charged with multiple criminal counts, including wire fraud, mail fraud, bank fraud, and making a monetary transaction with criminally derived property. The indictment charged that Benham conspired to obtain five fraudulent loans between July 2003 and April 2005, valued at approximately $1.5 million.

This investigation was initiated on information provided to the OIG Houston, TX, office by the Federal Bureau of Investigation (FBI). The FBI advised that Benham had allegedly conspired with several straw-borrowers to defraud mortgage companies. Benham portrayed himself as a successful investor to various women and conspired with the women to secure mortgages based on fictitious information. The fictitious information submitted with the loan applications included overstated income, inflated property appraisals, and falsification of source of downpayments. In return for the women's participation in the scheme, Benham paid each approximately $5,000.

The subsequent investigation disclosed that Benham allegedly perpetrated a mortgage fraud scheme in which he located residential properties for sale and enlisted straw-borrowers to secure fraudulent loans to purchase the properties. Benham used the straw-borrowers' true identity to repay the loans and inflated the appraised value of the properties. Benham then directed large sums of money from the transaction to himself or accounts under his control.

Defendant Cenobio Rojas was sentenced in Federal Court in **Los Angeles, CA**, to 3 years and 1 month in prison and 3 years probation, fined $1,000, and directed to pay $1,518,363 in restitution. Rojas had pled guilty on March 24, 2004, to 10 counts each of wire fraud and aiding and abetting. Rojas was the owner of Continental Termite & Investments. Rojas was involved in a flipping scheme using FHA properties that he sold to unqualified buyers at inflated prices. He also supplied the downpayment to the borrowers and utilized fraudulent documents in the loan files.

Defendant Kenneth Jenkins of **Camden, NJ**, was sentenced in United States District Court, District of New Jersey, to 30 years in prison for his conviction on conspiracy to possess and distribute a controlled substance, 30 years for wire fraud and conspiracy to commit wire fraud, 20 years for conspiracy to commit money laundering and money laundering, and 5 years for conspiracy to commit mail fraud and mail fraud. These sentences are to run concurrently. In addition, Jenkins was sentenced to 10 years of supervised release and ordered to pay a $2,400 special assessment fee. A restitution hearing was scheduled.

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. He arranged cosmetic repairs on the properties by paying his contractor in crack cocaine. He then flipped the properties at an inflated price by securing fraudulent HUD-insured loans for unsophisticated and unqualified borrowers. Jenkins, along with defendant 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.

Jenkins and his coconspirators reaped enormous profits from the sales of 26 properties, including 18 which involved HUD-insured loans. Fifteen of the eighteen HUD-insured borrowers defaulted on their loans.

As a result of his conviction, Jenkins was ordered to pay $1.6 million during a forfeiture hearing. Jenkins and his five coconspirators were indicted on October 29, 2003, as part of a 37-count indictment and arrested on October 30, 2003. Five of Jenkins' coconspirators previously pled guilty and testified against him.

Defendant Ingalls was sentenced in U.S. District Court, District of New Jersey, to 5 years in prison, 3 years supervised release, and a $100 special assessment fee for her participation in the FHA mortgage fraud scheme and drug conspiracy investigation. A restitution hearing has been scheduled. Ingalls, who was charged in a 37-count indictment, was indicted on October 29, 2003, with five coconspirators. Ingalls, who was arrested on October 30, 2003, had previously pled guilty to one count of conspiracy to commit money laundering. Ingalls and her coconspirators purchased properties, provided faulty repairs, and then sold them to unqualified borrowers. Ingalls and her coconspirators assisted the borrowers in qualifying for the HUD-insured loans by creating fraudulent documentation. This documentation included IRS W-2 forms, pay stubs, gift letters, verifications of employment (VOE), and alternate credit reference letters. Ingalls was involved in the fraudulent acquisition of 26 properties, 18 of which were HUD insured. HUD foreclosed on 15 of the 18 properties.

Defendant Walter Jenkins was sentenced in U.S. District Court, District of New Jersey, to 6 months home confinement, 5 years probation, and a $200 special assessment fee. A restitution hearing has been scheduled. Jenkins previously pled guilty in U.S. District Court, District of New Jersey, to one count of conspiracy to commit money laundering and one count of mail fraud for his participation in an FHA mortgage fraud and drug conspiracy. Since Jenkins had gainful employment, Jenkins' bank accounts were used to conceal proceeds of drug transactions, as well as income earned through the flipping of 26 properties. Jenkins and his coconspirators purchased properties, provided faulty repairs, and then sold them to unqualified borrowers. Jenkins and his coconspirators assisted the borrowers in qualifying for the HUD-insured loans by creating fraudulent documentation.

Defendant Ronald Rogers was sentenced in United States District Court, District of New Jersey, to 4 years in prison, 5 years supervised release, and a $200 special assessment. A restitution hearing has been scheduled to determine the amount of restitution. Rogers previously pled guilty in U.S. District Court, District of New Jersey, to one count of conspiracy to commit mail fraud and one count of conspiracy to commit wire fraud for his participation in an FHA mortgage fraud and drug conspiracy. Rogers and his coconspirators purchased properties, rehabilitated them, and then sold them to unqualified FHA borrowers. Rogers was paid in crack cocaine by coconspirator Kenneth Jenkins to provide minor repairs on the properties, which were later found to be substandard and of poor quality.

Defendant Thomas Harper was sentenced in U.S. District Court, District of New Jersey, to 2 years in jail, 5 years of supervised release, and a special assessment fee of $200. Harper previously pled guilty to an information charging him with one count of conspiracy to commit wire fraud and one count of possession with the intent to distribute 50 grams of crack cocaine. Harper admitted to traveling on a regular basis to New York City from the Philadelphia area to purchase and deliver large amounts of crack cocaine to Kenneth Jenkins. Harper delivered crack cocaine to Ronald Rogers, a handyman, for payment on cosmetic repairs that were performed on properties that were being flipped by Jenkins and his coconspirators. Harper and his coconspirators assisted the borrowers in qualifying for the FHA-insured loans by creating fraudulent documentation.

Finally, defendant Rita Jackson-Paulk was sentenced in U.S. District Court, District of New Jersey, to 1 day in jail, 5 years of supervised release, and a special assessment fee of $100. Jackson-Paulk earlier pled guilty to one count of wire fraud. Jackson-Paulk was arrested on October 30, 2003. Jackson-Paulk's bank accounts were used to hide the proceeds of mortgage flips and drug proceeds. Jackson-Paulk and her coconspirators purchased properties, performed minimal repairs, and then sold them to borrowers who were ineligible for an FHA mortgage. Jackson-Paulk and her coconspirators assisted the borrowers in qualifying for the FHA-insured loans by creating fraudulent documentation.

Defendant Nancy Jacobs of **Riverside, CA**, appeared in U.S. District Court for the Central District of California and was sentenced to 6 years and 5 months incarceration and 3 years probation and was required to pay restitution of $448,313. Jacobs was found guilty after a jury trial on felony charges that she had flipped more than $4 million in FHA-insured properties by utilizing a scheme in which she used six fictitious identities, purchasing 46 properties, and arranged for the escrows in which she bought and sold the properties to close the same day. Jacobs' actions resulted in an $850,000 loss to HUD.

Former Real Estate Agent Jerry L. Austin of **Washington, DC**, was sentenced in U.S. District Court, District of Columbia, for his admitted involvement in a fraudulent scheme to sell homes with FHA-insured mortgages in the Washington, DC, metropolitan area. He was incarcerated for a period of 2 years and 2 months, to be followed by 3 years supervised release, fined $40,000, and ordered to make restitution to HUD of $279,425, which represents the losses to date from the FHA insurance fund on property transactions involving the defendant. The investigation disclosed that between December 1995 and August 1999, the defendant participated as a real estate agent in at least 128 fraudulent property transactions involving FHA mortgages. He facilitated the approval of otherwise unqualified buyers by loaning them the money for the required downpayment and concealing it with fraudulent gift letters. He obtained reimbursement for these loans from the sellers, and this was concealed on the settlement statements as repairs or loan payoff. A codefendant in this case, Larry Kraft, was previously sentenced and ordered to make restitution of more than $300,000.

Defendant Anthony Cocomello of **Lake Success** and **Hollis, NY,** was sentenced to serve 9 months of home detention with electronic monitoring and 5 years probation, along with paying $239,235 in restitution. Cocomello was a licensed New York real estate appraiser arrested on charges of conspiring to submit false appraisals to HUD. He surrendered and pled guilty to loan origination fraud and was sentenced in U.S. District Court in Central Islip. Cocomello also prepared fraudulent appraisals that were included in mortgage loan applications submitted to HUD for insurance. There were more than

60 false appraisals submitted to three separate mortgage-banking institutions.

Defendant Christopher Williams of **St. Louis, MO**, husband of defendant Kimberly Crowder-Williams, signed a pretrial diversion agreement in Federal Court, U.S. District Court for the Eastern District of Missouri, in which he admitted to aiding and abetting in bank and wire fraud and agreed to pay $94,190 in restitution. Defendants Williams and Crowder-Williams, owners/operators of KRW Capital Corporation, a St. Louis mortgage brokerage business, were previously charged with a 17-count indictment of wire fraud, bank fraud, and tax evasion. Defendant Crowder-Williams used her business to flip properties by obtaining inflated appraisals and selling the properties to unqualified individuals. Defendant Williams, who assisted his wife in the illegal property-flipping scheme, agreed to use the proceeds from the sale of their $750,000 home to pay restitution. Defendant Kim Crowder-Williams, was sentenced in Federal Court, U.S. District Court for the Eastern District of Missouri, to serve 18 months in prison. Defendant Crowder-Williams previously pled guilty to tax evasion as a result of her participation in a property-flipping/ mortgage fraud scheme. Crowder-Williams admitted to evading taxes on $200,000 in income, which caused more than $590,000 in losses due to the property-flipping scheme. Defendant Crowder-Williams also owes the IRS $63,586 in back taxes due to the evasion.

Defendant Joseph Maggio of **Rochester, NY**, was sentenced to 5 years supervised release and restitution in the amount of $56,899 and ordered to pay a $100 special fine. Maggio pled guilty to one count of conspiracy to commit bank fraud. Maggio conspired to enter into a scheme to purchase homes in the Rochester, NY, area and flip them to each other for increased and inflated prices. Mortgages, to include FHA mortgages, would be obtained for the increased amount. To obtain the mortgages, false documentation was provided to the banks and mortgage companies. These false documents included false employment verifications, false earnings statements, false investment statements, and false IRS W-2 forms. After receiving the mortgage loans, these individuals would quickly default on the loans, and the properties were foreclosed upon. Maggio and others in the organization defaulted on more than $1 million in mortgage loans.

Defendant William O'Keefe of **Rochester, NY**, an investor, pled guilty to one count of filing a false loan and credit application. Previously, O'Keefe was charged by criminal complaint with one count of filing a false loan and credit application. O'Keefe, along with others, allegedly conspired to enter into a scheme to purchase homes in the Rochester, NY, area and flip them to each other for increased and inflated prices. FHA and conventional mortgages were obtained for the increased amount. To obtain the mortgages, false documentation was provided to the banks and mortgage companies. These false documents included VOEs, earnings statements, investment statements, and IRS W-2 forms. After receiving the mortgage loans, these individuals would quickly default on the loans, and the properties were foreclosed upon. O'Keefe and others in the organization defaulted on more than $1 million in mortgage loans. O'Keefe could be imprisoned for up to 30 years and ordered to pay $1 million in restitution.

In the Circuit Court of Cook County, **Chicago, IL**, Julie Fazy, a loan processor, pled guilty to three counts of identity theft and two counts of forgery. On the same day, she was sentenced to 2 years probation and was ordered to pay $45,000 in restitution.

Fazy admitted to her involvement in a mortgage scheme with her husband Tom Fazy, a loan officer, and Craig Hendricks, a loan officer, wherein they used front companies to purchase properties and then flip the properties using the stolen identities of deceased individuals as the end buyers. One of the individual identities they obtained was that of Joseph Fay, whose identity was used as a borrower for two houses, one of which was FHA insured. The other house in Fazy's name was worth approximately $400,000 and was occupied by the Fazys for approximately a year while it was going through the foreclosure process.

This total scheme on the part of the Fazys involved approximately $1 million in fraudulent loans. Craig Hendricks previously pled guilty and was confined. Tom Fazy was found shot to death in his mortgage office in December 2004.

Defendant Phillip D. Thomas of **Kansas City, MO**, pled guilty in Federal Court, Western District of Missouri, to felony charges that he conspired with others to commit wire fraud, money laundering, and conspiracy related to his role in a property-flipping scheme. Thomas and others caused real estate investors to purchase approximately 233 properties totaling $15 million, based on numerous fraudulent schemes. Thomas' coconspirators purchased inexpensive single-family properties in inner city Kansas City for which he created fraudulent property appraisals inflated by tens of thousands of dollars. The properties were then quickly sold to investors who believed they were buying the properties at true market value. Further, investors believed they were buying the properties for no money down and that renters, including those receiving Section 8 rental assistance, occupied the properties. The properties were often unrented and uninhabitable and were 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 more properties than they would otherwise be qualified to buy. The scheme resulted in significant property foreclosures and financial losses to investors and lending institutions.

Defendants Chauncey J. Calvert and Avonda L. Nicodemus of **Kansas City, MO**, former account executives of Ameriquest Mortgage, Gladstone, MO, pled guilty in U.S. District Court, Western District of Missouri, to felony charges that they conspired with others to commit interstate transportation of stolen property related to their role in a property-flipping scheme. Calvert and Nicodemus participated in numerous fraudulent schemes, causing victim real estate investors to purchase 233 properties totaling $15.6 million and 66 properties totaling $4 million, respectively. Calvert and Nicodemus' coconspirators purchased inexpensive single-family properties in inner city Kansas City and obtained property appraisals inflated by tens of thousands of dollars. The properties were then quickly sold to victim investors who believed they were buying them at true market value. Calvert and Nicodemus created falsified loan application documents, enabling investors to unknowingly purchase more properties than they would otherwise be able to buy. Further, investors believed they were buying the properties for no money down and that renters, including those receiving Section 8 rental assistance, occupied the properties. The properties were often unrented and uninhabitable and were purchased based on downpayments provided by the defendants, without the buyers' knowledge. The scheme resulted in significant property foreclosures and financial losses to investors and lending institutions.

Defendants Humberto Maravi and Aura Guzman of **Newark, NJ**, loan officers, surrendered to the U.S. Marshals Service (USMS) and appeared in U.S. District Court, District of New Jersey. Maravi and Guzman pled guilty to a one-count information charging them with knowingly and willfully conspiring with others to submit and cause to be submitted fraudulent mortgage applications to HUD. A sentencing date was set, and Maravi and Guzman were released on a $100,000 personal recognizance bond. The investigation, which concerns mortgage fraud, began with the purchase of foreclosed properties by coconspirators. These properties were flipped to unqualified buyers. Maravi and Guzman recruited the nonqualified buyers to purchase these homes. Maravi and Guzman completed fraudulent mortgage applications and facilitated the submission of fraudulent bank statements, false employment documents, false employment verifications, and false gift letters. This activity resulted in fraudulent loans valued at $4,814,936 and which to date have resulted in a loss to HUD in the amount of $1,818,510.

Defendant Naomi LaBrie of **Topeka, KS**, doing business as Rehabers, Inc., was indicted in U.S. District Court, District of Kansas, for defrauding HUD, specifically the FHA loan program. This investigation found that defendant LaBrie allegedly purchased homes, performed rehabilitation, and sold those homes to borrowers who obtained FHA-insured mortgages. LaBrie purportedly provided the downpayment funds to the borrowers and instructed the borrowers to obtain false gift letters to conceal the fact that she was providing the funds for the downpayment. A total of 22 FHA loans, totaling $1,150,965, have gone into claim status. There have also been conventional loans that went into default.

Property speculators Earl Ginter, Ronald Fruth, and David Walsh of **Harrisburg, PA,** pled guilty in Federal Court, Middle District of Pennsylvania, for their involvement in a property-flipping scheme that allegedly involved officials of Sunset Mortgage Company. The investigation disclosed that the defendants were involved in a scheme to sell at least 40 homes with FHA-insured mortgages to borrowers whom they made eligible by paying off debts and providing funds for downpayments, which they hid through the use of false gift letters. To date, $704,000 in FHA insurance claims has been paid on the foreclosed mortgages.

The United States Attorneys Office, Northern District of Illinois, Civil Division, filed a civil complaint against Gordon Nelson of **Chicago, IL**. The complaint seeks triple damages from Nelson for violation of the False Claims Act. Nelson was previously indicted in 2004 in the Northern District of Illinois by a grand jury, along with Jae Rank, Linda Martz, Alfredo Busano, and Marco Reyes, for mail fraud. Nelson's indictment stems from his alleged role in selling houses he owned to unqualified buyers by providing false loan documents, specifically gift funds and gift affidavits, to HUD to qualify these buyers for an FHA-insured mortgage.

The civil complaint alleges that beginning as early as 1996 and continuing until at least 1999, Nelson, through one of several companies he owned and operated, recruited buyers to purchase one of his homes. Nelson would then refer these buyers to Anchor Mortgage, knowing that the recruited buyer could not legitimately qualify for a mortgage. Nelson, with the assistance of others, would allegedly provide the buyer with gift funds to make it appear the buyer was receiving these funds from a friend or relative. Then, according to the complaint, Nelson and others would also instruct the buyers how to fill out the gift affidavit associated with these gift funds. As a result of these actions, Nelson and others caused Anchor Mortgage to issue loans that were insured by HUD. Subsequently, several of the buyers defaulted on their fraudulently obtained HUD loans, causing a loss to HUD in excess of $600,000.

Speculator Mazie Louise Jennings and settlement agent Kim Blackwell-Hawkins of **Baltimore, MD**, were sentenced in Federal Court, District of Maryland, for conspiracy to commit mail fraud in connection with a fraudulent flipping scheme involving FHA-insured mortgages between 1995 and 2000. Jennings was sentenced to prison for a period of 2 years, to be followed by 3 years supervised release, and ordered to repay $568,668 to HUD. Blackwell-Hawkins was ordered to serve 10 months home detention, to be followed by 3 years supervised release, and ordered to repay HUD $247,493. Investigation by OIG uncovered a scheme wherein Jennings would purchase distressed properties in and around Baltimore and resell them at inflated prices to first-time homebuyers. She created false employment, asset, and credit information for most of the buyers, who would not otherwise have qualified to purchase the homes, especially at the inflated prices. She steered the settlements to Blackwell-Hawkins, who created false settlement statements that incorrectly showed the necessary downpayment funds coming from the buyer, when in fact they were derived from Jennings as a reduction on sales proceeds due her.

Defendant Anthony Ocasio of **White Plains, NY,** was arrested in Orlando, FL, and charged with wire fraud and conspiracy to commit wire fraud for his role in a property-flipping scheme between 1998 and 2001 in the New York metropolitan area. The complaint was filed in the Southern District of New York. Ocasio allegedly bought and sold more than 10 properties and flipped those properties by preparing false and fraudulent documents, including phony gift letters, VOEs, downpayment checks, and IRS W-2 forms, to qualify homebuyers for both FHA and conventional mortgages. In one particular property flip, Ocasio sold a house that he did not legally own by preparing a phony deed and title report.

Defendant Kelly Klamen of **St. Louis, MO,** officer of K&K Investments, signed a Federal civil settlement agreement in the Eastern District of Missouri and paid $50,000. Defendant Klamen engaged in a property-flipping scheme in which he submitted false gift certifications along with other false documents to qualify purchasers for FHA loans in violation of the False Claims Act. Klamen previously paid $53,265 in court-ordered restitution as a result of a criminal conviction.

Defendant Tonya Hill of **St. Louis, MO**, a mortgage broker, Residential Building and Mortgage Resources, was indicted in Federal Court, U.S. District Court for Eastern Missouri, with five counts of fraud, to include bank fraud, misuse of a Social Security number (SSN), bankruptcy fraud, and false statements to HUD. Defendant Hill allegedly flipped properties by using false documents to secure FHA and conventional loans. She also allegedly used a false SSN to purchase the home in which she resides to enable her to hide her assets from the U.S. Bankruptcy Court. Defendant Hill allegedly caused more than $400,000 in losses, including more than $77,000 in losses to HUD.

Defendant Donald Fazio, a resident of **Smithtown, NY,** pled guilty in Federal Court to one count of conspiracy and 11 counts of money laundering of a 61-count indictment. In addition, Fazio agreed to enter into a consent order of forfeiture and a money judgment in the amount of $2.6 million.

Defendant Gary Konstantin, a resident of **Brookville, NY,** was found guilty by jury trial in Federal Court on all six-one counts of an indictment of conspiracy, wire fraud, mail fraud, money laundering, and insurance fraud. A forfeiture hearing is scheduled to determine disposition regarding the forfeiture counts of the indictment seeking monetary judgments in the amounts of $11.6 million.

Previously Fazio and Konstantin were indicted on 61 counts of conspiracy, wire fraud, mail fraud, money laundering, and insurance fraud, with forfeiture counts seeking monetary judgments in the amount of $11.6 million. Fazio and Konstantin were mortgage brokers and branch managers at a now defunct mortgage company (Brucha Mortgage Bank) and participated in a massive scheme to defraud HUD regarding its 203(k) program. Losses to HUD from this conspiracy total $11.6 million.

Defendant Barry Fauntleroy, who was the president of EON, a real estate investment company in **Newark, NJ,** pled guilty in Federal Court to count one of a seven-count Federal indictment, charging him with conspiracy to falsify documents that were submitted to HUD. Defendants Port, who is the owner of Port Abstract, a title company located in Garden City, NY, and Keith Miles, a real estate contractor and owner of the Mid-South Atlantic Asset Holding Company, each pled guilty in Federal Court, Newark, NJ, to a one-count information, charging each of them with falsification of documents that were submitted to HUD. In addition, Port executed a consent judgment for $500,000 as restitution for his involvement in this scheme, and Miles executed a consent judgement for $26,000 as restitution for his involvement in this scheme.

Previously, Fauntleroy and Devon Bowie were indicted by a Federal grand jury in the District of New Jersey and arrested. Bowie and Fauntleroy were indicted on one count of conspiracy, three counts of making false statements, and three counts of wire fraud.

Faunleroy was a real estate investor who bought and sold real property and controlled a bank account in the name of Neighborhood Holdings, LLC. He was the president of Neighborhood Mortgage Bankers Company. In addition, he controlled bank account in the name of Urban Renaissance.

Fauntleroy, Bowie, and others solicited and recruited individuals with relatively low income to buy homes in Essex County, NJ, with the promise that they could buy homes with little or no money down. They located dilapidated properties that were available for sale; showed the borrowers the properties; represented to the borrowers that they owned the properties and that they would significantly renovate and otherwise improve the properties; and then sold the properties to the borrowers at an agreed-upon price, which represented the fair market value of the properties in the significantly improved condition. They arranged for the borrowers to purchase the properties, assisting them in obtaining FHA-insured loans through Neighborhood Mortgage in the amount of the contract price by submitting a loan application and supporting documents that were false, fictitious, and fraudulent and by approving loan applications, knowing that they contained false, fictitious, and fraudulent documents and information. These mortgage loan packages were then submitted to HUD for FHA-insurance endorsement.

Fauntleroy, Bowie, and others purchased the properties at reduced prices, at times using the proceeds from FHA-insured loans obtained by the borrower, and resold the properties to the borrowers at the contract price. False appraisals on the dilapidated properties were used in the mortgage application package. These appraisals were for inflated prices and described properties that were habitable and in pristine condition.

Bowie and others obtained money by charging the borrowers high origination and discount fees, as well as high interest rates on the mortgages when the borrowers secured loans with Neighborhood Mortgage. These high interest rates made the mortgage loans appealing for resale to financial institutions.

The Star-Ledger

Broker guilty in loan fraud

Man faces 5 years in house-flip scam

Tuesday, September 20, 2005

BY TED SHERMAN

Star-Ledger Staff

Four years after the collapse of a massive mortgage scam involving run-down houses across the state, a former real estate broker pleaded guilty yesterday to helping unqualified borrowers obtain more than $2 million in government-backed loans.

Barry Fauntleroy, 40, admitted conspiring to falsify loan documents -- including fake bank statements, pay stubs, W-2 forms and employment verification letters -- to persuade the Federal Housing Administration to approve loans to people who could not afford them.

Charges are still pending against at least one other individual, Devon Bowie, 53, of Malverne, N.Y., who headed the mortgage company that financed the deals and then sold the mortgages to unsuspecting banks. Many of those loans later ended in default.

The investigation into Fauntleroy's activities began after The Star-Ledger documented the purchase of distressed properties in Newark, East Orange, Irvington and elsewhere that were then quickly resold at dramatically higher prices -- a tactic known as "flipping."

While flipping is not illegal, the values of most of the properties were over-inflated by appraisers tied to the real estate operation, some of whom have since lost their state licenses. Potential buyers also were promised fully renovated houses that in many cases received little more than paint and new siding, authorities charges.

Fauntleroy, formerly of Mendham, was the president of EON Institute Inc., a real estate holding company that bought houses -- often through tax sales or foreclosures -- and then resold them at double or triple the original price, sometimes on the same day, after promising major renovations that investigators said were never made.

This article has been shortened. Complete version is available at http://www.nj.com/archives.

They obtained their illegal proceeds by directing the proceeds from the sale of a property to a borrower at the closing, to be transferred to bank accounts controlled by Fauntleroy and Bowie, including Neighborhood Holdings, EON, and Urban Renaissance, and to individuals with whom Fauntleroy and Bowier maintained a personal relationship.

This illegal activity represented approximately $14 million dollars in insured mortgage loans, of which 103 loans went into default and 54 properties had to be foreclosed on with a potential loss to HUD in excess of $3 million.

On May 26, 2005, Bowie, Fauntleroy, Stacie Morrero, an underwriter, and Sean Mason, a closing attorney, were indicted on State charges of conspiracy and theft by deception involving $1.2 million in fraudulent mortgage loans. The State of New Jersey unsealed these indictments a week later in coordination with the Federal indictment. On July 13, 2005, Norm Murphy was arrested and pled guilty to a New Jersey State accusation for knowingly engaging in the unauthorized practice of law. Murphy, the president and chief operator of Garden State Searches, a licensed title company, provided title work and services as a closing agent relating to properties associated in this scheme.

Contractors Brad Marks and Edwin Rivera of **Philadelphia, PA**, doing business as Quality Home Remodeling and Millenium Homes, Inc., among other names, were charged in Federal Court, Eastern District of Pennsylvania, with defrauding homeowners in both HUD-assisted Title I and conventional home improvement programs. OIG investigation disclosed that the defendants allegedly solicited homeowners of Latino background for Title I and conventional home improvement loans. Although they were paid in full by the homeowners from loan proceeds, they failed to complete repairs and/or performed shoddy work in more than 100 cases, resulting in losses of at least $200,000 to the homeowners.

Conspiracy and False Statements

Defendant Gabriel Pugliese of **Los Angeles, CA**, was sentenced in Federal District Court, Central District of California, to pay $1,984,264 in restitution and a special assessment fee of $300. Defendant Monica D'Angelo of **Los Angeles, CA**, was sentenced in Federal District Court, Central District of California, to pay $1,984,264 in restitution and a special assessment fee of $300. D'Angeleo was also ordered to serve 1 year of probation and 6 months of home detention. Pugliese will be held jointly responsible for the restitution amount along with his coconspirators, Noemi Pugliese and Monica D'Angelo. Gabriel Pugliese was also ordered to serve 1 year of probation and 4 months of home detention. Gabriel Pugliese pled guilty to a three-count information on December 1, 2000, which charged him with conspiracy and two counts of mail fraud. Gabriel Pugliese, along with his coconspirators, Noemi and Monica D'Angelo, operated April 8 Realty. The investigation, which included a consent search of April 8 Realty, revealed that 150 real estate professionals obtained forged employment and income documents from April 8 Realty to make ineligible applicants appear qualified for HUD/FHA-insured loans. The real estate professionals then caused the false documents to be submitted to HUD. Many real estate investors used fraudulent documents to illegally flip properties that were insured by FHA. Based upon false information, HUD insured more than 1,200 FHA loans.

Noemi Pugliese was also sentenced in Federal District Court, Central District of California, and is to pay $1,984,264 in restitution and a special assessment fee of $300. Noemi Pugliese will be held jointly responsible for the restitution amount along with her coconspirators. She was also ordered to serve 1 year of probation and 4 months of home detention. Noemi Pugliese pled guilty to a three-count information on December 1, 2000, which charged her with conspiracy and mail fraud.

Defendant Frank P. Acosta of **Los Angeles, CA,** appeared in Federal Court for the Central District of California and was sentenced to serve 5 years incarceration and pay $1.3 million in restitution. Defendant Acosta and coconspirators were involved in a scheme in which FHA-insured loans were approved for both unqualified and straw-buyers. Some of the straw-buyers included teenagers who played on a junior college baseball team coached by one of the coconspirators. The jury found Acosta guilty on 21 counts. Acosta's wife Elizabeth Madrigal, who was also involved in this scheme, pled guilty in 2003 to one charge each of wire fraud, conspiracy, and money laundering, and she is currently serving a 3-year, 4-month Federal sentence. The total estimated loss to HUD in this case is $1.5 million.

Defendant Gerard Current of **Los Angeles, CA**, appeared in Federal Court for the Central District of California and was sentenced to 2 years probation and ordered to pay $510,708 in restitution as a result of his previous conviction of wire fraud, conspiracy, and money laundering. Fernando Garcia, also a defendant in this case, was sentenced to 2 years probation and ordered to pay $249,278 in restitution, also for wire fraud, conspiracy, and money laundering. Defendants Current, Garcia, and their 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 the coconspirators. Frank Acosta, another coconspirator, was recently found guilty on 21 counts. Sentencing for Acosta was scheduled. Acosta's wife, Elizabeth Madrigal, who was also involved in this scheme, pled guilty in 2003 to one charge each of wire fraud, conspiracy, and money laundering, and she is currently serving a 3-year, 4-month Federal sentence. The total estimated loss to HUD in this case is $1.5 million.

In Federal Court for the District of Columbia, former real estate appraiser Esther Story Harper of **Washington, DC**, was sentenced to 4 months incarceration and 4 months of home detention, to be followed by 3 years of supervised release. Additionally, Harper was ordered to pay restitution in the amount of $1,042,156 to HUD and commercial lenders and was fined $100. On April 3, 2002, Harper pled guilty to a two-count criminal information charging conspiracy to commit crimes against the United States and causing an act to be done. Between 1994 and 1998, Harper was a licensed real estate appraiser in the District of Columbia and the State of Maryland. During that time, Harper conspired with Oluritimi Padanu and Sarafa Kareem (loan officers with Allstate Funding and Federal Home Funding), Wilbert Brodie (an investor), Akin Akinkoye, Dorothy Quigley, and John Quigley (realtors), and other real estate professionals. Harper's coconspirators would request her to appraise properties located in the District of Columbia and State of Maryland and to greatly inflate the current value of the property. Harper's appraisals dramatically inflated the current value of the properties. To support the inflated valuation figure in the appraisal report, Harper would falsely reflect the true condition of the property (often indicating that the property had been renovated when it had not), would falsify the true current owner of the property, and would use false comparables. A majority of the properties appraised by Harper were part of flip transactions.

Defendant Akintunde Akinmurele of **Washington, DC**, a certified public accountant, was sentenced in Federal Court, District of Columbia, to 5 years probation and 300 hours of community service and ordered to make restitution to HUD totaling $747,546 for his admitted role in a scheme to provide false documentation on behalf of purchasers of homes with FHA-insured mortgages. The amount of restitution represents the losses to date from the FHA insurance fund based on transactions involving the defendant. The investigation disclosed that Akinmurele provided false pay statements, IRS W-2 forms, and Federal tax returns on behalf of at least 40 FHA purchasers.

In Federal Court for the Central District of California, defendant Joseph Fierro of **Los Angeles, CA**, was sentenced to 18 months imprisonment and 3 years supervised release and was ordered to pay $415,265 in restitution to HUD. Additionally, Defendant Jarreth Solomon was sentenced to 3 months imprisonment and 3 years supervised release and was ordered to pay $269,524 in restitution to HUD. Both Fierro and Solomon had previously pled guilty to making false statements and aiding and abetting charges. This investigation began after HUD OIG and the IRS received allegations that seven real estate professionals, including Fierro and Solomon, were involved in producing false statements to HUD by assisting unqualified borrowers to obtain FHA-insured home loan mortgages. In addition to providing downpayment gift funds for buyers whom they represented, Fierro and Solomon contacted forgers to prepare false/fabricated income and credit-related documentation. In some cases, Fierro and Solomon would fraudulently notarize the identities of nonexistent borrowers and then use the false documents to prepare fraudulent FHA-insured home loan mortgage applications. Approximately 62 of the 91 properties sold by the conspirators went into claims, and the loss to HUD is approximately $4.7 million.

Defendant Frank Pepe of **Trenton, NJ**, was sentenced in U.S. District Court, District of New Jersey, to 2 years in prison, 3 years probation, restitution of $130,495, a $6,000 fine, and a $300 special assessment fee. On October 15, 2004, Pepe, 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 submit false statements. Pepe purchased approximately 31 properties under the names of his companies and proceeded to flip the properties to borrowers. Contrary to HUD regulations, he also appraised these properties. Pepe conspired with defendant Kim Sammartanto, branch manager/loan officer, American Home Loans, to create and submit fraudulent documentation, which assisted the borrowers in obtaining the FHA mortgages. Sammartano pled guilty to conspiracy to submit false statements. Sammartano and Pepe admitted to knowingly and willingly creating and submitting fraudulent IRS W-2 forms, pay stubs, false VOEs, false verifications of rent (VOR), 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 (USDA) loans with a value of $2,473,744. Pepe is scheduled to voluntarily surrender.

Defendant Daryl Collins of **Denver, CO**, a home buyer who purchased a home that was insured through the FHA 203(b) insurance program, was arrested in connection to his earlier indictment in February 2005 for violations of the United States Code relating to the misuse of an SSN, making false statements, and aiding and abetting. Defendant Collins was one of many subjects who allegedly utilized false information on their mortgage applications when they applied for the loans that were ultimately insured through FHA. The indictment and subsequent arrest of defendant Collins were related to a larger real estate scheme involving a group of realtors and loan officers who assisted unqualified homebuyers in obtaining mortgage financing that they were not eligible to receive. To date, this real estate scheme involves approximately 90 homes with an approximate FHA-insured loan value of $13.5 million. Currently, this real estate fraud scheme has resulted in a $2,310,030 loss to the FHA insurance fund.

Defendant Watik Aleem of **Denver, CO**, a homebuyer who purchased a property insured through the FHA 203(b) insurance program, was sentenced in the U.S. District Court for the District of Colorado, to 5 years probation and ordered to pay restitution in the amount of $75,551 to HUD and a special assessment fee of $25. Defendant Aleem previously pled guilty to one count of making false statements to HUD.

Defendant Aleem was one of many subjects who participated in a larger real estate scheme involving a group of realtors and loan officers who assisted unqualified homebuyers in obtaining mortgage financing that they were not eligible to receive. To date, this particular real estate scheme involves approximately 90 homes with an approximate FHA-insured loan value of $13,500,000. Currently, this real estate fraud scheme has resulted in a $2,310,030 loss to the FHA insurance fund.

In the Northern District of Illinois, defendant Deborah Bankhead, also known as Deborah Thompson of **Chicago, IL**, was sentenced to 4 years probation, 300 hours of community service, and $119,000 in restitution to HUD. Bankhead was responsible for having fraudulently provided a false name and a false SSN on her Chapter 13 petition for bankruptcy. She also fraudulently obtained two FHA-insured properties by providing a false SSN and false financial information on the loan applications and then failing to make her mortgage payments. Bankhead then repeatedly filed false and fraudulent bankruptcy petitions from 1997 to 2001, thus obtaining the benefits of the automatic stay of collection proceedings by her creditors. Bankhead filed these false bankruptcy petitions, knowing that she would continue to conceal property from her creditors and would not complete the requirements for repayment under the bankruptcy plan. This was done for the purpose of defrauding and obtaining money and property from HUD, financial institutions, creditors, and the bankruptcy trustee. Bankhead ultimately defaulted on these two properties, resulting in a loss to HUD of approximately $119,230.

Defendant Paola Garcia of **Dallas, TX,** was sentenced in the northern district of Texas to 15 months incarceration, 3 years supervised release, and $200 in court costs and ordered to pay restitution of $40,397. Garcia was found guilty of making false statements.

Garcia purchased a residence in the Ft. Worth area and received FHA insurance by falsifying her SSN. Garcia then defaulted on the loan, and HUD sustained a loss of $40,497.

Real estate agent Joy King of **Norfolk, VA**, pled guilty in Federal Court, Eastern District of Virginia, to making a false declaration in a bankruptcy case. The investigation disclosed that King participated in at least seven property transactions involving FHA-insured mortgages in which false information pertaining to buyers' employment, credit, and SSNs was provided to make them eligible. Further, she filed for personal bankruptcy and significantly underreported her assets on official declarations. As part of her guilty plea, she has agreed to make a lump sum restitution of $39,820 to HUD, which represents the net loss to the Department on the seven mortgages.

Defendant Sean Teelucksingh of **Tampa, FL**, a loan officer with Maxwell Mortgage, pled guilty in U.S. District Court, Middle District of Florida, to one count of conspiracy to commit wire fraud and false statements to HUD. Teelucksingh coconspired with Belinda Richmond and other employees of Maxwell Mortgage, an FHA-approved lender, in making false statements to obtain FHA-insured mortgages. Richmond resided in one of the FHA-insured properties and profited in the scheme from serving as a straw-purchaser. The subjects purchased eight properties, using unsuspecting clients who were unaware their names had been used to purchase these properties. Teelucksingh and Richmond falsified employment and income verifications and originated a total of $1.2 million in fraudulent loans.

Defendants William Broglan, Billy Edwards, Larry Gray, Sandra Gray, and Steven Swindall of **Huntsville, AL**, were indicted in U.S. District Court, Northern District of Alabama, on conspiracy and making false statements to HUD. The subjects allegedly coconspired with one another in a property-flipping scheme by purchasing nine HUD REO properties, certifying to HUD that the properties would be owner occupied, and flipping the properties for investments by using straw-buyers. HUD suffered a "loss on sale" totaling $771,440 as a result of their scheme.

Defendants Ali Abdul Karim Farhat, Amira Ali Farhat, Abdulamir Berro, Abudl Karim Akram Berro, Sami Ahmad Berro, and Lina Reda—also known as Lina Berro were charged in the Eastern District of **Detroit, MI**, with four counts of making false statements. Ali Abdul Karim Farhat, Abdulamir Berro, and Sami Ahmad Berro were the borrowers, who secured FHA insurance on three single family properties totaling $368,000 by supplying multiple fraudulent employment documents. Amira Ali Farhat, Abdul Karim Akram Berro, and Lina Berro allegedly provided "backstopping" in the form of false income verification as bogus employers for the borrowers, who purchased the properties in the Detroit metropolitan area. One of the FHA-insured properties defaulted, resulting in a claim paid by HUD.

Defendant Horace Smith of **Las Vegas, NV**, a former loan officer at Mortgage Capital Resources, had his supervised release revoked by Judge Hicks in the District of Nevada, following testimony regarding Smith's current involvement in fraudulent real estate transactions. Smith was sentenced to serve an additional 18 months of incarceration, followed by 18 months of supervised release, and ordered not to engage in any real estate transactions. Smith was arrested for violating his probation. This investigation revealed that Smith was obtaining properties in the names of his wife and mother-in-law using fraudulent pay stubs and tax returns. He was released from jail in February 2005 and within a month was engaging once again in fraudulent transactions. In October 2003, Smith was sentenced in the District of Nevada to 37 months incarceration, 3 years of supervised release, and a $200 special assessment and ordered to pay restitution in the amount of $349,103. Smith was sentenced on conspiracy to commit mortgage fraud, making false statements to HUD, and aiding and abetting. Smith helped provide false income and employment information to borrowers to obtain FHA loans to purchase single-family properties. The previous investigation involved 32 FHA loans and 19 conventional loans valued at more than $6 million. Eighteen FHA loans valued at $1.9 million went into default with a loss to HUD of $533,294.

A State of Illinois grand jury in Cook County indicted defendant De Evelyn Hendriks of **Chicago, IL,** also known as Dorothy Evelyn Hendricks, Susan Dina Hendricks, and Dina H. Pirie, on four counts of forgery. Hendriks is alleged to have fraudulently provided a false name and a false SSN on a loan application and a 1099R (substitute Form W-2 tax statement) to obtain an FHA-insured property in 1996. It is further alleged that, to obtain this FHA-insured property, Hendriks also signed a HUD-1 settlement statement, which falsely reflected that Hendriks had provided $1,800 in earnest money, and a fraudulent gift letter, which falsely showed that Hendriks received $3,000 in gift monies from a family member. After obtaining her FHA-insured property, Hendriks failed to make her mortgage payments and then purportedly filed two false and fraudulent bankruptcy petitions in 1998, thus obtaining the benefits of the automatic stay of collection proceedings by her creditors. Hendriks ultimately defaulted on this property, resulting in a loss to HUD of approximately $40,410.

Hendriks, using different aliases and different SSNs, allegedly committed similar loan fraud schemes in 1989 and 1991 to obtain two other FHA-insured properties.

Defendant Richard Doty of **Tampa, FL**, pled guilty in U.S. District Court, Middle District of Florida, to conspiracy and accessory after the fact. Doty, a licensed attorney in Philadelphia, assisted coconspirators to elude apprehension/punishment for committing offenses against HUD and financial lenders. Doty assisted in the facilitation and execution of the subjects' escape to Mexico and then Belize. The subjects were under investigation for defrauding HUD FHA and Government National Mortgage Association (GNMA) programs of $50 million and GNMA Financial Warehouse Lenders of $70 million, as well as money laundering offenses.

Defendants Thomas Bowman and Carlos Carranza of **Ft. Lauderdale, FL**, pled guilty to one count of conspiracy to commit mail fraud in connection with a HUD FHA-insured loan. Bowman, a licensed mortgage broker for Blue Chip Mortgage Lending Services, Inc., an FHA-approved loan correspondent, falsified loan applications and gift letters to procure mortgage financing for unqualified borrowers. Carranza, a licensed real estate broker, conspired with Bowman by referring the unqualified buyers to Bowman to obtain mortgage financing. Bowman and Carranza were indicted**.** The indictment charged the conspiracy in connection with two loan files, one FHA-insured and one conventional loan. The FHA-insured property was conveyed to HUD and resold for a loss to HUD of $6,083.

Patricia Cuthrell of **Norfolk, VA**, was charged in Federal Court, Eastern District of Virginia, with making false statements to HUD, fraudulent use of an SSN, and making false declarations in connection with an application for bankruptcy protection. The investigation disclosed that the defendant allegedly used an SSN assigned to another individual to obtain a driver's license, bank account, and credit card all under a false identity. She then allegedly used the false identity along with false employment and asset information to purchase both an automobile and a home with an FHA-insured mortgage. She defaulted after making two payments on the mortgage and attempted to forestall foreclosure by filing for Federal bankruptcy protection using the false identity. HUD eventually paid a claim of $132,000 to the lender upon adjudication of the foreclosure.

Defendant Ahillia Ramotar, an unlicensed real estate broker and owner of Tri-Metro Realty, was sentenced to 15 months incarceration and 5 years probation and ordered to pay $9,000,000 in restitution and a $300 special assessment. She previously pled guilty in U.S. District Court, Eastern District of **New York, NY**, on two violations of making false statements to HUD. Ramotar was sentenced on two separate counts of systematically using straw-buyers, not-for-profits, and several mortgage companies to purchase and/or pass through 324 properties that were ultimately insured by FHA for $60,619,334. The FHA 203(b) program insured 126 of these properties, while another 198 properties were insured under the FHA 203(k) program.

Defendant Sandra Ruiz of **Los Angeles, CA**, appeared in Federal District Court in the Central District of California and was sentenced to 27 months incarceration and 3 years supervised release and ordered to pay restitution of $902,615 for Federal conspiracy and false statement violations with regard to an FHA loan origination scheme. The investigation found that from 1995 to 1999, Ruiz, a loan officer at North American Mortgage Corporation, was complicit in forwarding fraudulent FHA-insured loans for unqualified borrowers, thus defrauding the HUD single-family program. Ruiz utilized forgers to fabricate false income, employment, and credit-related documents. Ruiz's involvement in the scheme led to her unlawfully originating more than 20 FHA-insured loans, which resulted in an approximate loss of $800,000 to HUD.

Defendants Mark Arkenau and Bradley A. White of **Indianapolis, IN**, were both sentenced in U.S. District Court for the Southern District of Indiana. White was the president of Regal Mortgage, who also acted as a loan officer. White previously pled guilty to making false statements to HUD, while Arkenau, a loan officer with Regal, earlier pled guilty to making false statements to HUD.

White was sentenced to 5 months in Federal custody and 5 months home confinement, as well as 3 years probation, restitution to HUD totaling $84,000, and a fine of $169,000. Arkenau was sentenced to 2 years probation, 6 months home detention, $38,000 in restitution to HUD, and a $2,000 fine. Both Arkenau and White accepted responsibility for having falsified borrower information on FHA-insured loan applications, such as IRS W-2 forms and VOEs, in order for the borrowers to qualify for the loans. In addition, White created fictitious companies and was able to secretly obtain portions of sales proceeds from the fraudulent deals, which in turn kicked back cash to Arkenau. The total amount of loans attributed to Arkenau and White exceeded $1.7 million, while HUD's total loss was $850,000.

Defendant Arlene Lacey of the **U.S. Eastern District Court of NY, Central Islip,** a closing attorney working with American International Mortgage Bankers (AIMB) in Lake Success, was sentenced to 6 months incarceration and 3 years probation and required to pay a court-ordered restitution of $256,000. Lacey pled guilty to conspiracy and making false statements. Lacey helped American International Mortgage Bankers in ensuring that questionable homebuyers located in the New York metropolitan area, including Nassau and Suffolk Counties, would qualify for the purchase of an FHA-insured property. 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, VORs, VOEs, verifications of deposit, credit worthiness letters, gift letters, and credit reports.

Defendant Matthew Francis of **New York, NY**, former loan officer with AIMB in Lake Success, NY, pled guilty in U.S. District Court for the Eastern District of New York to making false statements. Francis helped AIMB in ensuring that questionable homebuyers located in the New York metropolitan area, including Nassau and Suffolk Counties, would qualify for FHA-insured loans. 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, VORs, VOEs and deposit slips, credit worthiness letters, gift letters, and credit reports.

In **Denver, CO,** U.S. District Court for the District of Colorado, defendant Julius Muhammad, a homebuyer who purchased numerous properties insured through the FHA 203(b) insurance program was sentenced to 5 years probation and ordered to pay restitution in the amount of $74,436 to HUD and a special assessment fee of $25. Defendant Muhammad previously pled guilty to making false statements to HUD in relation to obtaining three FHA-insured loans with a combined loan value of approximately $450,000 using false SSNs as well as false income documents.

Defendant Gail Henderson of **Denver, CO**, a homebuyer who purchased an FHA-insured property utilizing fraudulent documents and a false SSN pled guilty in U.S. District Court for the District of Colorado to a one-count violation of making a false statement to HUD with intent to defraud. Defendant Randal Jones, a homebuyer who also purchased a home that was insured through the FHA 203(b) insurance program utilizing a false SSN and income information, pled guilty in Federal Court for the District of Colorado to making false statements to HUD. Defendant Jones's plea, which was the conclusion to an earlier indictment and arrest, resulted in the defendant being sentenced to 5 years probation and ordered to pay restitution in the amount of $51,533 and a special assessment fee of $25.

Defendant Dwayne Vandyke, a homebuyer who purchased a home that was insured through the FHA 203(b) insurance program utilizing a false SSN and income information, pled guilty in Federal Court for the District of Colorado to making false statements to HUD. Defendant Vandyke's plea was the conclusion to an earlier indictment and arrest. Defendant Denisha Walker, a homebuyer who also purchased a home that was insured through the FHA 203(b) insurance program utilizing a false SSN and income information, also pled guilty in Federal Court for the District of Colorado to making false statements to HUD. Defendant Walker's plea, which was the conclusion to an earlier indictment and arrest, resulted in the defendant being sentenced to 2 years probation and ordered to pay a fine of $250 and a special assessment fee of $25. Defendants Jones, Henderson, Vandyke, and Walker were four of many subjects who participated in a larger real estate scheme involving a group of realtors and loan officers who assisted unqualified homebuyers in obtaining mortgage financing that they were not eligible to receive. To date, this real estate scheme involves approximately 90 homes with an approximate FHA-insured loan value of $13 million. Currently, this real estate fraud scheme has resulted in a $2,310,030 loss to the FHA insurance fund.

Defendant Sheila Lockett and of **Denver, CO**, homebuyer who purchased a home that was insured through the FHA 203(b) insurance program, was arrested in connection to her earlier indictment for violations of the United States Code relating to the misuse of an SSN, making false statements, and aiding and abetting. Defendant Lockett was one of many subjects who utilized false information on their mortgage applications when they applied for loans that were ultimately insured through the FHA loan program. The indictment and subsequent arrest of defendant Lockett were related to a larger real estate scheme involving a group of realtors and loan officers who assisted unqualified homebuyers in obtaining mortgage financing that they were not eligible to receive.

Defendants Sebastian Scott, Wendy Wilkins, and Qunell Jefferson, who also purchased homes that were insured through the FHA 203 (b) insurance program utilizing a false SSN and income information, pled guilty in Federal Court for the District of Colorado to making false statements to HUD. Defendants Wilkins, Scott, and Jefferson were three of many subjects who participated in a larger real estate scheme involving a group of realtors and loan officers who assisted unqualified homebuyers in obtaining mortgage financing that they were not eligible to receive. To date, this real estate scheme involves approximately 90 homes with an approximate FHA-insured loan value of $13,500,000. Currently, this real estate scheme has resulted in a $2,310,030 loss to the FHA insurance fund.

Defendants Christopher Santarsiero and Jeff Smith, Green Castle Realty, **Newark, NJ**, pled guilty to an information in U.S. District Court, District of New Jersey, charging them each with one count of conspiracy to commit false statements. Santarsiero and Smith conspired with David Cobianchi, loan officer, U.S. Mortgage, to create and submit fraudulent documentation, which assisted unqualified borrowers in obtaining FHA mortgages. This fraudulent documentation included IRS W-2 forms, pay stubs, credit reports, gift letters, VORs, and VOEs. Smith and Santarseiro were associated with approximately six fraudulent FHA mortgages that resulted in a net loss of approximately $320,000 to HUD. Cobianchi signed a plea agreement and formally pled guilty in U.S. District Court, District of New Jersey. Cobianchi is associated with approximately 14 fraudulent FHA mortgages that have resulted in a net loss of $310,000 to HUD.

In the Northern District of Illinois, Eastern Division, a Federal grand jury returned a 61-count indictment against defendants Douglas Hastings, Philip Miskimon, Edward Martins, Price Brooks, Akia Sanders, Dale Nelson, Chad Nicks, Shawn Flemeing, Todd Ernst, Jeffrey Meyer, Tasha Barnes, and Julie Smith of **Rockford, IL**, for conspiracy to defraud the United States, making false statements, and making false statements to HUD. According to the indictment, Hastings, Miskimon and Martins, while acting as sellers/investors, conspired to defraud HUD through the FHA-insured loan program by purchasing properties at a low price, making cosmetic repairs to the property, paying recruiters to find new buyers, and reselling the properties at a much higher price. To complete the scheme, the indictment alleged that defendants prepared false loan documents to be placed into the loan file so as to make it appear that the buyer was qualified for an FHA-insured loan when the buyer was not qualified for financing.

Other defendants, specifically Price Brooks of Brooks Detail Shop and Todd Ernst of Ernst Roofing, would allegedly assist in this conspiracy by creating, altering, or signing false documents such as VOEs and pay stubs, while others, Julie Smith of Eucker Insurance, Chad Nicks of Verizon Wireless, Jeffrey Meyer of Meyer Insurance, and Dale Nelson of AMD Sales, allegedly used their private insurance, computer, and cell phone companies to create fictitious credit letters and credit histories. The remaining defendants, Tasha Barnes, Akia Sanders, and Shawn Fleming, acted as straw-buyers, phony gift donors, or straw-sellers to originate the fraudulent loans. Many of these individuals would be paid cash from the sellers for their role in the scheme or would be promised future business if they continued to create the fraudulent paperwork. The estimated loss to HUD at this point in the investigation is $1.5 million. This case involved a total of 57 alleged fraudulent loans with 48 insured by HUD.

Following the 61-count indictment of 12 individuals for conspiracy to defraud the United States, making false statements, and making false statements to HUD, three additional informations were filed in United States District Court, Northern District of Illinois, Western Division. These informations were followed by guilty pleas from defendants Adam L. Ernst, Brian A. Fox, and Alexandrea M. Ellis of **Rockford, IL**, for making a false statement to HUD.

Defendant Adam L. Ernst pled guilty to his role in being a straw-buyer for an FHA-insured property, wherein, he received $5,000 in cash for indicating that he would occupy the residence when he had no intention to honor any of the loan's commitments.

Defendant Brian A. Fox, a realtor, pled guilty to providing false VOR documents. Fox would falsely certify that he owned a property and that he collected rent on a timely basis from various mortgagors when he neither owned the property nor collected rental payments.

Finally, defendant Alexandrea M. Ellis pled guilty to her role in being a straw-buyer for an FHA-insured property, wherein she assumed the identity of another person to qualify for the loan. Further, she provided a false employment and rental history to originate the loan.

Defendants Jesus Bernal-Hernandez and Salvador Bernal Hernandez of **Salt Lake City, UT**, were indicted by a Federal grand jury in the District of Utah on one count of making false statements, two counts of misuse of an SSN, one count of false bankruptcy declaration, and one count of false bankruptcy documents. The defendants allegedly submitted voluntary petitions, Form B1, to the Bankruptcy Court for the District of Utah after signing the forms under a penalty clause. The defendants, who purchased homes insured through the FHA 203(b) insurance program in May 2001 utilizing fraudulent SSNs, assumed the identity of third parties when they filed their bankruptcy petitions. The loss to the FHA insurance fund is $123,068.

Defendants Sergio Lopez Hernandez, Porfiria Ceron, Luis A. Caldera, and Armando Caldera, Sr., of **Kansas City, KS**, FHA-insured single-family mortgagors, were sentenced in U.S. District Court for the District of Kansas as a result of pleading guilty to providing a false statement in applying for an FHA-insured loan. Defendants Hernandez and Ceron received 2 years probation, and Caldera and Caldera, Sr., received a 1-year probation. These defendants are four of several mortgagors identified in an investigation that was initiated after it was reported that 49 FHA-insured loans were obtained fraudulently by undocumented aliens utilizing false SSNs and alien registration cards.

Defendant Patricia Cuthrell of **Norfolk, VA**, pled guilty in Federal Court, Eastern District of Virginia, to making false statements in connection with an FHA transaction and an application for bankruptcy. The investigation disclosed that the defendant created a false identity, including a false SSN and false employment and asset information, to purchase a home with an FHA-insured mortgage. After she defaulted on the mortgage, she used the same false identity to file for bankruptcy protection. The HUD loss resulting from the foreclosed mortgage is $132,000.

Defendant Maria Carmen Garcia of **Phoenix, AZ**, pled guilty in U.S. District Court, District of Arizona, to the charge of submitting false statements to HUD in connection with the FHA single-family home loan program. Defendant Garcia, a loan officer, and her brother, realtor Leonel Estrella, were indicted by a Federal grand jury on charges of conspiracy and submission of false statements to HUD. The investigation found that the defendants submitted falsified wage documents and SSN information to HUD to obtain FHA-insured home loans for their mutual clients. A total of 14 FHA-insured home loans, with insured mortgages totaling $1.58 million, were involved in the scheme. Five of these FHA-insured home loans foreclosed, which resulted in a loss to HUD of $140,310.

A second superseding indictment was filed on Paul and William Peterson of **Los Angeles, CA**, in the Central District of California. Paul and William Peterson 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 allegedly conspired and agreed to make false, fictitious, and fraudulent statements to HUD. Both were charged with one count of conspiracy, one count of making false statements, and aiding and abetting. The approximate amount involved is a $1,123,030 loss to HUD.

Defendant Leonel Estrella of **Phoenix, AZ**, pled guilty in U.S. District Court, District of Arizona, to the charge of submitting false statements to HUD in connection with the FHA single-family home loan program. Defendant Estrella, a real estate agent, and his sister, defendant Maria Carmen Garcia, a loan officer, were indicted by a Federal grand jury on the charges of conspiracy and submission of false statements to HUD. The grand jury further indicted defendant Estrella on three counts of bank fraud. This investigation found that the defendants submitted falsified wage documents and SSN information to HUD to obtain FHA-insured home loans for their mutual clients. Investigation further disclosed that Estrella created false wage documents for other clients, which were used to obtain conventional home loans from commercial lenders. A total of 14 FHA-insured home loans with insured mortgages totaling $1.58 million and 14 conventional home loans with mortgages totaling $1.74 million were involved in the scheme. Five of the FHA-insured home loans foreclosed, which resulted in a loss to HUD of $140,310.

Mail Fraud, Wire Fraud, and Money Laundering

Defendant Javier Salazar of **Los Angeles, CA**, appeared in U.S. District Court for the Central District of California and was sentenced to 3 months incarceration and 3 years probation and ordered to pay restitution of $953,242 for two counts of wire fraud. Salazar was previously indicted in September 29, 2002, for having purchased fraudulent documents through convicted forger Maggie Cuevas, including the documents in loan files, and then submitting the documents to a HUD FHA-approved lender. The loans valued at $4,731,045 subsequently went into default, which resulted in foreclosures.

Defendant Anthony Hernandez of **Los Angeles, CA**, appeared in U.S. District Court for the Central District of California and was sentenced to 6 months incarceration and 3 years probation and ordered to pay restitution of $354,861 for one count of wire fraud. Hernandez was previously indicted in June 25, 2003, for having purchased fraudulent documents through convicted forger Maggie Cuevas and then including the documents in loan files and submitting the documents to a HUD FHA-approved lender. The loans valued at $1,025,744 subsequently went into default, which resulted in foreclosures.

Defendant John Garitta of **San Diego, CA**, former chief financial officer of PinnFund U.S.A., Inc., was sentenced to 4 years imprisonment and 5 years supervised release and ordered to pay restitution of $241,233,189. On August 23, 2002, Garitta pled guilty to a Federal information charging him with conspiracy, wire fraud, money laundering conspiracy, income tax evasion, false entry with intent to defraud HUD, and aiding and abetting. The information alleged that Garitta, with intent to deceive an officer, auditor, examiner, or agent of HUD, knowingly made a false entry in the PinnFund's financial statements to HUD.

PinnFund was a sub-prime-lender and a HUD-approved direct endorsement lender. Garitta and 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, PinnFund gave investors money contributed by new investors and falsely represented to them that these funds were earnings or returns on capital.

Defendant Phillip Cohn of **East St. Louis, MO**, a real estate developer, was sentenced in Federal Court for the Southern District of Illinois to serve 5 years probation and ordered to pay $347,200 in restitution. Defendant Cohn previously pled guilty to mail fraud, money laundering, and violating the Environmental Clean Air Act. Defendant Cohn was previously indicted on 20 counts that included three counts of mail fraud, 11 counts of money laundering, three counts of bank fraud, one count of wire fraud, and two counts of environmental crimes. Defendant Cohn admitted to creating false invoices and falsely endorsing checks to obtain portions of $1 million that was placed in escrow for the environmental cleanup of an East St. Louis school property. Defendant Cohn also admitted obtaining more than $620,000 in loans using the environmental escrow funds as collateral. Defendant Cohn created false invoices to obtain the escrow funds for his own personal use. In addition, defendant Cohn admitted the illegal removal of asbestos-containing materials from a separate property he owned known as the Spivey Building in downtown East St. Louis, IL, for which he applied for Empowerment Zone funding.

Michael Hutchinson was sentenced in U.S. District Court, **Springfield, MA,** to 6 months at a halfway house, to be followed by 3 months probation, and ordered to pay a fine of $7,000. Hutchinson had previously been convicted at trial, along with former

The Republican.

Court orders 2 to repay $31,000

Friday, May 27, 2005

By STEPHANIE BARRY
sbarry@repub.com

SPRINGFIELD - A former Springfield patrolman and an ex-city Law Department investigator yesterday were ordered by the court to pay $31,000 to make amends for a 1999 real estate scam that triggered fraud and money-laundering convictions for the pair.

Chester J. Ardolino, 37, and Michael J. Hutchison, 35, were ordered by U.S. District Judge Michael A. Ponsor to come up with the money to pay back profits realized from the sale of a multifamily house at 11-15 Belmont Place. The two bought the house using Hutchison's sister as a "straw buyer," submitted phony financial records to get a mortgage and took an $18,000 kickback at the closing, a jury found.

Ardolino, a veteran police officer and one-time president of the Springfield patrolman's union, and Hutchison, who held two city jobs, were convicted in December of seven counts of fraud and money-laundering for their roles in the scam.

Ardolino was sentenced to six months house arrest - which he has already begun serving. Hutchison must serve six months in a halfway house; that sentence has yet to start.

U.S. Attorney William M. Welch II told Ponsor he would leave the divvying up of debt to the defendants.

Springfield police officer Chester Ardolino, of money laundering and bank fraud. The charges stem from a land-flipping scheme that Hutchinson and Ardolino were involved in. Hutchinson and Ardolino utilized Hutchinson's sister as a straw-buyer.

Defendants Arvin Weiss and Jesus Guevara, who were previously indicted by a Federal grand jury in the District of Colorado on charges of mail fraud, wire fraud, and witness tampering in connection with an FHA mortgage fraud scheme, were arrested in **Denver, CO**. Defendant Weiss, who was charged with 12 counts of mail fraud, five counts of wire fraud, and six counts of tampering with a witness, and defendant Guevara, who was charged with nine counts of mail fraud, five counts of wire fraud, and eight counts of witness tampering, made their initial appearance before a Federal magistrate judge immediately following their arrest. Defendant Weiss, a real estate agent doing business as Reserve Capital Funds, Inc., acquired approximately 300 homes in the Denver metropolitan area at low prices and after some minimal improvements, sold the properties at substantially higher prices to Hispanic borrowers who knew little if any English. The homes that were sold by defendant Weiss were insured through the FHA 203(b) insurance fund for approximately $51 million. Defendant Weiss knew the homebuyers would not be able to legitimately qualify for the loans. Defendant Weiss arranged for false information to be provided to the mortgage companies in order for these borrowers to obtain the FHA-insured loans. Guevara, a bilingual assistant who worked with Weiss, assisted him in finding the borrowers, translated for the borrowers, and assisted in acquiring the false information. In the majority of the cases, Weiss concealed the fact that he provided the borrowers' required downpayment. This fraud scheme has resulted in losses to the FHA insurance fund estimated to be approximately $1 million.

Defendant Robert Frank Miller of **Washington, DC**, was charged in Federal Court, District of Columbia, with allegedly defrauding potential investors by soliciting money from them under the guise that the funds would be used to purchase and improve properties for resale at a profit, when he intended to use the money for personal benefit. The charges follow his recent sentencing in Baltimore County Circuit Court to 12 years incarceration for essentially the same scheme, in which he represented that he owned or controlled HUD REO properties. The investigation determined that the defendant may have obtained as much as $400,000 from innocent investors.

Defendant Jean Guilbaud of **Mineola, NY**, a licensed real estate broker, HUD-approved realtor, and a fugitive for more than 2 years, was arrested on State charges of grand larceny, scheme to defraud, and bail jumping in connection with a $40,000 HUD-owned real estate fraud scheme. Guilbaud was arrested on an indictment that charged him with failing to return bid deposits ranging from $1,000 to $13,000 to complainants bidding on HUD-owned properties who did not win the bid. In addition, Guilbaud did not pass bid deposits on to HUD that were due from winning bidders who failed to close on HUD-owned properties.

Kathleen Johnson pled guilty to one count of mail fraud in U.S. District Court, Western District of New York. Johnson was employed as a HUD-approved real estate broker in the **Rochester, NY**, area. Johnson collected potential buyers' earnest deposit money and failed to deposit the funds in an earnest deposit account as

Single-Family Housing Programs

required. Johnson kept the funds, totaling approximately $26,000, for her own personal use. Additionally, Johnson prepared and mailed false prequalification letters from mortgage companies and banks to First Preston Management Company, certifying that the potential buyers could finance the purchase. Johnson is scheduled for sentencing.

Defendant Israel Pena of **White Plains, NY,** was arrested in Sunrise, FL, and charged with wire fraud and conspiracy to commit wire fraud for his role in a property-flipping scheme between 1998 and 2001 in the New York metropolitan area. The complaint was filed in the Southern District of New York. Pena allegedly bought and sold more than 10 properties and flipped those properties by preparing false and fraudulent documents, including phony gift letters, VOEs, downpayment checks, and IRS W-2 forms, to qualify homebuyers for both FHA and conventional mortgages. In one particular property flip, Pena allegedly sold a house that he did not legally own by preparing a phony deed and title report.

Defendant John Cash, also known as Typhoon, was indicted in the Northern District of **Chicago, IL**, on charges of bankruptcy, wire, and mail fraud. On July 18, 2005, agents from HUD OIG and an agent from the Department of Veterans Affairs (VA) OIG arrested Cash in Atlanta, GA.

According to the indictment, Cash allegedly placed ads in local newspapers, soliciting homeowners who found themselves in financial distress and were not able to pay their mortgage. Cash would allegedly promise them that he "could stop foreclosures dead in their tracks." Cash purportedly met most of the victims at their homes and had them enter into a contractual agreement with him and his company, Lake Shore Group. The defendant allegedly collected an upfront fee of $3,500 and promised the victims that if they continued to pay their usual mortgage to him instead of the mortgage company for 2 years, they would own their home free and clear of any debt. In the interim, the defendant allegedly filed fraudulent bankruptcy petitions for the homeowners, for the purpose of invoking the automatic stay and giving the homeowners the false belief that their foreclosures would be ended, when they were only temporarily delayed. Subsequently, the homeowners lost their homes and in some cases were evicted the same day. As a result of Cash's representations and promises, he is alleged to have received approximately $190,000 from 30 homeowners who have since lost their homes.

Defendant Nicholas Lopez of **Denver, CO**, a fraudulent document vendor who provided false documents to real estate agents, pled guilty in the U.S. District Court for the District of Colorado to a violation of wire fraud. Defendant Lopez assisted real estate agents in the Denver metropolitan area with the production and distribution of fraudulent documents that were used to assist unqualified illegal alien homebuyers in purchasing homes that were insured through the FHA 203(b) insurance program. Defendant Lopez fabricated fraudulent IRS W-2 forms and pay stubs for these illegal aliens, who were purchasing the FHA-insured homes. This investigation identified more than 300 FHA-insured home loans that have been associated with this loan origination fraud scheme. It is estimated that the approximate total loan value exceeds $62,574,000. The investigation disclosed that this fraud scheme has resulted in a loss to the FHA insurance fund amounting to approximately $2,350,000. Defendant Lopez was scheduled for sentencing.

Defendants Rogasiano Caldera and Patricia Soehnge, also known as Patty Moreno, of **Denver, CO**, realtors, as well as document vendor Nicolas Lopez, were indicted by a Federal grand jury for the District of Colorado in a 22-count indictment for violations of the U.S. Criminal Code that included making false statements, wire fraud, and criminal forfeiture. This investigation identified the defendants as being allegedly involved in a single-family fraud scheme that assisted illegal aliens in obtaining properties that were insured through the FHA 203(b) program. Soehnge assisted unqualified illegal alien homebuyers to secure fraudulent IRS W-2 forms, pay stubs, tax returns, and other fraudulent documents to qualify the illegal aliens for the FHA-insured homes. This fraud scheme involved approximately 300 FHA-insured properties with an insured value of $62,574,000. The investigation found that numerous FHA-insured properties have gone into foreclosure, resulting in approximately $2,350,000 in losses to the FHA insurance fund.

Defendant Theresa Holt of **Chicago, IL**, was sentenced to 3 years in prison, 3 years supervised release, and restitution totaling $2,573,000 in the Northern District of Chicago, IL.

Earlier, Holt pled guilty to 22 counts of mail fraud and 56 counts of money laundering for her planning of and participation in a fraud scheme involving 100 properties with $5.7 million in loans, in which Holt received $1.7 million in fraudulent sales proceeds. The scheme involved Holt, the owner of Share Development Corporation, and North East Austin, a HUD-approved nonprofit and Holt's former employer. Share Development acquired numerous properties, some of which were obtained through HUD's direct sales program and North East Austin, and resold them. Many of the applications for the mortgage loans contained inflated employment information, including information that some buyers worked for Share Development and Northeast Austin. In addition, buyers, as well as loan officers were paid $3,000 to $4,000 outside closing for purchasing these properties. During the course of the investigation, a search was conducted at Holt's personal residence where FBI and HUD agents seized a 1998 Cadillac El Dorado along with $107,304 in cash. Lis Pendens—a lien placed on a property by the Government, which ensures that if the subject tries to sell it, the subject cannot collect the proceeds—were also placed on two of Holt's properties located on the north side of Chicago, IL. After the search warrant in 2002, Holt fled the country and was a fugitive for approximately 2 years. In early 2004, Chicago agents received a call from Holt's daughter, Athena Holt, reporting the whereabouts of her mother in South Africa and asking for a reward to turn her in. Holt then surrendered to the American Embassy in South Africa and was transported to Chicago, IL, where she later pled guilty.

In the Northern District of **Chicago, IL**, loan processor Shah Siddiqui was sentenced, following his earlier guilty plea to one count of mail fraud for his participation in a fraud scheme involving 100 properties with $5.7 million in loans. The scheme involved Theresa Holt, a former employee of North East Austin, a HUD-approved direct sales nonprofit, who started her own business, known as Share Development Corporation. Share Development acquired numerous properties, many of which were obtained through HUD's direct sales program and North East Austin, and resold them. Many of the applications for the mortgage loans contained inflated employment information, including information that some buyers worked for Share Development and Northeast Austin. In addition, buyers, as well as loan officers, were paid $3,000 to $4,000 outside closing for purchasing these properties. Siddiqui was sentenced to 4 months in prison and 2 years supervised release and ordered to pay $866,077 in restitution. In addition, Siddiqui was ordered to have a time curfew until his surrender date.

Defendant James Thurman of **St. Louis, MO**, owner of Phoenix Title, pled guilty in Federal Court, U.S. District Court for the Eastern District of Missouri, to wire fraud and admitted to causing more than $1.6 million in losses. Defendant Thurman was previously indicted on nine counts of wire fraud and one count of bank fraud, charging him with defrauding his customers and First Bank of $3.9 million. Defendant Thurman admitted to illegally diverting more than $3.9 million from his title company escrow accounts from March 2002 to January 2005. The funds were diverted to his real estate company and personal accounts. The diversions caused a shortage in escrow funds, which caused the company to eventually close and disbursements to go unpaid on several customer transactions. Defendant Thurman has paid back a portion of the $3.8 million, leaving a loss of $1.6 million.

Defendant J.C. Gandy of **Tupelo, MS**, appeared before the U.S. District Court, Northern District of Mississippi, for sentencing. He had been previously convicted on one count of mail fraud and one count of embezzlement. Gandy was committed to the custody of the U.S. Bureau of Prisons to be imprisoned for a term of 1 year and 1 day. Upon release, Gandy will be on supervised probation for 3 years. He was also ordered to pay restitution in the amount of $110,213.

Defendant Odie Webster III of **Denver, CO**, a real estate agent, was indicted through a superseding indictment by the Federal grand jury for the District of Colorado. Defendant Webster was charged with one count of conspiracy, three counts of making false statements, three counts of mail fraud, and three counts of wire fraud. Defendant Webster allegedly assisted unqualified homebuyers in obtaining mortgages that were insured through the FHA 203(b) insurance program by utilizing false SSNs as well as false income information. Defendant Webster was arrested on April 27, 2005, by special agents from the HUD OIG and IRS-Criminal Investigation Division (CID).

In the Northern District of **Chicago, IL**, defendant Michael Fedynich, a broker/seller, pled guilty to mail fraud. Fedynich, the owner of Westgate Realty, admitted to having provided homebuyers with downpayment funds in order for the prospective buyers to qualify for Fedynich-owned properties. To further the scheme, Fedynich accepted responsibility for personally funding the downpayment to a friend or a relative of the homebuyer and instructing those persons to execute a gift affidavit, wherein 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 provided a false certification at closing, which indicated that he had not provided funds to the borrower. This investigation involved 10 FHA-insured loans totaling $716,000 in insurance and losses totaling $516,429.

Defendant John Everett of **Las Vegas, NV**, an investor, was sentenced in the U.S. District Court for Nevada to 30 months incarceration and 3 years of supervised release and ordered to pay the balance of the unpaid portion of $185,000 in restitution ordered upon his three codefendants, which amounts to $2,336. Everett had previously pled guilty in the District of Nevada to two counts of the indictment charging him with money laundering. Everett purchased homes, using straw-buyers, from individuals who were on the verge of foreclosure and set up nonprofit companies, alleging to the sellers that these companies were purchasing the homes to use as halfway houses. At closing, Everett withdrew amounts equal to the equity available in the homes, identifying these disbursements as rehabilitation costs to convert the homes to halfway houses. Fraudulent documentation was prepared and submitted for each straw-buyer including false bank account statements, IRS W-2 forms, gift letters, VOEs, and bills of sale to support the source of downpayments. Everett was involved in 18 fraudulent loans valued at more than $6 million through National City Mortgage Company. All of the loans have gone into default. Three of Everett's coconspirators in this scheme have been prosecuted for their part in originating fraudulent FHA loans at Mortgage Capital Resources (MCR). While under investigation for their activities at MCR, they moved to National City Mortgage, where they engaged in a mortgage fraud scheme involving conventional loans.

In the Northern District of **Chicago, IL**, defendants Stephen Lawhorn and Virgil Griffin were sentenced based on their guilty pleas for mail fraud. Griffin was sentenced to 8 months of incarceration, placed on 2 years of supervised release, and ordered to pay restitution in the amount of $216,377. Lawhorn was sentenced to 1 month incarceration, placed on 3 years of supervised release (6 months of which he has to be confined to his residence), ordered to perform 200 hours of community service, and ordered to pay restitution in the amount of $80,878. Lawhorn and Griffin were part of a scheme in which six other individuals, James Rucker, Gregory Jacobs, Tina Hoard, Patricia Mays, Carmen Perry, and William Scott, were also charged.

Lawhorn admitted that as soon as he began working with Rucker at Design Mortgage Corporation, he assisted Rucker in fraud by, among other things, signing fraudulent loan applications as the loan officer, drafting fraudulent letters for Rucker, and providing Rucker with copies of backs of checks which he used for fraudulent purposes. Griffin admitted that as soon as he began working at Comprehensive Mortgage and continuing through his employment at Design Mortgage Corporation, he participated in a fraud scheme. Griffin admitted that he created and submitted false loan documents including IRS W-2 forms, pay stubs, rent payment checks, verifications of deposit, VOEs, and other false documents to be placed into loan files.

Equity Skimming

Defendant Edwin "Andy" Kane of **Rochester, NY**, was sentenced in Federal court as a result of his guilty plea to one count of equity skimming. Kane was sentenced to serve a term of 2 years in Federal prison and ordered to pay restitution to HUD in the amount of $747,000. Kane was also sentenced to a 3-year term of supervised release immediately following his prison term.

Kane devised a scheme in which he purchased more than 20 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. Due to Kane's actions, more than 30 properties have been foreclosed upon, resulting in a loss of approximately $1,140,000 to HUD.

Speculator James Holbert of **Washington, DC,** was sentenced in U.S. District Court, District of Columbia, as a result of his previous plea of guilty to conspiring to commit wire fraud in connection with a scheme to defraud FHA, conventional mortgage companies, and various borrowers. He was ordered to serve 4 years in prison in addition to agreeing to forfeit $493,000 in funds obtained from profits he earned on the illegal transactions to which he was associated. An investigation determined that from 1999 into 2001, Holbert and two coconspirators, Terry Waterman and Edward Robinson (both previously pled guilty and are awaiting sentencing), sold homes to straw-buyers at inflated prices for purposes of cashing out their equity and realizing inordinate profits. They recruited another individual to prepare false documents to qualify the buyers, who otherwise would not have been eligible. In several cases, Holbert secured Section 8 tenants and received rental income until foreclosure finally occurred. One of the straw-buyers, Ronald Ricks, was previously convicted and sentenced to 6 months incarceration. The investigation identified at least 50 transactions involving Holbert or one of his coconspirators with losses to FHA and conventional lenders amounting to at least $2 million.

Defendants Gordon Miller and Jamen Wood of **Salt Lake City, UT**, were indicted by a Federal grand jury for the U.S. District Court, District of Utah. Defendants Miller and Wood were indicted on a one-count violation of equity skimming, a five-count violation of mail fraud, and a six-count violation of wire fraud. The investigation disclosed that defendants Miller and Wood were allegedly involved in equity skimming activity in numerous States, which included Utah, Colorado, Idaho, Arizona, Wyoming, Minnesota, North Carolina, and Washington. The investigation found that from July 2002 through December 2004, defendants Miller and Wood allegedly identified properties that had been surrendered through a bankruptcy proceeding by searching the bankruptcy courts' database known as PACER. Defendants Miller and Wood would allegedly make sure the properties were vacant and then rent them out, in many cases without contacting the homeowners or the bankruptcy trustee to obtain consent. The defendants allegedly rented some of the properties they acquired through quit claim deeds to other homeowners who did not suspect that the defendants had taken possession of the property from a secondary homeowner. In some instances, defendants Miller and Wood allegedly misrepresented themselves as representatives of the bank or bankruptcy department to convince homeowners to sign a quit claim deed for the property, transferring ownership to defendants Wood and Miller. Miller and Wood allegedly collected rent money, failed to forward the rent money to the mortgage company, and instead used the money for their own personal expenses. The defendants allegedly rented approximately 300 properties in this manner. The properties used by the defendants had been insured through a number of different programs such as conventional mortgages and FHA VA-insured mortgages. There were approximately two dozen FHA-insured loans involved with this equity-skimming scheme with an insured loan value of approximately $2 million.

Forgery, Theft, and Embezzlement

An Arizona State grand jury indicted defendant Edward Carrillo of **Scottsdale, AZ**, on six counts of fraudulent schemes and six counts of theft. On February 24, 2005, Carrillo was indicted on separate charges of three counts of fraudulent schemes and one count of theft. Carrillo, doing business as Sahara Investments, sold his alleged fraudulent preforeclosure 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 allegedly had been purchasing FHA-insured properties through HUD's preforeclosure program at substantial discounts, often using fraudulent appraisals. Carrillo then allegedly sold the houses the same day he purchased them at market value. HUD paid substantial claims for each property sold through the preforeclosure program. The current indictment alleges that Carrillo accepted funds from five individuals, which totaled $465,000, to be used as deposits to purchase homes, as real estate investments, and as fees for teaching investors the preforeclosure business. Carrillo was unable to acquire properties as promised and failed to return $379,800 to the investors. The previous indictment alleged that Carrillo stole more than $600,000 from other investors.

Defendant Roberto Osorio Tenorio of **Salt Lake City, UT**, pled guilty in the Third District Court for the State of Utah to one count of forgery, a third degree felony, and one count of communications fraud, a second degree felony. Defendant Tenorio pled guilty as a result of his participation in a mortgage fraud scheme involving the purchase of FHA-insured homes by illegal aliens who were not qualified to participate in the FHA insurance program. Defendant Tenorio used an SSN of a third party to obtain an FHA-insured single family home, which subsequently went into default and eventual foreclosure. This foreclosure process was then reflected on the credit history of the third party whose SSN had been compromised.

Defendant Gary T. Coley of **Baltimore, MD**, was found guilty in U.S. District Court, District of Maryland, of preparing and passing false forged U.S. Treasury securities in connection with a scheme that involved in major part homeowners with FHA-insured mortgages who were in danger of losing their homes. The investigation determined that Coley would contact individuals who had defaulted on their mortgages and represent himself as an investor/entrepreneur who would assist them in avoiding foreclosure. He collected fees and deposits from the homeowners and then manufactured at least $1.8 million in counterfeit U.S. Treasury securities that he then passed off to the various lenders as payment toward bringing the mortgages current. A majority of the homeowners eventually lost their homes, although many foreclosures could have been avoided had the homeowners applied the money they paid Coley toward mitigation of their mortgage arrearages. Investigation identified at least seven FHA mortgagors who dealt with Coley and eventually lost their homes, resulting in net claims of $800,000 on the mortgage insurance fund. Coley was sentenced to 15 months confinement and

3 years probation and ordered to pay a $1,300 fine.

In the third Judicial District for the District of Salt Lake County, defendant Enrique Montanez of **Salt Lake City, UT**, pled guilty to one count of forgery, a third degree felony, and one count of communications fraud, a second degree felony, as a result of his participation in a mortgage fraud investigation. Defendant Montanez used an SSN of a third party to obtain an FHA-insured single family home. The subsequent default associated with the mortgage was reflected on the victim's credit report, making future financial transactions difficult. The actions of the defendant resulted in the FHA insurance fund incurring a loss of approximately $50,817.

In the U.S. District Court of New Jersey, defendants Joseph Nardone, Jr., former president of Local 148, International Novelty Workers Union, and his father Joseph Nardone, Sr., former president of the Novelty Production Workers Union of **Newark, NJ**, were sentenced. Nardone, Jr., was sentenced to 3 years and 4 months in prison, restitution of $431,000, a fine of $7,500, and 2 years probation. Nardone, Sr., was sentenced to 1 year in prison, $423,100 in restitution, a fine of $5,000, and 2 years probation. Nardone, Jr., and Nardone, Sr., were found guilty by a jury in the District of New Jersey of compsiracy to embezzle from a welfare benefit fund.

In the same case in the U.S. District Court of New Jersey, Steven Freeman was sentenced to 3 years probation and ordered to pay $266,000 in restitution. On September 24, 2004, Steven Freeman pled guilty to conspiracy to embezzle from a welfare benefit fund.

In the same case in the U.S. District Court of New Jersey, Stanley Rothman was sentenced to 3 years probation, restitution of $356,000, and a fine of $5,000. Rothman pled guilty to conspiracy to embezzle from a welfare benefit fund.

Rothman and Nardone, Jr,. had beed charged with conspiracy to steal welfare funds, embezzlement from welfare funds, and conspiracy to conceal material facts in connection with HUD fraud and money laundering. Rothman used straw-buyer Steven Freeman to purchase HUD properties in Florida, which he later resold for a profit in the conspiracy. Some of the straw-buyers used by Rothman were members of his family, while others worked or were associated with Novelty Production Workers Union 148 Welfare Fund. Rothman purchased 10 HUD properties with a value of more than $675,000. Nardone, Jr., conspired with Rothman to embezzle $350,000 from the union welfare fund between December 1992 and May 2001.

Defendant Harold V. Fields, real estate agent, Valley Home Experts, Glendale, AZ, was sentenced to 6 years in jail, 7 years probation, and revocation of his real estate license in the Arizona Superior Court, **Phoenix, AZ**. Fields was previously indicted by an Arizona State grand jury on three counts of fraudulent schemes, one 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. 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. Because of financing issues, many of the loans did not close, and the properties were recycled back into the HUD inventory. Many of the investors began to demand that Fields return their money after he failed to provide closing costs for several homes. The indictment covered 26 investors who lost $1,502,166. These funds were never deposited into a trust account, and the investigations disclosed that more than $500,000 had been wired overseas to an offshore sports betting operation. Fields has been ordered to pay $1,437,765 in restitution.

In Superior Court of California, County of Ventura, a 10-count State of California felony complaint was filed against Jose Luis Ramirez Velasco of **Oxnard, CA**, charging him with identity theft, grand theft, forgery, and filing false or forged real estate documents. Jose Velasco, a licensed real estate agent for a real estate company in Oxnard, CA, was arrested pursuant to the complaint being filed. Allegedly Velasco falsely impersonated and used the identities of four unsuspecting victims for the purpose of obtaining an FHA-insured loan totaling more than $250,000. The illicit transaction was accomplished without the victims' knowledge or consent. After acquiring and taking possession of the residential property, Velasco allegedly rented the residence to tenants. Velasco purportedly continued to collect monthly rent payments from the tenants, but he subsequently failed to make the monthly mortgage payments. The property, in the innocent borrowers' names, ultimately went into foreclosure proceedings. If convicted of all charges, Velasco could face a maximum sentence of 8 years in State prison.

Sheila Hubbard pled guilty to money laundering in the Circuit Court of Cook County, **Chicago, IL**. Hubbard was previously indicted in June 2003 for theft and money laundering as part of a complicated mortgage scheme, which among other things included HUD's direct sales program.

Hubbard admitted to her involvement in a scheme, wherein properties were obtained through various means, to include HUD's direct sales program. After acquiring the properties, the indictment alleged that they were sold through various fraudulent documents to investors, who in turn were told that the properties would be rehabilitated and then turned over to them following completion of the repairs. According to the indictment, at the sale of the properties to the investors, the legitimate payoff checks, which were intended for the mortgage companies, were diverted through a fraudulent payoff letter to Kenneth Steward, president of K.E.E.P., a HUD-approved nonprofit; Hubbard himself; and/or Eric Pollards, who acted as a loan officer and an appraiser.

Hubbard personally accepted responsibility for accepting the diverted checks and cashing them at a credit union where she knew the employees. Hubbard would then kick the proceeds back to Steward. Approximately $1.9 million in mortgage proceeds were allegedly diverted during this scheme. On the same day of her guilty plea, Hubbard was sentenced to 3 years confinement and was taken into custody. The other individuals, who have previously pled guilty in this scheme, are Jocqua Carter, accountant; David Johnson, appraiser; Fritz Fox, loan officer; and Eric Pollards, loan officer/appraiser.

Defendants Nathan J. Brinkle and Jonathan T. Jennings of **Kansas City, MO**, real estate investors doing business as Brighter Homes East, Inc., and JB

Renovations, and Adam T. Kerr, a mortgage broker doing business as Platinum Mortgage II and later Pearl Mortgage, each waived his rights and pleaded guilty in Federal Court for the U.S. District of Western Missouri to a Federal information that charges them with wire fraud and money laundering.

Defendants Brinkle and Jennings purchased and rehabilitated distressed properties for resale to investors, and defendant Kerr assisted investors in obtaining mortgage loans. Investors were advised by defendants Brinkle, Jennings, and Kerr that once they took possession of the properties, all of the rehabilitation work would be completed and Section 8 tenants would be allowed to occupy the homes, thereby generating cash flow for the investors. These purchases were represented as no-money-down investments. To accomplish this, the appraised values were inflated and on some occasions, loan applications were prepared to falsely show the source of the downpayment was the new investor.

By pleading guilty, the defendants admitted that they prepared various false loan applications and supporting documents that contained materially false and fraudulent representations, and these documents were submitted to lending institutions to ensure that the loan application would be approved. As a result of this scheme to defraud, between May 23, 2001, and August 30, 2002, the defendants made and submitted to lending institutions 94 false and fraudulent loan applications. These misrepresentations included false installment payment information, falsified HUD-1 settlement statements, phony contracts for deeds, false source of funds information, and other pertinent information relied on by the lenders when making the loans. These fraudulent loans totaled $6.4 million, funds which were wire transferred and affected interstate commerce.

Additionally, defendants Brinkle, Jennings, and Kerr engaged in monetary transactions involving criminally derived property, through the deposits of checks payable to Platinum Mortgage II and drawn primarily on the accounts of Brighter Homes East, Brinkle, and Jennings. Under Federal statutes, each defendant could be sentenced to up to 30 years incarceration without parole, plus a fine of up to $50,000, and ordered to pay restitution.

Defendant Mary Pounds of **Los Angeles, CA**, was arrested at her residence by Federal agents from HUD OIG, Social Security Administration (SSA) OIG, and the Los Angeles Police Department/FBI Fugitive Task Force due to an outstanding felony warrant issued by the United States District Court, Central District of California, as a result of a four-count felony indictment. Pounds allegedly used the identity of her then 15-year-old daughter to fraudulently obtain an FHA-insured single-family home loan from Countrywide Mortgage. While owning the FHA-insured home, Pounds allegedly charged her daughter monthly rent and concealed these facts in order to receive Social Security Insurance (SSI) benefits. The HUD OIG case agent referred the fraudulently obtained FHA loan to the Santa Ana Homeownership Center (HOC), Santa Ana, CA, for indemnification. Countrywide Mortgage Company entered into an indemnification agreement with the Santa Ana HOC. In addition, Pounds was wanted on an outstanding misdemeanor State warrant on charges of knowingly receiving stolen property.

Contractor Thomas Neimiller of **Towson, MD**, doing business as Maryland Real Estate Services, agreed to repay HUD $30,000 in settlement of a potential PFCRA action. Investigation by OIG disclosed that from 1999 to 2001, Neimiller falsely charged dumpster fees on at least eight properties scheduled for foreclosure and eventual assignment to HUD under the REO program. The claims paid by HUD to the lender(s) included the fraudulent dumpster fees.

Officer Next Door Program

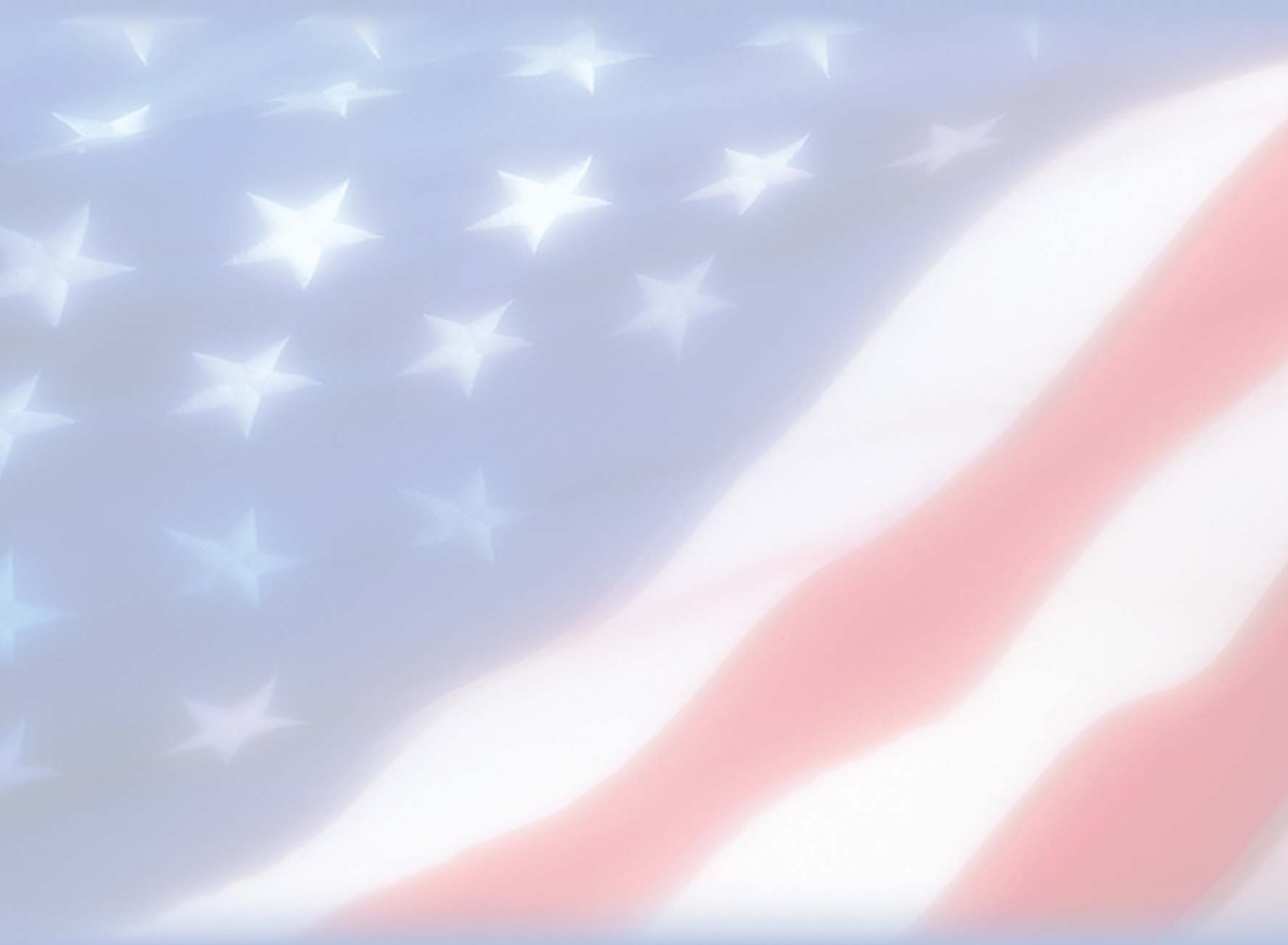
In the Eastern District of Michigan, former **Detroit, MI**, Police Officer Quinnon Martin was sentenced to 3 years probation, a $10,000 fine, and $22,500 in restitution. Martin had previously pled guilty for his role in a scheme to defraud HUD's Officer Next Door (OND) program. Martin rented out his OND property to a Section 8 tenant in lieu of occupying it as his sole/primary residence as required under the rules of the program.

Former **Baltimore, MD**, Police Officer Carl Clayton was charged in Federal Court, District of Maryland, with making false statements to enable him to purchase an REO property under the OND program. Investigation by OIG disclosed that Clayton, who has since moved to New York City, purchased the property for $18,000, which included a discount of $18,000, based on his certification that he would reside in it for at least 3 years. He allegedly never moved in but began leasing it within 30 days of settlement and lived in a HUD-assisted rental unit administered by the Housing Authority of Baltimore City. He allegedly continued to rent the home for almost 3 years (the period covering his required occupancy), finally selling it for $80,000.

In the Eastern District of Michigan, former **Detroit, MI**, Police Sergeant Eileen Martin agreed to the terms of a pretrial diversion for a period of 1 year. Based on the terms, Martin must repay HUD the discount price of $9,600 and complete 40 hours of community service. Martin accepted responsibility for purchasing a home through HUD's OND program and failing to occupy it as her sole/primary residence as required by the rules of the program. Instead, she rented it to a Section 8 recipient.

A settlement agreement was entered into between HUD and David H. Krueger of **Kenosha, WI**, a lieutenant with the City of Kenosha Police Department, Kenosha, WI. This agreement is pursuant to a complaint HUD served upon Krueger under PFCRA. This settlement agreement, whereby Krueger agreed to repay HUD an additional $13,000, stems from an investigation conducted by HUD OIG pertaining to Krueger's purchase of a single-family property in Kenosha, WI. This was done through HUD's OND program. Under the terms of the sale, Krueger had agreed to reside in the property for a minimum of 3 years but had never resided in the property. Instead, he rented the property out for approximately 2 years and repaid HUD 30 percent of the discount price; i.e., $10,800, pursuant to a letter sent to HUD by Krueger's attorney, which had led HUD to believe that Krueger had completed 2 of the 3 years of his residency requirement and caused HUD to release him from the remainder of his 3-year residency agreement, allowing him to then sell the property.

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 (PHA) 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.

Audits

During this reporting period, the Office of Inspector General (OIG) issued 34 reports: 3 internal audits and 31 external audits in the Public and Indian Housing (PIH) program area. These reports disclosed nearly $41 million in questioned costs and about $40 million in recommendations that funds be put to better use. During this reporting period, OIG 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, OIG conducted a corrective action verification review.

Chart 3.1: Public and Indian Housing Reports Issued

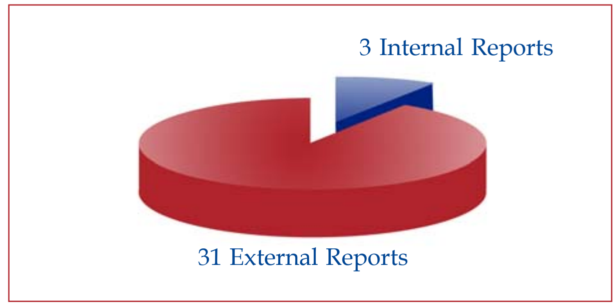
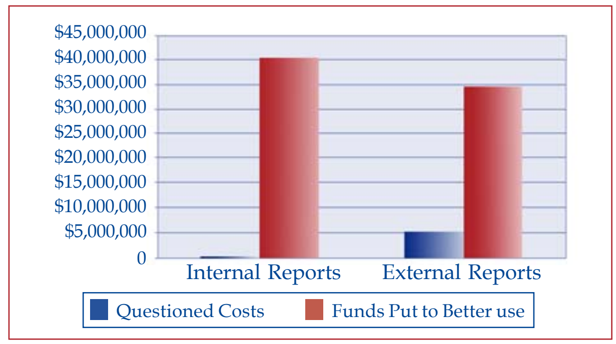


Chart 3.2: Public and Indian Housing Dollars



Section 8 Voucher Program Activities

OIG audited the Section 8 Housing Choice Voucher program administered by the Housing Authority of the City of **Houston, TX**. OIG performed the audit to determine whether the Authority complied with HUD regulations concerning overhousing of tenants; correctly calculated housing assistance payments; and ensured that tenants reside in decent, safe, and sanitary housing.

The Authority did not effectively monitor the contactor it hired to manage its Section 8 programs. The Authority overhoused tenants; incorrectly calculated

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 assistance payments; and paid assistance for tenants to reside in units that did not meet minimal decent, safe, and sanitary standards for at least 1 year.

OIG recommended that HUD require the Authority to repay $7.44 million, including $2.4 million that it retained from its administrative fees and $5.04 million that it paid to the contractor for which it did not receive adequate service. OIG also recommended that HUD require the Authority to implement internal controls and establish monitoring systems to ensure compliance with its contributions contract, which will result in more than $7.9 million in funds being put to better use. (Audit Report: **2005-FW-1018**)

HUD OIG audited the Housing Authority of the City of **Houston, TX,** because an earlier audit indicated the Authority's contractor may not have been following its abatement and termination policy. The objective was to determine whether the Authority enforced its policy to deduct (abate) rental payments to owners and/or terminate tenants whose Section 8-assisted units repeatedly failed inspections.

Neither the Authority nor its contractor ensured that staff followed its abatement and termination policies and procedures in 8 of the 10 cases reviewed. Although the Authority terminated the contractor in October 2004, similar problems could continue to occur since the Authority now employs the contractor's staff. If the Authority does not improve its abatement and termination policies, procedures, and practices, it will expend $1 to $6.9 million in inappropriate Section 8 assistance. In addition, the Authority needs to revise some of its abatement and termination policies and procedures to address ambiguous and contradictory provisions or a lack of policies and procedures.

OIG recommended that HUD require the Authority to ensure that its employees follow its abatement and termination policies and procedures and impose penalties on employees if they do not. In addition, OIG recommended that the Authority be required to revise its abatement policies and procedures to address deficiencies. (Audit Report: **2005-FW-1012**)

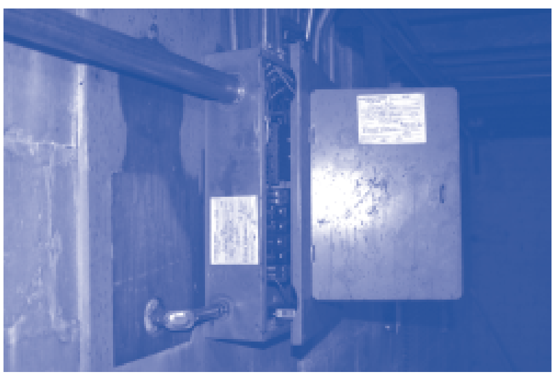
HUD OIG audited the Housing Authority of the City of **Gary, IN's** Section 8 housing program. The audit was part of the activities in OIG's fiscal year (FY) 2005 annual audit plan. OIG selected the Authority based upon a risk analysis that identified it as having a high-risk Section 8 housing program. The objective of the audit was to determine whether the Authority managed its Section 8 program in accordance with HUD's requirements.

The Authority's Section 8 housing units were in poor physical condition. OIG's inspections noted 57 of 63 units that did not meet HUD's housing quality standards. OIG also noted significant weaknesses in using administrative fees, issuing vouchers without proper documentation, calculating housing assistance payments, and abating Section 8 vouchers. In addition, the Authority misused Section 8 funds by overpaying per diem, improperly disallowing tenant income, and erroneously charging expenses to its Section 8 housing program.

OIG recommended that HUD issue a notice of default to the Authority regarding the administration of its Section 8 housing program. OIG also recommended that

HUD require the Authority to contract out its Section 8 program or transfer control to HUD and ensure the Authority reimburses its program for the inappropriate uses of Section 8 funds identified. (Audit Report: **2005-CH-1020**)

3837 Maryland: Exposed wires in basement junction box.



3960 Maryland: Cover on electric panel not securely fastened; panel also missing a breaker.

HUD OIG audited the **Chattanooga, TN,** Housing Authority's Section 8 Housing Choice Voucher program to determine whether the Authority made Section 8 subsidy payments only for units that were decent, safe, and sanitary and whether the Authority properly determined tenant program eligibility and subsidy payment amounts.

Of 60 Section 8 units reviewed, 40 did not meet minimum housing quality standards. Of the 40 units, 28 were in material noncompliance with housing quality standards. Projecting the results of the statistical sample to the population indicated at least 1,486 of the Authority's 2,778 units did not meet minimum housing quality standards. Further, 939 units were in material noncompliance with housing quality standards. In addition, the Authority did not consistently determine or verify family incomes, calculate utility allowances, perform timely recertifications, or correctly calculate Section 8 housing assistance payment amounts.

OIG recommended that HUD require the Authority to inspect all of its Section 8 housing choice voucher-assisted units within the next 12 months and develop and implement an internal control plan to ensure the units meet housing quality standards and inspections meet HUD requirements to prevent an estimated $4.7 million from being spent on units that are in material noncompliance with standards. HUD should also require the Authority to repay more than $9,000 for housing assistance payments it made for ineligible units. Further, since the Authority failed to correct deficiencies identified by HUD in September 2002, HUD should reduce the Authority's administrative fees by 10 percent retroactively to August 2004, or about $125,000. HUD should continue to monitor the Authority and withhold 10 percent of the administrative fee until the Authority has complied with requirements. (Audit Report: **2005-AT-1010**)

HUD OIG audited portability procedures and responsibilities, salary allocation and procurement procedures and administration of tenant eligibility and housing assistance payments at Inglewood Housing Authority in **Inglewood, CA**. The objective of the portability audit was to determine whether the Authority complied with the Housing Choice Voucher program's portability procedures and responsibilities and other HUD requirements.

In 143 portable tenant files reviewed, the initial public housing agency, Housing Authority of the City of Los Angeles, refused to pay the housing assistance payments because the Authority did not submit the initial bill within the required timeframe, causing the Authority to absorb these tenants and exceed its authorized budget by $1.9 million. In addition, the Authority did not submit the appropriate documentation to ensure duplicate payments were not made on behalf of the ported tenants.

OIG recommended that HUD not reimburse the Authority's Section 8 program for the more than $1.9 million in excess of its budget authority as was requested in its FY 2004 year-end settlement statement. OIG also recommended that HUD ensure the Authority submits its billings and documentation on time. (Audit Report: **2005-LA-1008**)

HUD OIG audited the salary allocation and procurement procedures of the Inglewood Housing Authority to determine whether the Authority accurately tracked and allocated its salary expenses and whether the Authority's procurement policies and procedures complied with HUD requirements.

The Authority did not track its employees' time by program activity or implement a cost allocation plan to allocate its salary expenses totaling more than $1.8 million for fiscal years 2001-2003. The Authority also could not support the basis for its purchase of two software packages totaling more than $31,000.

OIG recommended that HUD require the Authority to develop and implement procedures to track its staff time spent on HUD programs, develop a cost allocation plan, and determine the portion of the more than $1.8 million in salary expenses applicable to each HUD program and make the appropriate accounting adjustments. OIG also recommended that HUD require the Authority to develop and implement adequate procurement policies and procedures. (Audit Report: **2005-LA-1005**)

HUD OIG audited the Inglewood Housing Authority's administration of tenant eligibility and housing assistance payments and maintenance of its housing assistance payment register. The objectives were to determine whether the Authority (1) accurately determined tenant eligibility in the Section 8 Housing Choice Voucher program in accordance with HUD requirements; (2) made Section 8 payments only for units that were decent, safe, and sanitary; and (3) maintained an accurate housing assistance payment register.

The Authority did not always ensure the initial tenant certifications were completed with all the necessary documents. Of the 72 tenant files reviewed, 43 were missing a total of 96 required documents. In addition, the Authority's unit inspections did not sufficiently detect housing quality standards violations. Of 35 units inspected, 25 contained a total of 119 violations. Also, the Authority did not maintain an accurate housing assistance payment register. OIG's review of its October 2004 register identified inaccuracies due to problems with 20 tenants because the tenants were either deceased, had erroneous and/or false Social Security numbers (SSN), or were no longer receiving assistance.

OIG recommended that HUD require the Authority to repay from nonfederal funds more than $261,000 in unsupported housing assistance payments for those tenants determined to be ineligible and repay the appropriate HUD program approximately $27,000 for ineligible expenses paid for units that were not decent, safe, and sanitary. (Audit Report: **2005-LA-1009**)

OIG audited the Municipality of **San Juan, PR,** Housing Authority's Section 8 Housing Choice Voucher program as part of the strategic plan goals to reduce erroneous payments in rental assistance programs. The review was initiated in response to a request from the HUD San Juan Office of Public and Indian Housing. The San Juan office advised that it was not satisfied with the Authority's overall performance in administering its Section 8 program.

The Authority did not have adequate controls to ensure tenants received the proper voucher size, assistance payments were correct, files were properly documented, and participants were properly selected from the waiting list. As a result, the Authority made erroneous housing assistance payments totaling more than $9,000 and could incur additional overpayments of approximately $148,000.

OIG recommended that HUD require the Authority to repay the approximate $6,000 that had not been recovered for excessive and erroneous housing assistance payments and take measures to avoid future estimated overpayments of approximately $148,000. HUD should also require the Authority to review tenant files with inadequate income verifications, locate missing tenant files, and determine the appropriateness and eligibility of the more than $121,000 in housing assistance disbursed. Further, since the Authority failed to correct deficiencies identified by HUD in December 2002, HUD should reduce the Authority's administrative fees earned by 10 percent retroactively to July 2003, approximately $413,000. HUD should continue to monitor the Authority and withhold 10 percent of the administrative fee, approximately another $410,000, until the Authority complies with requirements. OIG also recommend that HUD require the Authority to establish and implement controls to ensure it follows HUD requirements so that assistance payments are correct, files are properly documented, and participants are properly selected from the waiting list. (Audit Report: **2005-AT-1015**)

HUD OIG reviewed the Housing Authority of the County of **Salt Lake, UT's** internal controls over its Housing Choice Voucher and public housing programs to determine whether the controls provided reasonable assurance that the Authority's programs complied with HUD requirements.

The Authority's controls provided reasonable assurance that its staff properly assessed tenant eligibility, verified tenant income, calculated Section 8 subsidy payments, calculated public housing tenant rents, and used Section 8 housing choice vouchers. In addition, the Authority's controls over housing inspections provided reasonable assurance of timely and well-documented inspections and enforcement of corrective actions for identified violations. However, the Authority inappropriately loaned $375,000 in HUD funds to the Housing Authority of Salt Lake City.

OIG recommended that HUD require the Authority to establish a policy concerning proper documentation of any future loans and to use the funds repaid by the Housing Authority of Salt Lake City for HUD-related housing activities. (Audit Report: **2005-DE-1005**)

HUD OIG audited the **Flint, MI,** Housing Commission's Section 8 housing program. OIG selected the Commission, based upon a risk analysis that identified it as having a high-risk Section 8 housing program. The overall objectives were to determine whether the Commission managed its Section 8 housing program effectively and followed HUD's requirements. OIG determined whether the Commission had adequate procedures and controls over its inspection of units, abatement of housing assistance payments, and rent reasonableness determinations.

Of 56 units inspected, 52 did not meet HUD's standards and/or local code. OIG determined that more than $80,000 in housing assistance payments and administrative fees were improperly paid for units not meeting HUD's standards and/or local code. The Commission also did not abate approximately $50,000 in housing assistance payments based on units that failed inspections performed by the Commission's inspector. In addition, the Commission did not properly complete rent reasonableness certifications and maintain adequate records or market rate units for rent reasonableness comparisons.

OIG recommended that HUD require the Commission to reimburse its Section 8 housing program for the inappropriately used funds and implement procedures and controls to correct the deficiencies identified. (Audit Report: **2005-CH-1017**)

Window has no counterweights and does not stay up. Bottle keeps window propped up for the unit located at 3905 Proctor.

Power strip connected to an ungrounded receptacle near sink in unit located at 3813 Kellar.

HUD OIG audited the Housing Authority of the County of Marin's Section 8 project-based voucher program in **San Rafael, CA**, to determine whether the Authority (1) performed rent reasonableness determinations and (2) executed housing assistance payments without HUD-required contracts.

The Authority (1) did not perform rent reasonableness determinations to ensure Section 8 tenants' rent was reasonable before entering into housing assistance payment contracts, (2) used tenant-based contracts and unenforceable memorandums of understanding to issue housing assistance payments under its Section 8 project-based program instead of the appropriate project-based voucher contracts, and (3) received more than $318,000 in Section 8 administrative fees while inappropriately administering its Section 8 program.

The Authority did not have policies and procedures in effect to properly administer the project-based program or safeguard Section 8 resources. It's actions could have given participating tenants false impressions concerning how they were allowed to use these vouchers, and it unnecessarily jeopardized funds needed to provide Section 8 program recipients affordable housing.

OIG recommended that HUD require the Authority to (1) develop and implement Section 8 procedures in accordance with HUD regulations and (2) reimburse HUD more than $318,000 from its administrative reserves for inappropriately administering the Section 8 program. (Audit Report: **2005-LA-1004**)

HUD OIG audited the Housing Choice Voucher program of the **St. Louis, MO,** Housing Authority to determine whether the Authority was operating its Section 8 program in accordance with HUD requirements.

The Authority did not have adequate procedures in place to ensure that its tenants receive the proper voucher size or to ensure the accuracy of data entry of key tenant identification information. These procedural deficiencies caused the Authority to expend more than $24,000 in excess housing assistance payments and hindered the Authority's ability to obtain tenant income information from the Enterprise Income Verification system when calculating tenant rent and subsidy payments.

OIG recommended that HUD require the Authority to reimburse the more than $24,000 in excess housing assistance payments and ensure that the Authority develops and implements procedures to ensure that each tenant receives the proper voucher size. In addition, OIG recommended that the Authority review the accuracy of the input of the tenant's identification information. (Audit Report: **2005-KC-1008**)

HUD OIG audited the Housing Choice Voucher program of the Housing Authority of the City of **Tacoma, WA,** to determine whether it had adequate internal controls to operate its Section 8 program in accordance with HUD requirements. While the Authority generally had adequate internal controls, it did not adequately address more than $30,000 in excess housing assistance payments to landlords and did not properly document its Section 8 Management Assessment Program quality control reviews.

OIG recommended that HUD require the Authority to institute processes to correct these deficiencies and to recoup any of the excess housing assistance payments that are ineligible. (Audit Report: **2005-SE-1005**)

HUD OIG audited the Syracuse Housing Authority in **Syracuse, NY,** regarding administration of its Section 8 Housing Choice Voucher program. The objectives of the audit were to determine whether the Authority (1) implemented Section 8 admission policies consistent with HUD requirements, (2) verified the accuracy of the information on Section 8 applicants' applications and Section 8 participants' recertification forms, (3) properly calculated participants' housing assistance payments, (4) accurately reported information to HUD, and (5) ensured that units provided to participants met HUD's housing quality standards.

The Authority's waiting list was not maintained in accordance with HUD requirements, recertifications were not conducted in a timely manner, inaccurate occupancy information was reported to HUD, and housing units contained deficiencies pertaining to housing quality standards.

OIG recommended that HUD require the Authority to (1) implement procedures to purge its waiting list, (2) implement procedures and controls to ensure that the Section 8 recertification process is conducted in a timely manner, (3) develop and implement a quality control plan to ensure that the information reported to HUD is current and accurate, and (4) ensure that the housing quality standards deficiencies identified are corrected within the required timeframes. (Audit Report: **2005-NY-1006**)

Corrective Action Verification Review

HUD OIG conducted a corrective action verification (CAV) review of the Housing Authority of Baltimore City, **Baltimore, MD's** Section 8 certification and Housing Choice Voucher programs to determine whether the Authority had implemented key recommendations included in our March 28, 2001, audit report (Audit Report: **2001-PH-1003**).

The Authority experienced delays in implementing its management information system, which adversely affected its ability to fully implement the recommendations. The Authority had not developed and implemented all of the financial system controls necessary to ensure its books and records were maintained in accordance with HUD requirements and did not follow adequate procedures to fully budget and use its available Section 8 resources effectively.

OIG again recommended that the Authority improve its financial system controls and key components of the administration of its Section 8 programs and 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 in ineligible expenses.

Before reaching a management decision on the CAV, the Department executed an agreement with the Authority, allowing it to participate in the Moving To Work (MTW) Demonstration program, without notifying OIG or HUD Office of Public and Indian Housing field office staff. In approving the Authority's participation in the MTW Demonstration program, the Department rendered our audit recommendations moot since under the program agreement, the Authority is no longer required to follow HUD's requirements and regulations. OIG has an audit in process to review HUD's acceptance of the Authority into the MTW Demonstration program. (Audit Report: **2005-PH-1004**)

Public Housing Authority Activity with Nonprofit Entities

In our previous semiannual report, we identified PHAs that improperly used HUD funds to develop and support its affiliated nonfederal entities, which in one instance resulted in jeopardizing project stability and could not always support expenditures made with HUD funds. We continue to to assess the impact of annual contributions contract and other requirement violations as they related to PHA activities with related nonprofit entities. During the current period, we completed reviews of an additional eight PHAs. Improper activities were found at the eight PHAs, resulting in questioned costs of nearly $25 million and funds that could be put to better use of about $5 million. Details of the improper activities are discussed below.

HUD OIG audited the Housing Authority of the City of **Newark, NJ**, to determine whether it (1) complied with HUD requirements for the disposition of proceeds from the redemption of tax-exempt bond financing and (2) properly expended its Section 8 housing choice voucher administrative fee reserves.

The Authority improperly (1) allowed its Housing Finance Corporation to retain more than $2.5 million in funds remaining after the redemption of the Authority's 1980 tax-exempt mortgage revenue bonds and (2) used its Section 8 housing choice voucher administrative fee reserves for non-housing-related purposes by committing more than $4.4 million, of which $3.9 million was expended, to acquire properties for the construction of a hockey arena. This caused an underreporting of the administrative fee reserve balance as of January 31, 2003. Consequently, more than $729,000 in administrative fee reserves should have been subject to recapture by HUD.

OIG recommended that HUD (1) request the Authority to pay it the more than $2.5 million that remained after redemption of the Authority's 1980 mortgage revenue bonds (2) ensure that the Authority reimburses the housing choice voucher administrative fee reserve account more than $3.9 million expended for non-housing-related purposes, and (3) recapture more than $729,000 of the housing choice voucher administrative fee reserves that exceeded the allowable level as of January 31, 2003. In addition, OIG recommended that controls be established to ensure the proper (1) disposition of the proceeds from bond redemptions and (2) use and reporting of housing choice voucher administrative fee reserves. (Audit Report: **2005-NY-1005**)

OIG reviewed the low-income public housing program at the **Hartford, CT**, Housing Authority. The objective was to determine whether the Authority used low-income public housing operating subsidies in compliance with the financial provisions of its annual contributions contract.

The Authority did not administer its public housing operating subsidies in compliance with the financial provisions of its annual contributions contract. It used public housing operating subsidies to pay expenditures of its State-subsidized housing program and other Federal housing programs. As a result, the Authority did not have $3.7 million available to administer its public housing program.

OIG recommended that HUD require that the Authority repay the public housing operating fund $3.7 million plus interest.

In addition, the Authority should establish and implement policies and procedures to ensure that public housing operating subsidies are used only for program purposes. (Audit Report: **2005-BO-1006**)

HUD OIG reviewed the Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund programs at the Fall River Housing Authority in **Fall River, MA**. The objective was to determine whether the Authority used its Federal funds in compliance with the financial provisions of its annual contributions contracts.

The Authority used Federal funds to pay expenditures for State-subsidized housing programs. As a result, it did not have $3.5 million available to administer its Federal programs. Additionally, the Authority overreported its voucher utilization.

OIG recommended that HUD require the Authority to (1) repay more than $3.5 million (taken from the Federal programs), (2) strengthen its controls over tracking and reporting of Federal funds, and (3) establish adequate controls to ensure accurate reporting of Section 8 housing choice voucher utilization. (Audit Report: **2005-BO-1005**)

In **Canton, OH**, HUD OIG audited the Stark Metropolitan Housing Authority's activities with its related nonprofit organizations. OIG selected the Authority for audit because it was identified as having high-risk indicators of nonprofit development activity. The objectives were to determine whether the Authority (1) used annual contributions contract funds for non-annual-contributions-contract activities, (2) accounted for the source and use of funds as required by its annual contributions contract with HUD, and (3) encumbered HUD funds for the benefit of non-HUD development activity without specific HUD approval.

The Authority received more than $459,000 in Home Ownership Made Easy (HOME) funds from Stark County between August 2001 and September 2002 to develop five low-income housing units. Two of the units were for Ruthe and Isadore Freed Housing Corporation, the Authority's nonprofit affiliate entity. The Authority administered these funds and deposited them into its general fund. It expended more than $696,000 from its general fund for the development of low-income housing units but could not support whether HUD operating subsidies or nonfederal funds were expended.

Freed transferred more than $528,000 to the Authority, which has not demonstrated that these funds were reimbursed to its low-income housing program. The transfers made to Freed were in excess of the amount Freed had on deposit in the Authority's general fund for the period between December 2000 and March 2005. Freed lacked the funds to transfer more than $168,000 to the Authority as of March 2005.

The Authority also executed two loan agreements for the purchase of properties that encumbered $278,000 of its general fund, including low-income housing operating subsidies, without HUD approval. The agreements allowed the lender to withdraw the funds on deposit if the loan payments were not made. In April 2004, the Authority secured $184,000 in loan agreements with nonfederal funds.

OIG recommended that HUD require the Authority to (1) collect the more than $168,000 that Freed owes the Authority and reimburse its low-income housing reserve account or reimburse its low-income housing reserve account from nonfederal funds, (2) provide adequate documentation to support that the repayment of more than $528,000 from Freed Corporation was from nonfederal funds or reimburse its low-income housing reserve account from nonfederal funds, (3) provide adequate documentation to support that the encumbrance for $94,000 was removed and secured with nonfederal funds, and (4) implement procedures and controls to correct the weaknesses cited. (Audit Report: **2005-CH-1011**)

In **Richmond, VA**, HUD OIG audited the Richmond Redevelopment and Housing Authority in response to a citizen's complaint. The audit objective was to determine whether the Authority properly used HUD funds in accordance with its annual contributions contract.

OIG found the Authority improperly used more than $6 million in public housing low-rent funds to pay the administrative expenses of other HUD programs. Also, it improperly used $1.5 million in HUD funds to support its nonfederal entities and could not support all costs.

OIG recommended HUD require the Authority to (1) discontinue its practice of using public housing low-rent funds to pay the administrative expenses of its other programs, (2) reconcile funds owed to its public housing low-rent program from its other HUD programs and then reduce the appropriate programs' funding by approximately $6 million or the amount certified from the reconciliation, and (3) recover $1.5 million provided to its nonfederal entities or repay it from nonfederal sources. (Audit Report: **2005-PH-1009**)

HUD OIG audited the Lycoming County Housing Authority, **Williamsport, PA**, in response to a referral from the HUD Pennsylvania State Office, Office of Public Housing. The audit objective was to determine whether the Authority properly used HUD funds to develop and support its affiliated nonfederal entity.

The Authority properly allocated direct and indirect costs to its nonfederal entity. However, it violated its annual contributions contract with HUD by guaranteeing a $3.5 million line of credit with HUD assets to help support the nonfederal entity. As of March 2005, the Authority owed $2.9 million on this line of credit, placing significant HUD assets at risk.

OIG recommended HUD notify the Authority that it improperly encumbered annual contributions contract assets and direct it to provide evidence within 30 days that the financial instruments encumbering the assets have been changed to exclude the assets, thereby putting $2.9 million to better use. (Audit Report: **2005-PH-1012**)

In **Fulton County, GA**, HUD OIG reviewed the Housing Authority of Fulton County's administration of its housing development activities. The primary objective was to determine whether the Authority advanced resources subject to an annual contributions contract or other agreements or regulations to the benefit of other entities without specific HUD approval. The objective included determining whether the Authority's cost allocation method complied with provisions of Office of Management and Budget (OMB) Circular A-87 and whether adequate records were maintained for public housing program expenses.

OIG found the Authority inappropriately used public housing funds for other programs' and related entities' expenses in excess of funds the programs or entities had on deposit. As of July 31, 2004, six programs or entities owed the public housing program more than $640,000. In addition, the Authority inappropriately advanced public housing funds for some of its activities and activities of the nonprofit entities. The Authority also did not have a record of the time spent on various activities and may have paid a disproportionate share of the costs. As of September 30, 2004, the Authority had allocated more than $1.3 million more to its Federal programs than had comparable housing agencies. Further, the Authority did not maintain adequate records for public housing expenses totaling more than $770,000 incurred from FY 2001 through 2004. The Authority could not provide support for (1) more than $550,000 in reclassified salary and benefit costs (2) more than $181,000 in reclassified expenses, and (3) approximately $40,000 in other expenses.

OIG recommended that HUD require the Authority to (1) repay more than $640,000 or the current balance owed to its public housing program and ensure future transactions comply with the contract and other HUD requirements, (2) provide documentation to justify allocations of more than $1.3 million in salary and benefit costs or reimburse its public housing program, and (3) develop internal controls to ensure that more than $770,000 of public housing expenses are properly supported and that supporting documentation is made readily available upon request. (Audit Report: **2005-AT-1009**)

Because of indications of violations of HUD requirements, HUD OIG reviewed the Town of **Crossville, TN,** Housing Authority's housing development activities. The objectives were to determine whether the Authority inappropriately advanced or diverted resources in violation of its annual contributions contract or other requirements and whether the Authority's cost allocation procedures complied with OMB requirements.

The Authority spent more than $583,000 from its public housing programs for ineligible activities. In violation of its annual contributions contract, the Authority used the funds to support its affordable housing development activities, including several tax credit properties substantially owned by other entities. As a result, the funds were not available for operation or modernization of the Authority's public housing units. In addition, the Authority did not adequately support costs allocated to its Federal programs as required by OMB Circular A-87. Without adequate support, the Authority cannot assure that its various programs, including HUD programs, paid only their fair share of costs.

OIG recommended that the Authority reimburse HUD more than $417,000 and that HUD recapture $130,000 in capital funds. (Audit Report: **2005-AT-1012**)

Public Housing Authority Management of Monetary and Physical Assets

HUD OIG audited the Milford Housing Authority's, **Milford, CT**, Public Housing Capital Fund program, public housing development grants for scattered sites, and Section 8 Housing Choice Voucher program. The audit objective was to determine whether the authority operated in an effective and efficient manner and in compliance with HUD's annual contributions contract, applicable laws, and contractual requirements.

The audit identified questioned costs and opportunities for funds to be put to better use of more than $1.5 million. The Authority failed to (1) address exigent health and safety issues; (2) manage one project in an effective and efficient manner; (3) use development funds for scattered site units on necessary and needed expenditures, maintain an inventory for prematurely replaced or newly purchased scattered site equipment, and comply with Section 504 handicapped requirements for the development of scattered site units; (4) comply with Federal requirements and its own contracts for legal services; (5) implement adequate management controls and procedures over Section 8 inspections; (6) lease-up Section 8 units at an acceptable rate; (7) comply with HUD procurement regulations and its own procurement policy; and (8) follow proper administrative procedures relating to the executive director's employment contract and performance evaluations, properly handle personnel functions and employee benefits, and comply with requirements for executive sessions conducted during board of commissioners meetings.

OIG recommended that HUD assure the Authority (1) prioritizes repairs and/or replacements using available operating reserves and capital funds, which will put approximately $838,000 in funds to better use; (2) reimburses the scattered site development fund more than $135,000 from nonfederal funds for the premature replacement of various items; (3) complies with the Section 504 handicapped-accessible regulations covering the development of scattered sites; (4) reimburses its applicable programs from nonfederal funds for more than $215,000 in ineligible legal costs and develops adequate management controls for over $3,000 in legal expenditures that were unsupported; (5) reimburses HUD approximately $26,000 from nonfederal funds for Section 8 administrative fees collected by the Authority when its Section 8 program units did not meet housing quality standards; (6) implements an effective system to ensure all outstanding housing quality standards deficiencies are monitored and corrected within the required time, which will put more than $280,000 in funds to better use; (7) submits a monitoring plan to ensure it uses all available Section 8 funding; (8) implements controls to ensure it complies with HUD regulations and its own procurement policy in awarding competitive and noncompetitive contracts; (9) submits the executive director's current contract for HUD approval and establishes specific goals and measurements to evaluate the executive director's performance; and (10) reimburses its applicable programs from nonfederal funds more than $25,000 for the executive director's personal use of a vehicle. (Audit Report: **2005-BO-1003**)

HUD OIG reviewed the **McKeesport, PA,** Housing Authority's Section 8 and public housing programs to determine whether the Authority operated its Section 8 and public housing programs according to HUD requirements.

OIG found no significant deficiencies with the Authority's administration of its Section 8 program. However, the Authority's physical inspection process is not effective in ensuring its low-rent units are always properly maintained. The Authority's 1) method of scheduling low-rent inspections caused a maintenance backlog, 2) inspections were not thorough or adequately documented, and 3) procedures to ensure deficiencies identified during inspections are completed in a timely manner were not effective. As a result, the Authority's low-rent housing units were not always maintained in an efficient and effective manner. This was demonstrated when five of the Authority's eight low-rent properties received individual failing scores ranging from 45 to 59 points on its fiscal year 2004 Real Estate Assessment Center (REAC) inspection for its Public Housing Assessment System review.

OIG recommended the Authority implement a number of policies and procedures to improve its low-rent inspection process. These policies should ensure that low-rent inspections are scheduled throughout the year, thoroughly completed, and properly documented, with a followup inspection procedure to ensure previous deficiencies are corrected in a timely manner. (Audit Report: **2005-PH-1014**)

HUD OIG audited the **Bridgeport, CT,** Housing Authority's Section 8 Housing Choice Voucher and low-income public housing programs. The audit was conducted because recent HUD rental integrity management reviews and independent public accountant audit reports identified program deficiencies. The audit objective was to determine whether the programs were administered according to program requirements.

The programs were not administered according to program requirements. As a result, the Authority mismanaged the $1.5 million purchase and renovation of additional office space; spent $2.6 million on the Pembroke Green Development Project, of which $1.3 million failed to benefit eligible families; improperly used more than $636,000 in low-income public housing funds for voucher program expenses; improperly charged approximately $410,000 in administrative costs to the voucher program; and improperly calculated and supported housing assistance payments.

OIG identified questioned costs and opportunities for funds to be put to better use totaling $3.8 million and recommended that HUD require the Authority to justify the acquisition and use of the 215 Warren Street office space or sell the property, implement procedures to ensure that only eligible families own and rent Pembroke Green housing units or repay the $1.3 million in HUD funds used to develop the project that did not benefit eligible families, repay more than $636,000 to the low-income public housing program for funds used for the voucher program, implement an equitable cost allocation plan and accounting procedures to allocate expenses to the benefiting programs and reimburse its voucher program approximately $410,000 for ineligible costs charged to the program, and adequately implement its quality control procedures to ensure housing assistance payments are properly calculated and supported. (Audit Report: **2005-BO-1004**)

HUD OIG audited the procurement practices of the Housing Authority of the City of **High Point, NC**, to determine whether the Authority solicited and awarded contracts in accordance with procurement regulations and other requirements.

The Authority paid at least $524,000 without following procurement requirements. As a result, the Authority cannot ensure it received the resulting goods and services at the best price or that it properly used HUD funds to meet its mission of providing safe and sanitary housing.

OIG recommended that HUD (1) require the Authority to develop and implement procurement policies and procedures that ensure future procurements are in accordance with requirements, thus providing assurance that at least $524,000 will be put to better use during the next 12 months; (2) require the Authority to discontinue paying vendors who do not have valid contracts or purchase orders; and (3) monitor the Authority to ensure it complies with procurement requirements and, if necessary, implement appropriate sanctions to ensure compliance. (Audit Report: **2005-AT-1011**)

In Kankakee, IL, HUD OIG audited the Kankakee County Housing Authority's low-rent housing program in response to a citizen's complaint and as part of a comprehensive audit of the Authority. The objective of the audit was to determine whether the Authority administered its low-rent housing program in an efficient and effective manner and had adequate procedures and controls over its subsidy requests, preventive maintenance, admission and occupancy, personnel practices, and Turnkey III Homeownership Opportunity program.

OIG found the Authority (1) improperly included Turnkey III units in its calculation of its low-rent performance funding operating subsidy, resulting in the Authority receiving more than $119,000 in excess operating subsidies; (2) did not follow its annual contributions contract with HUD to implement an effective maintenance program, resulting in lost rental proceeds of more than $69,000; (3) failed to improve its low-rent housing program's admission and occupancy controls over maintaining proper documentation in tenant files, conducting timely reexaminations, accurately calculating total tenant payments, and assigning proper unit sizes for tenants; (4) did not follow its personnel policies related to maintaining documentation in personnel files, conducting performance appraisals in a timely manner, and properly administering personnel benefits; and (5) failed to provide adequate oversight of its Turnkey III Homeownership Opportunity program.

OIG recommended that HUD require the Authority to (1) reduce its low-rent performance funding operating subsidy for the inappropriately used monies and (2) implement procedures and controls to correct the weaknesses cited. (Audit Report: **2005-CH-1010**)

HUD OIG conducted a second audit of the Kankakee County Housing Authority in **Kankakee, IL**. The objective was to determine whether the Authority maintained its low-rent housing units in accordance with HUD's requirements and ensured that they complied with the City of Kankakee's ordinance on rental licensing.

OIG inspected 39 family housing units and identified 693 deficiencies causing the unit not to be in good repair, order, and condition, as well as health and safety issues for 36 of the 39 units. The Authority improperly used HUD funds to pay more than $10,000 in fines for its low-rent housing family units that did not have valid rental licenses issued by the City.

OIG recommended that HUD require the Authority to (1) reduce its low-rent housing operating subsidy for the inappropriately used funds, (2) seek reimbursement from the City for fines that may have been improperly paid, and (3) implement procedures and controls to correct the weaknesses identified. (Audit Report: **2005-CH-1014**)

Public Housing Mortgages and Security Interest Program

HUD OIG audited HUD's Public Housing Mortgages and Security Interest program's process for granting security interest in unappropriated Public Housing Capital Fund grants. An earlier audit on the Capital Fund program administered by a Connecticut Housing Authority, disclosed potential weaknesses in the HUD Office of Public and Indian Housing's internal controls over its Public Housing Mortgages and Security Interest program. The objective was to determine whether HUD established adequate internal controls to safeguard funding before allowing public housing authorities to use security interests in future program grants.

HUD's Office of Public and Indian Housing failed to perform a front-end risk assessment before allowing public housing authorities to use security interests in future Public Housing Capital Fund program grants. A front-end risk assessment is needed to ensure internal controls are effective. HUD has approximately $94 million in financing proposals under review that should not be approved until a program risk assessment is completed and approved and adequate internal controls are in place.

OIG recommended that HUD (1) complete a front-end risk assessment of the Public Housing Mortgages and Security Interest program, which will result in funds to be put to better use in the amount of $4.9 million; (2) establish internal controls, including rules and regulations, for the Public Housing Mortgages and Security Interest program based on results of the front-end risk assessment; and (3) suspend approvals of financing proposals valued at $94 million if the front-end risk assessment is not submitted to and approved by HUD's Chief Financial Officer by October 30, 2005. (Audit Report: **2005-BO-0002**)

Moving to Work Demonstration Program

HUD OIG reviewed HUD's design and implementation of the public housing/ Section 8 Moving to Work (MTW) Demonstration program to determine whether (1) the program tested ways to provide and administer housing assistance that reduced costs, promoted self-sufficiency, and increased housing choices and (2) HUD had the authority to approve housing authority requests to make tenants enter new contracts with time-limited housing assistance.

OIG determined HUD relied on an existing system to collect tenant information. The system could not accept tenant information and was not adapted in time to support an interim evaluation. As a result, HUD was not able to measure interim program impacts on costs, family self-sufficiency, and housing choices as planned. In addition, HUD relied on existing assisted housing rules modified by public housing/Section 8 MTW Demonstration requirements. However, the modified rules did not ensure HUD (1) consistently monitored MTW Demonstration housing authority activities and performance and (2) obtained required OMB approval when collecting program information. OIG determined HUD had the authority to make tenants enter new time-limited contracts.

OIG recommended that HUD (1) develop a means for evaluating public housing/Section 8 MTW Demonstration program performance, (2) require field offices to monitor program activities, and

(3) obtain OMB approval for annual plans and reports. (Audit Report: **2005-SE-0001**)

Operating Subsidy Program Review Process

HUD OIG audited the HUD Office of Public Housing, Boston Hub's review process for operating subsidy calculations for Region 1 public housing agencies administering low-income public housing programs during fiscal years 2004-2005.

The Boston Hub incorrectly approved more than $1.3 million in operating subsidies for public housing agencies in FY 2004-2005. It had not implemented a quality control process to ensure the accuracy of the operating subsidy determinations approved. As a result, it provided some public housing agencies less than their eligible subsidy, while providing others approximately $446,000 more than their eligible subsidy. As of April 28, 2005, the Boston Hub had submitted more than $932,000 in revisions, not including the $446,000, to the REAC Financial Management Division in response to this review.

OIG recommended that HUD implement a quality control process to ensure the accuracy of the operating subsidy determinations approved, recover the more than $446,000 in excess subsidies approved in FY 2004, and ensure that REAC's Financial Management Division implements the more than $932,000 in revisions the Boston Hub submitted. (Audit Report: **2005-BO-0001**)

Investigations

During this reporting period, OIG opened 388 investigation cases and closed 392 cases in the PIH program area. Judicial action taken on these cases during the period included $12,675,659 in investigative recoveries, $57,654,988 in funds put to better use, 415 indictments/informations, 327 convictions/pleas/pretrial diversions, 1,499 administrative actions, 9 civil actions, 19 personnel actions, and 3,634 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 OIG's more significant investigations are described below.

Chart 3.3: Public and Indian Housing Investigative Recoveries

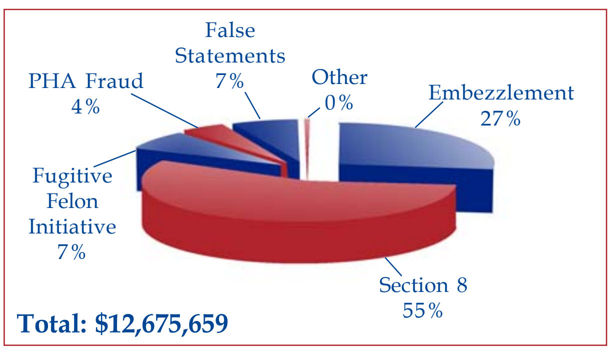
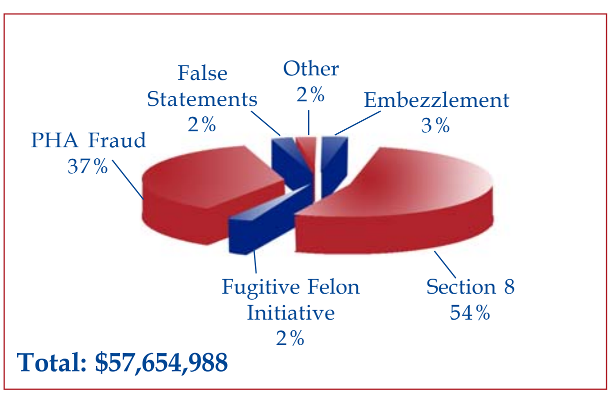


Chart 3.4: Public and Indian Housing Funds Put to Better Use



PHA Management and Program Officials/Employees

Section 8 landlord Augustus R. Bond, Sr., of **Baltimore, MD**, was sentenced in U.S. District Court, District of Maryland, for his previously admitted role in the theft of HUD funds from the Housing Authority of Baltimore City (HABC). Defendant Bond received 6 months home detention, followed by 2 years supervised release, was fined $2,000, and was ordered to repay $30,500 to HABC. The investigation disclosed that for several years, Bond received a total of 77 HABC Section 8 housing assistance payment (HAP) checks on behalf of two tenants who he knew were no longer eligible for assistance. In one case, Bond falsely reported that a tenant who had previously vacated a unit had returned, and he continued to file false reports for almost 8 years to continue receiving assistance on that unit. In the other case, Bond knew that one of his tenants began subleasing the assisted unit to a friend in January 1999, but he continued to report the original tenant as occupying the unit for a period of 4 years until the scheme was uncovered.

Former executive director Denise P. Guite of **Hartford, CT**, was sentenced in Connecticut Superior Court. Defendant Guite previously pled guilty to one count of larceny in the first degree by defrauding a public community. Guite was sentenced to 10 years imprisonment, suspended after serving 15 months, and 5 years probation. Guite was also ordered to repay $3,000 per year to the Berlin Housing Authority (BHA), over her 5-year probation period. Guite has already repaid $18,800 to the BHA, which represents the amount of money involved in the theft that was not repaid by insurers of the BHA.

Scott Banninga of **Grand Rapids, MI**, former executive director of the Dowagiac Housing Commission, was sentenced to 2 years probation and court-ordered restitution totaling $2,298. This followed his earlier guilty plea in the U.S. District Court, Western District of Michigan to embezzlement of Federal funds. Banninga, as executive director, utilized two Dowagiac Commission American Express credit cards to purchase meals, computer programs, textbooks, car repairs, and Internet services; all of which were used for his personal benefit. The total loss was approximately $5,000. As a result of the criminal investigation, Banninga's $45,000 annual contract with the housing commission was immediately terminated.

A criminal information was filed against Jerome Wisniewski of **Grand Rapids, MI**, the former executive director of the Manistee Housing Commission. Wisniewski was charged in the U.S, District Court, Western District of Michigan, with two counts of embezzlement and unlawful monetary transaction for his role in an alleged scheme to defraud the housing commission of more than $1.2 million in the Western District of Michigan. Wisniewski, who had been an employee of the housing commission for more than 34 years, purportedly used the authority's funds to purchase a 1989 Rolls Royce Silver Spur, a 1999 Porsche 911, and two pieces of real estate. According to the criminal information, Wisniewski was able to further his scheme through the creation of a fictitious company, which allowed him to funnel housing commission funds. Forfeiture arrangements are already underway for Wisniewski's vehicles and the proceeds from the imminent sale of his properties.

Defendant Marysol Morales of **Boston, MA**, former Section 8 coordinator, Avon, MA, Housing Authority, was charged in a 21-count superseding indictment by a Federal grand jury in U.S. District Court, Boston, MA. Morales was charged with a total of six counts of corrupt receipt of payments by an agent of a federally funded local government entity and with 15 counts of using false documents in a matter within the jurisdiction of a Federal agency. In a previous Federal indictment, which was returned on February 16, 2005, Morales had been charged with three counts of corrupt receipt of payments.

These actions are the result of an ongoing HUD OIG investigation, which revealed that Morales had allegedly solicited bribes from several Section 8

Feds add 18 charges against Avon employee

■ Marysol Morales of Brockton, the former manager of the Housing Authority rental subsidy program, is accused of running a scam from the office.

By Tim Grace
ENTERPRISE STAFF WRITER

AVON — Eighteen new federal charges were filed Wednesday against the former manager of the Avon Housing Authority's rental subsidy program.

Marysol Morales, 41, of Brockton is accused of running a scam out of the three-person housing office, bilking thousands of dollars in bogus fees and deposits from people applying for federal rent assistance, formerly called Section 8 vouchers.

Morales was indicted Feb. 16 on three counts of corrupt receipt of payments by an agent of a federally funded local government entity. Another 18 counts were added Wednesday.

In all, she is facing 15 counts of using a false document in a matter within the jurisdiction of a federal agency, and six counts of corrupt receipt of payments.

applicants ranging from $2,600 to $6,500. In addition, Morales issued more than 90 alleged 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 $1,300,000, which caused the Avon Housing Authority to pay in excess of $50,000 per month in HAP, funds that it did not have.

As a result of the allegations, the Avon Housing Authority 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 terminated from her job at the Avon Housing Authority on December 30, 2004.

Samuel Norris of **Miami, FL**, a housing authority employee for more than 17 years, pled guilty to two counts of theft concerning programs receiving Federal funds in the U.S. District Court, Southern District of Florida. Norris was previously indicted on March 1, 2005, and charged with two counts of theft concerning programs receiving Federal funds, nine counts of theft of public money, and one count of false statements to HUD. Norris, a leasing and contracts supervisor for the Miami Dade Housing Agency (MDHA), was responsible for approving and processing Section 8 applicants at the housing authority. Norris abused his position by certifying MDHA documents to reflect a fictitious Section 8 landlord in order to divert the Section 8 subsidy checks to himself. From 2000 through 2004, Norris ensured that he successfully diverted the Section 8 subsidy checks to himself in the amount of $21,706. Norris was suspended without pay following his indictment and has resigned from his position as a result of his guilty plea.

Defendant Miriam Brown, former executive director of the **Maquoketa, IA**, Housing Authority, was sentenced in U.S. District Court, Northern District of Iowa, to serve 7 months imprisonment, 7 months home confinement, and 2 years supervised release. Defendant Brown previously pled guilty to embezzling more than $64,000 from HUD. Defendant Brown embezzled the funds from the Housing Authority operating account by reimbursing herself for expenses that did not exist and overpaying herself with unapproved bonus and salary checks during a 3-year period. Defendant Brown repaid the $64,000 in restitution to HUD prior to her sentencing. This investigation was conducted by HUD OIG.

Defendant Jane Burchett, **Omaha, NE,** former executive director of the Housing Authority of Wymore, NE, was indicted by a Federal grand jury for the District of Nebraska for embezzling funds. Defendant Burchett allegedly hired a tenant to clean restrooms and clean out apartments. The tenant worked 7 to 12 hours per month. Defendant Burchett allegedly issued a monthly check generally for $498 payable to the tenant, allegedly endorsed it by signing the tenant's name as well as her own, then paid the tenant approximately $100 per month. The checks issued and cashed in this manner totalled more than $26,600 from 1999 through September 2004.

Defendant Renee Gonzales, former executive director of the **Fort Lupton, CO**, Housing Authority was indicted by a Federal grand jury for the U.S. District Court, District of Colorado, on July 11, 2005. On July 14, 2005, Federal agents from HUD OIG and the Federal Bureau of Investigation (FBI) arrested defendant Gonzales at her residence in Fort Lupton, CO. The Federal grand jury indicted

Gonzales on 53 counts of theft of government program funds. The investigation found that defendant Gonzales allegedly wrote 53 Housing Authority checks to fraudulent payees then deposited the checks into the bank accounts of her husband's trucking company. The investigation disclosed that during the period of May 2003 though June 2004, defendant Gonzales allegedly embezzled approximately $212,095 of Housing Authority funds.

Defendant Verda Steward, unreported Section 8 tenant, Housing Authority of **Kansas City, MO** (HAKC), was charged in the 16th Circuit Court for the State of Missouri with one count of theft/stealing of property or services of $500 or more. Clellie Barker, defendant Steward's deceased boyfriend, had been a Section 8 recipient but died in December 2001. Defendant Steward, who was never on the lease, allegedly continued to receive benefits under Barker's identity after his death. Defendant Steward allegedly received $6,652 in housing benefits from the HAKC to which she was not entitled.

Francis X. Maroney, former chief, Purchasing Department Warehousing, Springfield Housing Authority (SHA), entered a plea of guilty to one count of bribery and one count of obstruction of justice. Maroney's plea was based on an information filed in U.S. District Court, **Springfield, MA**. Maroney, in entering his plea, admitted to his participation in accepting bribes from an SHA vendor; to misleading investigators regarding other SHA vendors involved in paying kickbacks; and to wholesale theft of SHA material from the warehouse.

A 12-count felony complaint was filed on Johnny Walker, an employee of the Housing Authority City of **Los Angeles, CA** (HACLA), his wife, Linneth Tirhanna Walker, and his mother-in-law, Cecilia Singh. All three allegedly conspired to commit grand theft and welfare fraud. On or between January 1, 2001, and January 1, 2003, Johnny Walker and Linneth Walker allegedly defrauded the HUD Section 8 program by renting a subsidized property to Cecilia Singh, a violation of program regulations. These individuals were charged with grand theft of personal property, causing a loss of monies exceeding $15,000 to the HACLA.

On August 19, 2005, Johnny Walker, Linneth Walker, and Cecilia Singh were arrested at their residence and taken into custody. All three were released on their

Former official admits bribery

Francis Maroney initially lied to agents about his own involvement and perks he had been granted.

By STEPHANIE BARRY
sbarry@repub.com

One of three top executives at the Springfield Housing Authority who resigned two years ago amid a corruption investigation pleaded guilty yesterday to federal bribery and obstruction of justice charges.

As part of a deal with prosecutors, Francis X. Maroney admitted taking $40,000 in free plumbing, siding and carpeting from housing authority contractors in 2000 to build a home at 16 Azalea Way in Belchertown. The agency's former chief purchasing agent also acknowledged taking cash bribes for five years from chemical supplier Paul A. Bannick, one of three housing authority contractors indicted last summer.

Please see Probe, Page A10

own recognizance and are scheduled to appear in court.

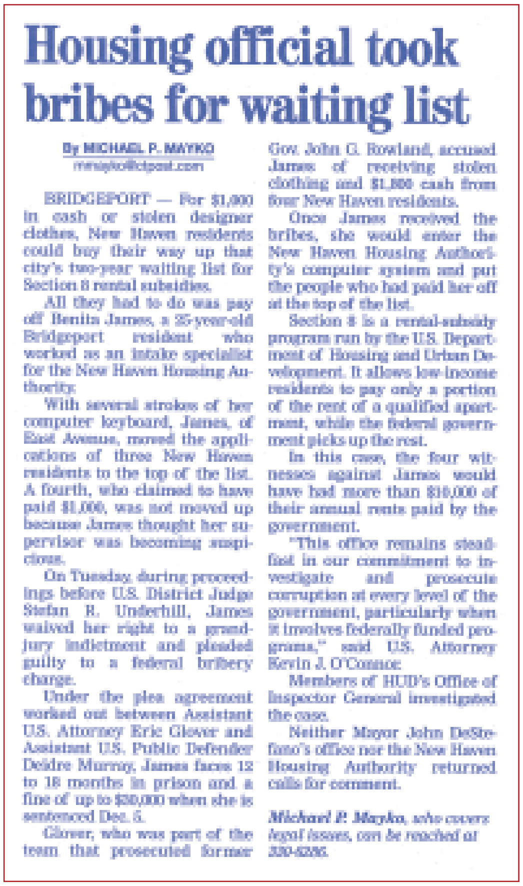
Defendant James H. Tate of **Topeka, KS**, former executive director of the Junction City, Kansas, Housing Authority (JCHA), pled guilty in Federal Court, U.S. District of Kansas, to a one-count information charging him with the theft of JCHA funds. Defendant Tate admitted that between December 2002 and November 2004, he stole a total of $102,701.23 from the JCHA. Defendant Tate had worked for the JCHA since 1990, and his job was to manage the daily operations of the housing authority and to report to the authority's board of directors. Defendant Tate charged personal items on the JCHA credit card, including eye glasses, clothes, travel expenses, food, jewelry, phone bills, cable bills, and other items he purchased for his friends and family. He also used the JCHA's gas cards to buy gas for his personal use and drove housing authority vehicles on trips with family and friends or to shop or dine. Defendant Tate paid the unauthorized credit card expenses by obtaining the JCHA chairman of the board's electronic signature password, which he used to write checks on the JCHA computerized software accounting program.

Defendant Cynthia Stone, employee of the Housing Authority of **Kansas City, MO** (HAKC), and HAKC Section 8 tenant, pled guilty in the U.S. District Court for Western Missouri to one count of embezzlement/ theft of public money. Defendant Stone admitted she failed to report her HAKC employment income. Defendant Stone previously confessed that she did not report to HAKC that for extended periods of time, she had lived at another address with her boyfriend and her niece lived at the Section 8 address. The loss to the HAKC is $20,067.

Defendant Barbara Gilbert of **Newark, NJ**, former executive director of the Buena Housing Authority, was indicted on one count of official misconduct and four counts of theft by deception in the Atlantic County Court of New Jersey. Gilbert allegedly utilized Housing Authority checks to pay for more than $7,800 worth of personal purchases and her cell phone bill. In addition, Gilbert allegedly utilized the Housing Authority's Home Depot credit account to make personal purchases.

Defendant Wayne August Nickols of **Montgomery, AL**, pled guilty in U.S. District Court for the Middle District of Alabama to one count of mail fraud. Nickols conspired with the former executive director, Wiley Thomas, of the Montgomery Housing Authority to pay kickbacks to Thomas in exchange for contracts. Nickols and Wiley would inflate the price of the contracts for services, and as a result of the scheme, Nickols received $243,280 from the Montgomery Housing Authority.

Defendant Benita James, a former employee of the Housing Authority of the City of **New Haven, CT** (HANH), pled guilty in U.S. District Court, Bridgeport, CT, to a one-count information charging her with theft or bribery concerning programs receiving Federal funds. While employed as an intake specialist for the HANH Service Center, James admitted to receiving bribes of cash and stolen clothing in exchange for moving people to the top of the Section 8 waiting list. James knew that the process for obtaining Section 8 assistance through the Housing Authority typically took up to 2 years. James entered the Housing Authority's Emphasis Elite computer system and altered electronic records, thereby moving people to the top of the Section 8 waiting list. As part of her



Housing official took bribes for waiting list

By MICHAEL P. MAYKO
mmayko@ctpost.com

BRIDGEPORT — For $1,000 in cash or stolen designer clothes, New Haven residents could buy their way up that city's two-year waiting list for Section 8 rental subsidies.

All they had to do was pay off Benita James, a 25-year-old Bridgeport resident who worked as an intake specialist for the New Haven Housing Authority.

With several strokes of her computer keyboard, James, of East Avenue, moved the applications of three New Haven residents to the top of the list. A fourth, who claimed to have paid $1,000, was not moved up because James thought her supervisor was becoming suspicious.

On Tuesday, during proceedings before U.S. District Judge Stefan R. Underhill, James waived her right to a grand-jury indictment and pleaded guilty to a federal bribery charge.

Under the plea agreement worked out between Assistant U.S. Attorney Eric Glover and Assistant U.S. Public Defender Deirdre Murray, James faces 12 to 18 months in prison and a fine of up to $30,000 when she is sentenced Dec. 5.

Glover, who was part of the team that prosecuted former Gov. John G. Rowland, accused James of receiving stolen clothing and $1,800 cash from four New Haven residents.

Once James received the bribes, she would enter the New Haven Housing Authority's computer system and put the people who had paid her off at the top of the list.

Section 8 is a rental-subsidy program run by the U.S. Department of Housing and Urban Development. It allows low-income residents to pay only a portion of the rent of a qualified apartment, while the federal government picks up the rest.

In this case, the four witnesses against James would have had more than $10,000 of their annual rents paid by the government.

"This office remains steadfast in our commitment to investigate and prosecute corruption at every level of the government, particularly when it involves federally funded programs," said U.S. Attorney Kevin J. O'Connor.

Members of HUD's Office of Inspector General investigated the case.

Neither Mayor John DeStefano's office nor the New Haven Housing Authority returned calls for comment.

Michael P. Mayko, who covers legal issues, can be reached at 330-6286.

Copyright, 2005. The Connecticut Post - Bridgeport, CT. Reprinted with permission.

scheme, James would locate electronic records for applicants for Section 8 vouchers who were at or near the top of the Section 8 waiting list and change the applicant information to that of the persons who provided her with money and other things of value. James is scheduled to be sentenced on December 5, 2005.

Defendant Renay Robison-Scheer of **Norfolk, NE**, executive director, Northeast Nebraska Economic Development District (NEDD), in the U.S. District Court for Nebraska, agreed to a civil settlement to pay HUD $39,236. Defendant Robison-Scheer fraudulently misspent various HUD administrative and operational grant funds of NEDD.

Grand Theft/False Statements/ Conspiracy

Michael Ciarci, owner of Ciarci Construction, LLC, was found guilty by a jury in U.S. District Court, **Hartford, CT**, on one count of money laundering and one count of conspiracy to commit money laundering. Ciarci Construction, LLC, had a contract with the Housing Authority of the City of New Britain (HANB) to rehabilitate units at the Pinnacle Heights housing development. In furtherance of this contract, Michael Ciarci certified to the HANB that Luis Santiago worked in December of 2001 performing services related to this contract. Santiago had given Ciarci $31,000 in cash that was generated from the sale of narcotics, in return for which Ciarci agreed to issue weekly paychecks from Ciarci Construction, LLC, to Santiago. In addition, Luis Santiago was indicted, pled guilty to one count of money laundering, and was sentenced to 33 months incarceration.

Miladys Gomez of **Newark, NJ**, appeared in United States District Court, District of New Jersey, and was sentenced to 2 years of imprisonment and 2 years of supervised release upon the conclusion of her prison term. In addition, Gomez was ordered to pay $407,603 in restitution to HUD. Gomez had previously pled guilty to four counts of theft of Section 8 funds (theft from programs receiving Federal funds). This investigation disclosed that from approximately April 2000 to January 2004, Gomez embezzled more than $400,000 in Section 8 funds.

Leslie Tourner of **Orlando, FL**, was sentenced in U.S. District Court, Middle District of Florida, to 24 months incarceration, 3 years supervised release, and 150 hours of community service; ordered to pay $204,693 in restitution; and prohibited from incurring new credit charges, opening additional lines of credit, or making an obligation for any major purchases. Tourner previously pleaded guilty to one count of conspiracy to embezzle and money laundering. Tourner coconspired with Randy Donawa, the former Section 8 director of the Orlando Housing Authority, Shawana Glover, and Brian Tourner. The subjects allegedly devised a scheme in which they created fictitious landlords, opened bank accounts under the landlords' false identities, and wire transferred $425,000 in Section 8 money into the accounts. Donawa pleaded guilty to the same charges and was sentenced on May 23, 2005, to 21 months incarceration and 2 years supervised release and ordered to pay $257,265 in restitution. Glover and Tourner were sentenced on May 18 and 20, 2005, after pleading guilty to the same charges. Glover was sentenced to 15 months incarceration, and Tourner was sentenced to 18 months incarceration. Both Glover and Tourner were sentenced to 3 years supervised release and 150 hours community services and ordered to pay $204,693 in restitution.

Defendant Pamela Rouse of **Upper Marlboro, MD**, an employee of the U.S. Department of Justice (DOJ), Civil Rights Division, Washington, DC, pled guilty in Maryland District Court for Prince Georges County to making false statements to fraudulently obtain Section 8 housing assistance. She was immediately sentenced to 36 months probation and ordered to make full restitution of $11,718 to the Prince Georges County Department of Housing and Community Development. Joint investigation by HUD and DOJ OIG disclosed that, over a 3-year period, the defendant failed to include the residency and income of the father of her child, William Dixon, who was employed with a nationwide property management firm. Pertinent information has been provided to DOJ for appropriate administrative and/or disciplinary action against the defendant.

Reginald Vaughn Hurd, Margie Langdon Stinson, Michelle Delores Brown, Antwinette Anderson, Helen Syatt, and Yvonne Taylor of **Dallas, TX,** were arrested for securing and executing a document by deception. In addition, Helen Emory Hurd was arrested for forgery. The seven subjects are allegedly involved in a scheme to defraud the Dallas Housing Authority (DHA) by falsifying deeds and other governmental records to qualify properties for subsidized housing assistance. The two main subjects, Michael Booty and Leoy Phillip Mitchell, involved the aforementioned subjects by placing properties in their names and obtaining home improvement loans for the properties. Once the loans were approved, the subjects allegedly received a kickback as the "owner" of the property, and Mitchell and Booty, through their construction companies, would make nominal repairs to the properties and then keep a large portion of the loans as profit. DHA then paid all of the HAP funds to the "listed owners" of the properties; however, all of the funds went to Booty and Mitchell as property managers, and they serviced the loans. In addition, the subjects have created at least three properties from detached garages and forged or altered real deeds for those properties stating they were residences.

As part of a Joint Terrorism Task Force (JTTF) criminal referral, three Section 8 tenants and their husbands were indicted by a grand jury in U.S. District Court, Southern District of **Indianapolis, IN**. The tenants are Wafa Monhammad Taha (site-based), Nazmiah M. Abed (tenant-based), and Sadi Aduhamdeh (tenant-based). All are alleged to have their husbands living in the assisted unit and failing to report accurate family composition and/or income. The men charged, Mohammad T. Ibrahim, Ibrahim Taha Abed, and Abdelnaser Sadi, have commercial driver's licenses with hazardous materials approvals and made sizable incomes during the periods in question. The tenants and their husbands were all charged with making false statements and theft of public monies. The total loss to HUD is $62,346.

A Federal grand jury in the Northern District of **Cleveland, OH**, unsealed a 42-count indictment charging, among other things, defendants Frank Adams, Gordon Nelson, Jimmie Mitchell, Aubrey Benjamin, Andre Jenkins, Nathaniel Thompson, Roland Smith, Julena Burns, Juan Mendoza, and Gary Eppinger with violation of currency reporting and structuring laws and possession with intent to distribute cocaine (5 kilograms or more). It is alleged that Mitchell (Section 8 landlord), Benjamin (Section 8 landlord), Nelson, Jenkins, Thompson, Smith, and Eppinger received multiple kilograms of cocaine from their suppliers in Los Angeles, CA, Frank Adams, Juan Mendoza, and Julena Burns.

It is alleged that Mitchell distributes these multiple kilograms of cocaine to Cleveland area dealers (at least four of whom are Section 8 landlords). To conceal the proceeds of his drug trafficking, Mitchell opened and operated several construction businesses. Although the construction businesses had bank accounts, none of the money was purportedly used for the three houses his construction companies built.

The **Worcester, MA**, Police Department (WPD) obtained state complaints charging Kenneth Flood and Melissa Lenart with larceny over $250 and uttering a false instrument. The complaints were made after a joint HUD OIG, WPD, and Worcester Housing Authority (WHA) Department of Public Safety investigation showed Flood and Lenart had allegedly forged and cashed $6,800 in checks stolen from a WHA tenant association.

Section 8 tenants LuAnn Fell and Peggy Wolfe were charged separately in State Circuit Court, Frederick County, MD, on theft and fraud charges relating to their receipt of rental assistance from the **Frederick, MD**, Housing Authority. Investigation by OIG was initiated as a result of our ongoing review of zero- or low-income tenants receiving assistance from the Authority and disclosed that defendant Fell allegedly failed to report income of approximately $1,000 per week from a cleaning business and claimed additional family members who did not reside with her to obtain a larger rental unit. Defendant Wolfe failed to report the occupancy and income of the father of her child, who is employed as a driver for a local dairy, earning approximately $50,000 per year. The aggregate amount of rental assistance overpaid on the defendants' behalf is almost $40,000.

Section 8 tenant Carol Jackson of **Scranton, PA**, a resident of Village Park Apartments, was charged in U.S. District Court, Middle District of Pennsylvania, with providing false information to obtain housing assistance to which she was not entitled. Investigation by OIG, which included execution of a search warrant at the subsidized unit, disclosed that since at least 1988, the defendant has allegedly been operating a private-duty nursing registry from her apartment. The defendant would allegedly refer persons to provide home health care for the aged and infirm, for which she received fees of up to $400. She also allegedly maintained substantial funds in a personal bank account that was never disclosed. Throughout the years since 1988, she allegedly reported only welfare and income from sporadic employment on official recertification forms and received the benefit of $189,000 in rental assistance.

In Will County Circuit Court, as part of Region 5's proactive tenant/landlord fraud efforts through the **Joliet, IL**, Housing Authority (JHA), two tenants entered guilty pleas on criminal informations, three other tenants were indicted, and one landlord was indicted in what is known as "OPERATION JOLI 8."

Tenant Debbie Daniels was charged with failing to report more than $50,000 from a local casino to the JHA, thus causing an estimated loss of $11,000. Tenant Aquenetta Hughes, an employee of the State of Illinois, was charged with failing to report more than $100,000 from her employer, thus causing a loss of $23,000. Tenant Letha Griffin was charged with failing to report in excess of $60,000, thus causing a loss of $20,000. Section 8 landlord Stephanie Roberts was charged with accepting approximately $7,000 in "side payments" over and above what her true tenant's payment should have been. Tenants Yvette Steel and Johnnie Mae Carver pleaded guilty and were sentenced for their failure to report accurate income to the JHA. Steel was sentenced to 2 years probation and ordered to pay restitution totaling $6,500. Carver was sentenced to 2 years probation and ordered to pay restitution totaling $15,000.

Williamsport, PA, Housing Authority executive director Bernard Meyer was charged in U.S. District Court, Middle District of Pennsylvania, with concealing his and another member of the board's financial interest in the HUD-funded Section 8 program. Investigation by OIG disclosed that Meyer has allegedly owned property under the name Brandon Investment Group that has received rental assistance on behalf of a tenant since 1999. Further, he also allegedly knew that the board member and another employee owned property that housed Section 8 tenants. Despite this, he allegedly certified annually to HUD that the Section 8 program was being administered in accordance with outstanding regulations. The aggregate amount of housing assistance paid improperly to all three individuals was computed at $44,424.

Defendant William Hudgens, a former **Cave Springs, GA**, police officer assigned to the Cave Springs Housing Authority, pleaded guilty in Floyd Superior Court, Rome Judicial District, to 14 counts of theft by deception violation and one count of violation of oath of office as a police officer. Hudgens was formerly arrested and indicted for theft of $25,000. He admitted to converting housing authority funds for his personal use while being assigned to the housing authority as a community police officer. On this same date, Hudgens was sentenced to 15 years incarceration, ordered to pay $23,849 in restitution, and fined $12,600.

Defendant Amanda Horn, a **Junction City, KS**, Housing Authority (JCHA) Section 8 tenant, was indicted in the U.S. District Court of Kansas on a 13-count indictment. Defendant Horn committed fraud against HUD, the U.S. Department of Agriculture (USDA) Food Stamp program, U.S. Department of Health and Human Services (HHS) Temporary Assistance for Families program, and the Medicaid program, when she allegedly failed to report that her mother, Catherine Stinnet, paid Debra Printup for daycare services on Defendant Horn's behalf. These payments were as follows: $1,020 from approximately October 7, 2002, through December 31, 2002; $2,700 from approximately January 1, 2003, through March 30, 2003, and again from August 21, 2003, through December 31, 2003; and $1,320 from approximately February 10, 2004, though April 30, 2004. As a result, JCHA paid out $7,200 in excessive HAP benefits, Kansas Social and Rehabilitative Services paid out $ 2,829 in excessive USDA food stamp benefits and $589 in general cash assistance, and HHS paid out $3,976 in Medicaid overpayments. Defendant Horn's alleged failure to report changes in her household composition and income resulted in a total loss to the government of $14,594.

Ronald Nagel, former **Sacramento, CA**, Housing and Redevelopment Agency (SHRA) conventional housing tenant, was indicted by a Federal grand jury in the Eastern District of California on one count of theft. This investigation found that Nagel allegedly failed to report income derived from the sale of cigarettes to the SHRA from 2000 through 2003. This case was referred to the Social Security Administration (SSA) OIG by this office upon discovery that Nagel was receiving benefits from that agency. The loss to the government due to Nagel's failure to report the income is approximately $51,000.

Windale Simpson, tenant of 40 Waterside Plaza, **New York, NY**, was convicted on five counts by a Federal jury in the Southern District of New York: two counts of submitting false statements, two counts of theft of government funds, and one count of mail fraud. Simpson was arrested pursuant to an indictment in September 2004. Simpson and his wife Lisa Khandker-Simpson, a codefendant, falsely represented his total household income to obtain Section 8 housing assistance and welfare benefits from the New York City – Human Resource Administration and caused such benefits to be mailed through the United States Postal Services. From August 2001 through December 2003, the defendant falsified initial applications and annual recertifications, thereby wrongly receiving rental assistance and welfare funds in excess of $71,723.

In U.S. District Court for the Western District of Washington, defendant Carol Tharpe of **Seattle, WA**, was charged with one felony count of theft of government funds. Tharpe pled guilty and was scheduled for sentencing. This investigation began after HUD OIG received allegations that Tharpe was involved in a public housing fraud scheme in which the defendant obtained public housing benefits by understating her annual income on annual Seattle Housing Authority recertification forms. From 1998 through 2004, Tharpe understated her income to qualify for public housing assistance. As a result of submitting fraudulent recertifications, Tharpe obtained more than $37,500 in public housing assistance she was not entitled to receive.

Elvira Sami-Anas, tenant of **New York, NY**, was sentenced in the Southern District of New York to 3 years probation and ordered to pay a $100 special assessment and $12,496 in restitution. In April 2005, Sami-Anas pled guilty to two counts of submitting false statements and one count of theft of government funds. Sami-Anas was arrested pursuant to an indictment in September 2004. Sami-Anas falsely represented her total household income to obtain Section 8 housing assistance. Sami-Anas also subleased her apartment and moved to another address for which she also submitted an application to HUD under an alias to receive Section 8 housing assistance. From July 1993 through July 2004, the defendant falsified initial applications and annual recertifications, thereby wrongly receiving rental assistance.

Defendant Cindy Cerda pled guilty to one count of execution of a document by deception. Cerda was sentenced to 5 years probation, a $500 fine, court costs of $198, and $10,105 in restitution. Cerda is one of 82 individuals that have been indicted by a **Dallas, TX**, County grand jury since October 2004, accused of defrauding Dallas Housing Authority (DHA) by means of underreporting family income or assets to illegally get more than $1.2 million in higher rental subsidies or public housing assistance. DHA terminated 134 tenants from its housing assistance program for criminal activities. These terminations resulted in funds put to better use of $4 million with an overall funds put to better use for the Dallas Rental Housing Integrity Improvement Project (RHIIP) initiative of $5,182,992.

Officers from the **Austin, TX**, Police Department (APD) and special agents from HUD OIG arrested 30 current and former tenants of the Housing Authority of the City of Austin (HACA). Thirteen individuals were indicted on charges of tampering with a government record for failing to accurately report income and/or household composition in relation to their federally subsidized housing benefits. In addition, 18 individuals living in public and assisted housing were identified as having outstanding warrants for violent crime offenses.

Teresa Akridge, Erica Broughton, Tanya Callaway, Priscilla Colbert, Sharon Hester, Shawwee Pitts, Denise Polite, and Betty Sorrells were indicted by a **Walton County, GA**, grand jury for theft of services. The former Section 8 tenants received assistance through the Georgia Department of Community Affairs; however, the participants allegedly failed to report their income, which resulted in an overpayment of approximately $65,000 in Section 8 assistance. Subsequent to the indictments, all individuals were arrested by HUD OIG, Monroe Police Department, Walton County Sheriff's Office, and Walton County Investigators on June 27, 2005.

Lawrence, KS, defendant Carla Rayton, a Lawrence-Douglas County Housing Authority (LDCHA) Section 8 tenant, was indicted in the U.S. District Court of Kansas on a 15-count indictment. Defendant Rayton allegedly committed fraud against HUD; the USDA-Food Stamp program; and the HHS - Temporary Assistance for Families, Work Support Services, and Child Care Subsidy programs when she failed to inform the LDCHA and the Kansas Department of Social and Rehabilitation Services (SRS) that William Bernard Thomas had been living with her since May 1, 1998, and that Mr. Thomas had been employed periodically. Defendant Rayton also failed to inform the LDCHA that Anthony Wayne Thomas had also been living with her since July 1, 1999. Both William Thomas and Anthony Thomas would have been ineligible to receive public housing benefits due to their prior criminal history. Benefits which they received and to which they were not entitled were $49,377 in HAP payments, $15,882 in USDA food stamp benefits, $2,906 in general cash assistance, $6,164 in Work Program Support Services, and $5,006 in Child Care Subsidy. Defendant

Rayton's failure to report her total household income resulted in a total loss to the government of $79,335. Defendant Rayton's failure to accurately report her household composition and income is making false statements, embezzlement of government money, food stamp fraud, false statements relating to health care, embezzlement in connection with health care, and health care fraud.

Therese Jones Brown, former accountant for the **Chickasaw, AL**, Housing Authority, was indicted by a Federal grand jury in the Southern District of Alabama with one count of embezzlement. The indictment stated that Ms. Brown embezzled, stole, obtained by fraud, and without authority knowingly converted to her use and the use of other persons misapplied property valued at approximately $1.6 million owned by the Chickasaw Housing Authority. The investigation revealed that Ms. Brown was allegedly using housing authority funds to gamble in Mississippi.

Ana Hidalgo of **White Plains, NY**, surrendered based upon a Federal arrest warrant that was issued by the United States District Court, Southern District of New York, for one count of theft of government funds. During this investigation, the Yonkers Municipal Housing Authority (YMHA) determined that Hidalgo, who was a Section 8 recipient, received approximately $73,496 in Federal subsidies to which she was allegedly not entitled. Hidalgo allegedly failed to report to the YMHA that she has lived with her husband, Dickson Trinidad, for the last 9 years at her Section 8 apartment. Trinidad owns a shipping business in Yonkers, NY. New York State tax records show that he has reported income from this business over the last several years.

Defendant Pamela Haughton, **St. Louis, MO**, Housing Authority Section 8 tenant, was indicted by a Federal grand jury for the Eastern District of Missouri on one count of making false statements to HUD and one count of making false statements to the SSA. Defendant Haughton allegedly reported to both HUD and the SSA that she was unemployed, when she was employed full time as a corrections officer for the City of St. Louis. Defendant Haughton caused losses of more than $50,500 due to her alleged false statements.

Tony Jones of **Tampa, FL**, was convicted in U.S. District Court, Middle District of Florida, of conspiracy to steal HUD funds. Jones was indicted on January 26, 2005. Natalie Jones, his estranged wife and coconspirator previously pleaded guilty to conspiracy to defraud HUD and testified against him in trial. The Joneses conspired with each other and applied for Section 8 benefits at the Tampa Housing Authority using Natalie's maiden name and did not reveal to the Housing Authority that she was married to the landlord. They received $26,000 in Section 8 benefits, which Jones testified during the trial he used to pay the mortgage of the jointly shared home. Jones played professional arena football for the Tampa Bay Storm from 1995 through 1997 and the Buffalo Destroyers in 1998.

Defendant Carolyn Rose Foster of **Rancho Cucamonga, CA**, an Upland Housing Authority (UHA) Section 8 recipient, was charged with five felony counts: grand theft, conspiracy to defraud another of property, and three counts of false/forged instrument. Foster allegedly conspired with her brother to defraud UHA by failing to report income received from a rental property owned by her brother. On February 3, 2005, the San Bernardino County District Attorney dismissed all charges against Foster. On May 5, 2005, the San Bernardino County District Attorney refiled a four-count felony complaint against Foster. Foster has been charged with one count of grand theft and three counts of forgery. Foster is awaiting trial.

Defendant John Salem of **Clearwater, FL**, was arrested in Pinellas County on five counts of possession of child pornography violation of Florida State Statute 827.071(5). Salem was a recipient of Section 8 subsidy through HUD's 811 program. HUD OIG previously executed a Federal search warrant at Salem's residence where agents and officers seized files that yielded evidence of false statements to obtain housing, videos, and computers. Salem allegedly possessed hundreds of images and videos of child pornography, some of which Salem created himself. The investigation disclosed Salem allegedly falsified his income to HUD and, while residing in an apartment subsidized by HUD, committed heinous crimes involving child pornography. This matter was pursued by the U.S. Attorney's Office but was returned to the State for prosecution due to recent appeals in a similar matter, wherein Federal jurisdiction was overturned.

Defendants Carl E. Remm, former Section 8 landlord, and Cassie B. Thomas, former Section 8 tenant, both of **Lexington, KY**, pled guilty to criminal informations charging them with making false statements to HUD. The OIG investigation disclosed that the subjects were living together in a subsidized residence while also working at a nursing home. The Eastern District of Kentucky issued a press release regarding this case on June 2, 2005.

Louvene Reed, Anthony Travis, Lyris Wolfe, Sheila Whittenberg, Christine Carpenter, and Donna James of **San Francisco, CA**, were arrested in the Northern District of California in connection with the issuance of 10 Federal arrest warrants for a felony charge of making false statements to HUD. Pilar Fontenot, Rossie Hawkins, and Ranina Jones surrendered to the United States Marshals Service (USMS) and/or the Federal Court, Northern District of California. Cellestine Gallegos remains at large and a fugitive. The 10 individuals are unrelated but were all allegedly receiving dual subsidies at the same time from both the San Francisco Housing Authority (SFHA) and the Housing Authority of the County of San Mateo (HACSM). These individuals had allegedly been living in public housing and receiving housing subsidy from SFHA when they applied for and received Section 8 subsidy from HACSM.

Pursuant to a joint task force, the Los Angeles field office assisted the Drug Enforcement Administration (DEA) and the **San Diego, CA**, Police Department in the execution of state search and arrests warrants. The arrests were a result of searches conducted at several units within the Meadowbrook Multi-Family Housing Development. As a result of this operation, state complaints were issued on 33 individuals. The task force was established to investigate Section 8 tenants who are fraudulently underreporting their income, trespassers using the units to conduct illegal criminal activity, and tenants housing unauthorized persons in violation of the Section 8 program. The complaints and arrests were based on charges ranging from weapons violations to manufacturing of a controlled substance. This collaborative law enforcement effort involves an ongoing identification of tenants and nontenants, who are involved in illegal and fraudulent activity within Meadowbrook Multi-Family Housing Developments in San Diego. Administrative action to terminate tenants based on these arrests has been initiated, and injunctions on nonresidents will be pursued.

Former Section 8 tenant Mayra Montano of **Hauppauge, NY**, was arrested on a New York State felony complaint charging her with grand larceny. Defendant Montano was charged in New York State Court, Suffolk County, NY, with fraudulently receiving $107,000 in rental assistance over an 8-year period and for failing to disclose her ownership of the subsidized property. Montano allegedly received and cashed the Section 8 checks and used the proceeds to pay the mortgage and taxes on the property. The checks were made payable to Montano's friend, who allegedly acted as the nominee property owner. Montano also allegedly underreported her income and assets to initially qualify for rental assistance and for 14 years thereafter, causing HUD to pay $150,000 in rental assistance. A New York State civil complaint was also filed in a forfeiture action against the subsidized property and Montano's bank accounts.

Defendant Shaun Simon of **New York, NY,** was indicted for in conspiracy and substantive theft of government funds in Manhattan Federal Court for the Southern District of New York. Simon, who is believed to have fled the country, is accused of embezzling approximately $400,000 from Esplanade Gardens, a cooperative HUD-insured building that receives public housing Section 8 subsidies.

Kelly Jones, a Section 8 tenant, was charged with theft in connection with a public housing scheme by the Etowah County District Attorney's Office for **Attalla, AL**. Jones' alleged failure to report income and holding residency in two public housing units resulted in an overpayment of Section 8 assistance of $9,455. In addition to not reporting household income, Jones was allegedly subleasing one of the subsidized units.

Mark Rolfsema pleaded guilty in U.S. District Court, **Boston, MA**, to one count of possession of child pornography. Rolfsema, a former Section 8 resident who lived at the Andover Commons Apartment Complex in Andover, MA, was previously indicted after agents conducted a search of Rolfsema's Section 8 apartment. During this search, agents seized child pornography, along with evidence to suggest that Rolfsema did not accurately report all of his assets and income during his annual Section 8 certifications. Rolfsema is scheduled for sentencing.

Debra Utley, a Section 8 tenant, was indicted by a Federal grand jury for the Middle District of **Nashville, TN**, in a one-count indictment charging her with theft and embezzlement – public money, property, or records. Ms. Utley allegedly failed to report to the Metropolitan Nashville Development and Housing Agency (MDHA) that she had returned to work after an extended leave of absence. Ms. Utley's alleged failure to accurately report her household income resulted in an overpayment in rental assistance.

Natalie D. Jones, who previously pled guilty to one count of conspiracy to defraud HUD and later provided testimony against her husband during his trial last month, appeared before the Honorable James D. Whittemore, Federal District Court, Middle District of Florida, **Tampa, FL**. Judge Whittemore sentenced Jones to the custody of the Federal Bureau of Prisons for a term of 4 months, to be followed by 4 months of home detention with an electronic monitoring device. Jones was placed on 3 years supervised release and ordered to perform 200 hours of community service and pay restitution in the amount of $31,606 to HUD.

Sandra Wiley of **Chicago**, **IL**, FHA program participant and former HAP recipient, was indicted in Cook County Circuit Court on one count of theft by deception, class 3 felony, under Illinois Compiled Statutes, chapter 720, section 5/15-4(a), and one count of forgery, class 3 felony, under Illinois Compiled Statutes.

Wiley allegedly failed to report to the Chicago Housing Choice Voucher program (formerly Section 8) the purchase of the FHA-insured property located in Belvidere, IL, in August of 2003. The total loss to HUD is approximately $16,120.

HUD OIG special agents and other law enforcement officers assigned to the New York/New Jersey Regional Fugitive Taskforce arrested registered sex offender Eric Villafane in **New York, NY,** in a HUD-subsidized apartment. Villafane was wanted for the 1997 murder and rape of his cousin, a 15-year-old girl, in Puerto Rico. Villafane had been the main suspect in this heinous crime for years. A warrant from Puerto Rico was issued for his arrest in 2004. Villafane fled Puerto Rico and went to Massachusetts. In 2001, while living in Massachusetts, he raped a 12-year-old girl. Villafane was sentenced to 1 year in jail for this crime. He was released on parole in 2002 and by law became a registered sex offender in the State of Massachusetts.

Villafane violated his parole in Massachusetts and came to live in New York. He was located living with a friend in a HUD-subsidized apartment. Villafane's friend has two young children (3-year-old girl and 6-year-old boy). The friend and his family were not aware of his crimes. At the time of Villafane's arrest, he was sleeping with the two young children.

Former **Baltimore, MD**, city police officer Carl Clayton pled guilty in Federal Court, District of Maryland, to making false statements in connection with his purchase of a Real Estate Owned (REO) property under the Officer Next Door (OND) program. Investigation by OIG disclosed that the defendant purchased the REO property at a 50 percent discount by certifying that he would live in it for at least 3 years, pursuant to OND rules. Instead, he began renting the unit almost immediately while he lived in a public housing unit. Sentencing is set for December 19, 2005, and the U.S. Attorney has initiated civil proceedings in an attempt to recover the discount benefit that the defendant received under OND.

Defendants Ross Polete and Christine Mook of **Olathe**, **KS**, Section 8 landlord and tenant, pled no contest and guilty, respectively, in the Tenth Judicial District of Kansas to amended complaints charging them with misdemeanor charges of theft. Defendants Polete and Mook failed to report to the Johnson County Human Services and Aging (JCHA) and the Kansas Social and Rehabilitative Services (SRS) that they lived together while participating in the Section 8 voucher, food stamps, cash assistance to families, and medical payment programs. Defendant Polete certified to the JCHA that he understood that he was not permitted to live in Mook's unit while she received housing assistance payments. Defendant Mook certified to the JCHA and the SRS that the only occupants of her residence were her and her son. Defendant Polete was sentenced to imprisonment of

10 months and granted 1 year probation. Defendant Mook was sentenced to 1 year imprisonment on each of two counts, to run concurrently, and was granted probation of 1 year. The defendants are to jointly pay restitution of $21,000.

Six present and former Section 8 tenants from the **Norfolk, VA**, Redevelopment and Housing Authority (NRHA) were charged in state court with obtaining rental assistance under false pretenses. Investigation by OIG, in cooperation with NRHA staff, disclosed that the defendants allegedly received in aggregate more than $60,000 in rental assistance to which they were not entitled by failing to properly report income from employment or other material information relating to family composition as required by the NRHA. At least one of the defendants allegedly failed to notify NRHA that he was a convicted sex offender, as required. Further, as a result of the investigation, NRHA has instituted changes designed to detect and prevent fraud, such as requiring zero-income tenants to recertify monthly, more expeditious criminal history checks of new applicants, and timelier handling of evictions for failing to properly report income. To date, 36 Section 8 tenants have been evicted, resulting from the investigation, and the number of zero-income units has been reduced from 110 to 35.

Gladys Beck of **Denton County, TX**, was indicted for securing execution of a document by deception. As a result of her alleged failure to accurately report her household income to the Denton Housing Authority, she stole $4,428.

Seven defendants, one Section 8 landlord, and six Section 8 subsidized tenants were sentenced in Miami, FL, for multiple counts of theft of Federal funds and filing false statements to HUD. The defendants were arrested on January 25, 2005, as part of the national Section 8 fraud initiative, with a press conference held by the United States Attorney Marcos Jimenez and Inspector Geneal Kenneth Donohue. Tenants Amy Willis, Missia Lee, Rhonda Simms, Sandra Love, Kandis Roberts, Lakeisha Veargis, and landlord Ronald Amira were sentenced from 2 years supervised release to 78 days incarceration and required to pay a total restitution to HUD of $91,933. 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, Ronald Amira, 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. Collectively, the defendants defrauded HUD through three separate housing authorities: the Miami-Dade Housing Agency, the Broward County Housing Authority, and the Hialeah Housing Authority.

Identity Theft

Khalilah Crumpler of **Cleveland, OH**, a former Cuyahoga Metropolitan Housing Authority (CMHA) Section 8 landlord, pled guilty in Cuyahoga County Court of Common Pleas to one count of tampering with records and one count of identity fraud. As part of the plea agreement, Crumpler must sell the residence (Section 8 property) purchased with the false identification and forfeit the equity to the

State of Ohio. Sentencing has been scheduled.

Crumpler, using the name and SSN of Marcia James, purchased a two-family residence in April 2001. Beginning in January 2002, Crumpler, became a Section 8 landlord through the CMHA, using the name James. From January 2002 until the HAP was terminated due to fraud-related activities in February 2004, Crumpler had received $20,985 in HAP using the name Marcia James.

Yanelly Lorenzi of **Worcester, MA**, a Section 8 tenant, was arrested in her HUD-assisted apartment by the Webster and Worcester Police Departments. Lorenzi was arrested on a State warrant for eight felony charges that include public assistance fraud, identity fraud, and forgery. The arrest was made after an investigation showed Lorenzi allegedly obtained and used a false identification card to obtain public assistance and property and to cash forged checks. Lorenzi was arraigned at the Dudley, MA, District Court.

A Federal criminal complaint was filed against Ms. Billy Nsubuga of **Boston, MA**, in the United States District Court for the District of Massachusetts. Defendant Nsubuga was charged with one count of bank fraud, one count of mail fraud, one count of false use of a passport, and one count of fraud in connection with an identification document. Nsubuga, a resident of a federally subsidized apartment located in Malden, MA, allegedly opened various bank accounts and corresponding mail drops in Massachusetts and New York. Nsubuga allegedly utilized various false identities when she opened these accounts, including a California identification card, a Uganda passport, a passport from the Republic of Congo, and a passport from South Africa. Nsubuga deposited bogus checks into the various bank accounts and then withdrew the funds. This scheme resulted in a loss to the various financial institutions that exceeded $100,000. On August 1, 2005, Nsubuga was arrested without incident at her federally subsidized apartment located in Malden.

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

As a result of a computer match done using the HUD RHIIP Upfront Income Verification (UIV), now known as EIV, Enterprise Income Verification, HUD OIG conducted a joint investigation with the **McKeesport, PA**, Police Department and the FBI which resulted in the charging and arrest of 21 individuals by the Allegheny County District Attorney for Theft by Deception against the McKeesport Housing Authority (MHA). HUD OIG pulled a discrepancy report from the EIV system and confirmed that 21 individuals on the list had failed to report all or part of their income. The defendants, including a former Miss Pittsburgh and an MHA maintenance employee, allegedly failed to report income either attributable to them or another household resident over a period of several years. The aggregate amount of overpaid rental assistance is approximately $260,000.

17 tenants charged with housing fraud

'They wanted to make examples of all of us,' said one who had expected to be fined.

By Bobby Kerlik
Tribune-Review

Police arrested 17 subsidized housing tenants in a predawn raid Thursday on charges they cheated the federal government out of $228,000 by failing to report all or part of their household income.

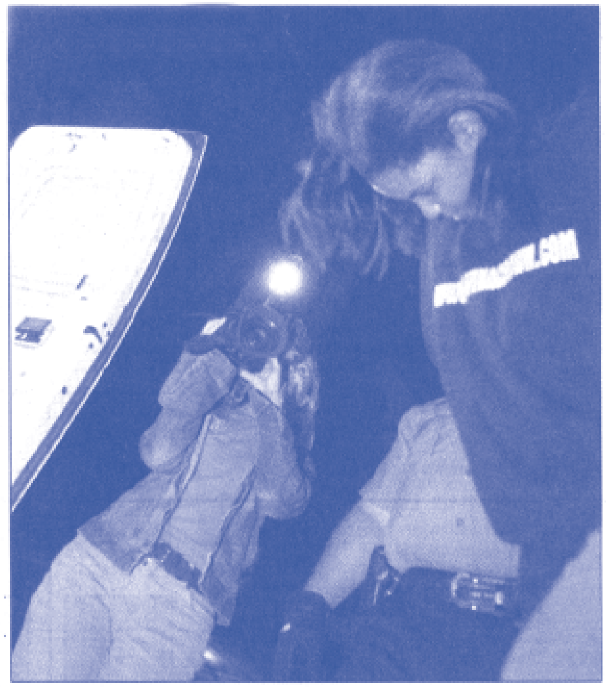
A former Pittsburgh beauty queen and a McKeesport Housing Authority maintenance worker were among those charged in the raid that started at 5 a.m. Police still were seeking five more suspects yesterday.

"We're here to send a message to all those defrauding Section 8 housing: You will be prosecuted, and you will pay back the money," said Rene Febles, special agent for the U.S. Department of Housing and Urban Development.

"They're making substantially more money than they reported," Febles said. "These individuals are draining the program while others are in need of housing assistance."

Police took Nicole Bozeman, 39, who was crowned

See Housing • B6



KEITH HODAN/TRIBUNE-REVIEW

Former Miss Pittsburgh Nicole Bozeman tries to shield her face from photographers Thursday after being arrested at a home along Park Street in McKeesport and charged with financial crimes. Her arrest was part of a sweep that took place in McKeesport during the early morning hours.

Defendant Cindy Cerda pled guilty to one count of execution of a document by deception. Cerda was sentenced to 5 years probation, $500 fine, court cost of $198, and $10,105 in restitution. Cerda is one of 93 individuals that have been indicted by a **Dallas, TX,** County grand jury since October 2004, accused of defrauding Dallas Housing Authority (DHA) by means of underreporting family income or assets to illegally get more than $1.2 million in higher rental subsidies or public housing assistance. DHA terminated 134 tenants from their housing assistance program for criminal activities. These terminations resulted in funds put to better use of $4 million with an overall funds put to better use for the Dallas RHIIP initiative of $4,182,992. The Dallas Housing Authority has 18,000 clients and a waiting list of more than 20,000 individuals.

Officers from the **Austin, TX,** Police Department (APD) and special agents from HUD OIG arrested 30 current and former tenants of the Housing Authority of the City of Austin (HACA). Thirteen individuals were indicted on charges of tampering with a government record for failing to accurately report income and/or household composition in relation to their federally subsidized housing benefits. In addition, 18 individuals living in public and assisted housing were identified as having outstanding warrants for violent crime offenses.

As a followup to Region 5's 14-subject mass indictment in December 2004, in what was termed "Operation Eight" (Eliminating Ineligible Grantees Housing Task Force), several **Chicago, IL,** subjects pled guilty, were sentenced, and reached civil settlements in the Northern District of Illinois in connection with their role in defrauding HUD's rental assistance programs. A summary of the individuals' plea agreements, sentencing, and civil judgments follows:

Defendant Urena Woods pled guilty to one count of making false statements for her role in a scheme, wherein she fraudulently obtained an FHA-insured loan using fictitious employment documents. Subsequent to that, Woods used her boyfriend as a Section 8 landlord in spite of the fact that she owned the property. She then became a Section 8 tenant for this same property and allowed $19,000 in subsidy to be fraudulently paid on her behalf.

Defendant Johnnie Mae Willis, employee of Cook County Circuit Court, was sentenced to 5 years probation, 6 months home confinement with electronic monitoring, and restitution to HUD in the amount of $43,987. Simultaneous with the sentencing, Willis reached a civil agreement, wherein she was ordered to pay $37,000 to DOJ. Willis' judicial actions follow her earlier guilty plea for her role in a scheme to collect Section 8 benefits while not occupying the subsidized unit. Willis, instead, allowed a relative to reside in the unit while she obtained an FHA-insured 203K loan.

Antoine Reed, reached a civil agreement with the U.S. Attorney's Office, wherein he agreed to pay $36,000 to the DOJ for his role in a scheme to collect Section 8 benefits while not reporting substantial income from full-time employment. Further, Reed owned an FHA-insured single-family property in the southern suburbs of Chicago that he resided in while collecting Section 8 benefits.

Bader Hafeez was sentenced to 3 years probation and 500 hours of community service for his role in a scheme to collect Section 8 benefits while not reporting full-time employment from the State of Illinois and a private engineering firm. In addition, in the same month, Hafeez agreed to a civil settlement with the U.S. Attorney's Office to pay $50,880 for his role in the scheme mentioned above. These were HUD OIG investigations.

Defendant Howard L. Wilson, Jr., was sentenced in the Northern District Court of Illinois to 5 years probation, 6 months home detention, and restitution to HUD in the amount of $52,887 for his role in a scheme to collect Section 8 benefits while not reporting his $50,000 per year income from a private security company. Defendant Angela Gibbs was sentenced to 5 years probation, 6 months home detention, participation in a drug and alcohol abuse program, and restitution to HUD in the amount of $36,956 for her role in a scheme to collect Section 8 benefits while not reporting her sizable income from a nurse's salary. Defendant Savaya Chalmers pled guilty for her role in a scheme to collect Section 8 benefits to which she was not entitled by being a comortgagor on a property and not disclosing it to Section 8 officials. Further, Chalmers orchestrated a scheme in which she collected HAP checks on behalf of her dead landlord while she was a tenant. The total loss in this case exceeded $20,000.

During the week of July 18 in **Richmond, VA**, HUD OIG at the request of USMS and in cooperation with various other Federal, State, county, and local law enforcement agencies, conducted a citywide fugitive apprehension operation. This initiative was undertaken in response to the recent wave of murders in and around Richmond's public housing. The initiative targeted wanted persons who live, committed crimes, or were associated with public housing or in neighborhoods in the city that have a high incidence of violent crime. Operation FATE (Fugitive Apprehension and Threat Elimination) resulted in 56 arrests on 89 charges. Included in the arrests were two murder suspects. Law enforcement served five armed robbery warrants, two rape warrants, four burglary warrants, 18 firearms warrants, and 15 drug violation warrants. At least seven of the drug violation warrants were for dealing drugs within 1,000 feet of a school that is located adjacent to public housing.

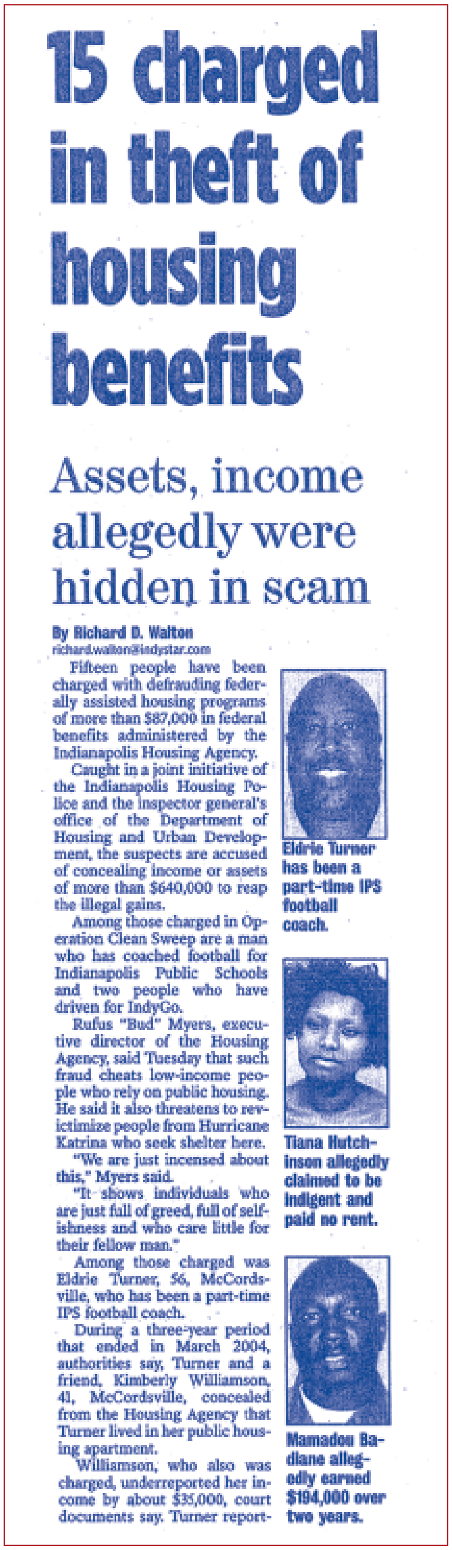
HUD OIG is pursuing the eviction of three Richmond Redevelopment and Housing Authority (RRHA) tenants as a result of Operation FATE. The first RRHA tenant was the head of household and was arrested on charges relating to a violation of the Drug Control Act. The second tenant was the head of household and was arrested on charges related to his unlawfully possessing a firearm while being a convicted felon. Another individual, having been arrested on charges of rape and theft, was found living in a HUD-subsidized unit. HUD OIG is pursuing the eviction of the head of household of the unit for having the unauthorized person residing in the apartment. HUD OIG hopes to positively impact the RRHA community by removing the three previously listed tenants and replacing them with tenants who will obey the rules and regulations of the housing authority.

In **Chicago, IL,** Tenille Davis, a former Section 8 tenant of the Chicago Housing Authority, agreed to a civil amount of $46,426, following an earlier civil complaint, which charged false claims, payment by mistake, and unjust enrichment for her role in a scheme to defraud Section 8 officials. From 2001 until 2003, Davis falsely certified on Chicago Housing Authority Section 8 recertifications that her Section 8 unit in Chicago was to be her principal residence when Davis resided in a public housing unit, also funded by HUD, in Mazomanie, WI. Davis also received public aid assistance in the forms of food stamps and cash in Illinois and Wisconsin. U.S. Bankruptcy Court records, utility records, and employment records revealed that Davis' mother, Karol Davis, was residing in Davis' Section 8 unit in Chicago. Davis received $23,213 in Section 8 assistance and $6,000 in Illinois public aid that she was not entitled to since she was residing in Wisconsin. The $46,426 figure reflects double damages.

In Marion County, IN, the Marion County State's Attorneys Office, along with HUD OIG and the **Indianapolis, IN**, Housing Agency (IHA) Police Department, announced the filing of criminal charges against 15 individuals accused of defrauding federally assisted housing programs administered by IHA.

In an operation dubbed "Operation Clean Sweep," the following individuals were charged with a multitude of different State of Indiana crimes associated with fraud against the IHA: Christopher McCarty, Sr., Christopher McCarty, Jr., Richard Hornsby, Jasmine Patterson, Mamadou Badiane, Kimberly Love, Naomi Weaver, Tina Hutchinson, Alicia Gildon, Terra Kirdendall, Lonnie Johnson, Bertha Woodard, Shantonna Finch, Kimberly Williamson, and Eldrie Turner. The specific schemes and charges for these individuals are as follows:

Christopher Quinn McCarty, Sr., Christopher Q. McCarty Jr., and Richard Hornsby were charged with multiple counts of forgery and theft in connection



15 charged in theft of housing benefits

Assets, income allegedly were hidden in scam

By Richard D. Walton
richard.walton@indystar.com

Fifteen people have been charged with defrauding federally assisted housing programs of more than $87,000 in federal benefits administered by the Indianapolis Housing Agency.

Caught in a joint initiative of the Indianapolis Housing Police and the inspector general's office of the Department of Housing and Urban Development, the suspects are accused of concealing income or assets of more than $640,000 to reap the illegal gains.

Among those charged in Operation Clean Sweep are a man who has coached football for Indianapolis Public Schools and two people who have driven for IndyGo.

Rufus "Bud" Myers, executive director of the Housing Agency, said Tuesday that such fraud cheats low-income people who rely on public housing. He said it also threatens to revictimize people from Hurricane Katrina who seek shelter here.

"We are just incensed about this," Myers said.

"It shows individuals who are just full of greed, full of selfishness and who care little for their fellow man."

Among those charged was Eldrie Turner, 56, McCordsville, who has been a part-time IPS football coach.

During a three-year period that ended in March 2004, authorities say, Turner and a friend, Kimberly Williamson, 41, McCordsville, concealed from the Housing Agency that Turner lived in her public housing apartment.

Williamson, who also was charged, underreported her income by about $35,000, court documents say. Turner report-

Eldrie Turner has been a part-time IPS football coach.

Tiana Hutchinson allegedly claimed to be indigent and paid no rent.

Mamadou Badiane allegedly earned $194,000 over two years.

with allegations that the three individuals conspired to distribute and cash several counterfeit checks at various liquor stores in Marion County. The fraudulent checks passed did not contain the name of the IHA but were manufactured with the checking account number of the Section 8 program affixed to each document.

Jasmine Patterson was charged with attempted theft in connection with allegations that she paid her utility bills over the Internet and used a checking account number of the IHA to do so.

Mamadou Badiane and his former wife, Kimberly Love, were charged with welfare fraud and theft in connection with allegations that Badiane and Love concealed from the IHA that they were married and that Badiane allegedly lived in Love's public housing apartment. Investigators alleged that Badiane, who married Love on September 26, 2002, and divorced her in July 2004, had earned income in a 2-year period of approximately $194,286 primarily from his employment as a coach operator for the Indianapolis Public Transportation Corporation, "IndyGo."

Naomi Weaver was charged with welfare fraud and theft felony in connection with allegations that Weaver and another individual had purchased a home at 3546 West 12th Street on or about October 18, 2004, and moved into that home shortly thereafter. On the same day that Weaver purchased the home, she submitted additional documents to the IHA as to her indigence. She continued to receive Section 8 assistance and never notified the IHA that she had purchased a home and had moved out of the home at 3103 West Michigan Street. Investigators alleged that a family member remained in the Section 8 unit after Weaver moved out.

Tiana Hutchinson was charged with welfare fraud and theft in connection with allegations that she failed to report the ownership of two separate homes on the east side of Indianapolis, both valued at $100,000, while a tenant for the agency. Further, investigators alleged that Hutchinson concealed her employment and income as a coach operator for the Indianapolis Public Transportation Corporation, "IndyGo."

Alicia Gildon, Terra Kirkendall, and Lonnie L. Johnson were charged with welfare fraud and theft in connection with allegations that Gildon, who transferred her Section 8 voucher from Gary, IN, to Indianapolis in May 2002, conspired with former Gary residents Kirkendall (her sister) and Johnson (sister's boyfriend) to conceal occupancy of the Section 8 home Gildon was supposed to be living in. Investigators executed a court-ordered search warrant at the Commons Drive apartment where they discovered that Gildon had never lived in the apartment, which was being subleased to Kirkendall and Johnson. The pair was found to be paying Gildon $300 per month in rent. Further, Gildon was found to be living in an upscale home in Indianapolis where she was paying $850 per month in rent. Investigators also discovered that while Gildon claimed she was indigent and receiving additional utility payment assistance from the IHA, she was employed earning a minimum of $24,000 in wages in addition to other outside source income assistance that was unreported and concealed from the IHA.

Bertha Woodard and Shantonna Finch were charged with identity deception, welfare fraud, and theft in connection with allegations that that Woodard ordered numerous cellular telephones from AT&T Wireless that were delivered and billed to the IHA public housing office at 2210 East 36th Street. The packages were addressed to a Fortville, IN, woman, whose identity had been stolen by Woodard, in care of the Indianapolis Housing Agency. Immediately thereafter, several bills from AT&T Wireless started arriving via the U.S. Mail addressed to the IHA, requesting payment of these cellular telephones and service. Woodard sold several cell phones on the street as so-called "burnout phones." Some of those phones were found to have been in the possession of individuals arrested for narcotics offenses.

Kimberly Williamson and Eldrie Turner were charged with welfare fraud theft in connection with allegations that between March 1, 2001, and March 13, 2004, Williamson and Turner concealed from the IHA that Turner resided in Williamson's public housing apartment. Turner, who was never reported as part of the household composition in the charging period, had employment income from defense contractor Rolls Royce and as a part-time coach for the Indianapolis Public Schools of $184,042.

OIG, working with approximately 100 agents/officers from several other Federal and local/state law enforcement agencies, executed 16 Federal arrest warrants and five Federal search warrants in the 517-unit public housing development known as Hall Manor in **Harrisburg, PA**. Five tenants were arrested and charged with encouraging or allowing their assisted unit to be used in furtherance of illegal narcotics distribution. In addition, 16 individuals in and around the development were charged with possession of illegal narcotics and/or failing to appear (fugitive warrant outstanding). This initiative was the result of a joint HUD OIG investigation with DEA and state and county police that had begun at the request of the USAO as a result of concern over the rising incidence of drug-related homicides, fatal drug overdoses, and police service calls. In one particular drive-by shooting a school bus transporting children had been struck by stray gunfire. The OIG involvement focused on tenants who were using or allowing their units to be used for illegal drug activity or had in some way falsified their admission application or annual recertification.

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

Thirty-two individuals residing in public housing in **San Juan, PR**, under the Puerto Rico Public Housing Authority were arrested. Several bank accounts and personal property with an approximate value of $3 million were seized as part of the Puerto Rico Local Fugitive Felon initiative. Participating were representatives from several Federal and local agencies such as HUD OIG, USMS, the Bureau of Alcohol, Tobacco, and Firearms (ATF), Puerto Rico Police Department (PRPD), Immigration and Customs Enforcement (ICE), IRS-CID, DEA, Puerto Rico Department of Correction, Puerto Rico Bureau of Special Investigations (NIE), and Puerto Rico Family Department.

HUD OIG, Vermont Department of Corrections-Probation and Parole, **Burlington, VT**, Police Department, and SSA OIG executed three state felony arrest warrants. Nelson Young, a Section 8 tenant, was arrested for violation of parole with an underlying charge of felony theft. Justin Matis was arrested in a Section 8 unit for probation violations with underlying charges of aggravated assault and domestic assault. Jonathan Strippe was arrested in a Section 8 unit for violation of probation with underlying charges of grand larceny. This operation is part of an ongoing Fugitive Felon initiative.

The Massachusetts State Police (MSP) Violent Fugitive Apprehension Section (VFAS), **Worcester, MA**, Police Department (WPD), arrested two fugitives residing in HUD-assisted housing. Public housing tenant Ovila Ballargion was arrested on a State warrant for assault and battery with a dangerous weapon. Project-based Section 8 tenant Manuel Santiago was arrested on a State warrant for failing to register as a sex offender. In addition, the operation identified a second sex offender illegally residing in a project-based Section 8 apartment. Lease action is anticipated against the tenants involved.

Sixteen individuals residing at the **Guaynabo, PR**, Alejandrino Public Housing project under the Puerto Rico Housing Authority (PRPHA) were arrested as part of the Local Fugitive Felon initiative. Present were representatives from HUD OIG, USMS, Puerto Rico Police Department, DEA, Puerto Rico Department of Correction, and NIE.

In connection with an ongoing criminal investigation to locate and apprehend wanted fugitive felon Alex Capo-Carrillo of **Trujillo Alto, PR**, three out of four fugitive felons, members of the Capo-Carrillo drug and firearms sales organization, were arrested at the Villa Andalucia public housing project. Fugitive felons Carlos A. Rivera, Jeffrey Figueroa, and Josue Vazquez were also located and apprehended at the above mentioned public housing project. These defendants currently receive HUD public housing assistance. Fugitive felon Niel Torres was not present or not on the premises at the time of the execution of his arrest warrant.

The Massachusetts State Police (MSP) Violent Fugitive Apprehension Section (VFAS), **Worcester, MA**, Police Department (WPD) and USMS arrested fugitive felon Santos Guzman. Guzman was wanted on state drug distribution charges including drug distribution within a school zone. At the time of his arrest, Guzman was illegally residing in a Section 8-assisted apartment. Administrative action has been initiated against the Section 8 tenant head of household involved.

Fugitive Felon Niel Torres of **Hato Rey, PR**, voluntarily surrendered to the USMS and the HUD OIG at the USMS Fugitive Felon Task Force office. Fugitive Felon Niel Torres had absconded from the authorities at the time of the execution of his arrest warrant at the Villa Andalucia public housing project when three other fugitive felons were successfully arrested on September 7, 2005. Torres was a member of the Capo-Carrillo drug and firearms sales organization at the mentioned public housing project and currently receives HUD public housing assistance. Eviction process will be initiated.

The Massachusetts State Police (MSP) Violent Fugitive Apprehension Section (VFAS), **Worcester, MA**, Police Department (WPD), and USMS arrested fugitive felons Jesus Melendez and Edwin Melendez. The Melendez brothers were wanted on state charges of armed robbery, assault and battery with a dangerous weapon, assault and battery, and firearms charges. The Melendez brothers were each residing illegally in separate public housing units at Great Brook Valley Gardens Apartments. The Worcester Housing Authority (WHA) has initiated eviction proceedings against the tenant heads of household involved.

In connection with an ongoing criminal investigation to locate and apprehend wanted fugitive felons related to the illegal sale and distribution of firearms and drugs at the Vista Hermosa public housing project in **San Juan, PR,** four fugitive felons were successfully arrested at the mentioned project. The fugitive felons arrested, Aqua Morales, Saul Andrades, Antonio Morales, and Jaimee Vega, are currently receiving HUD public housing assistance. Eviction process will be initiated against all subjects.

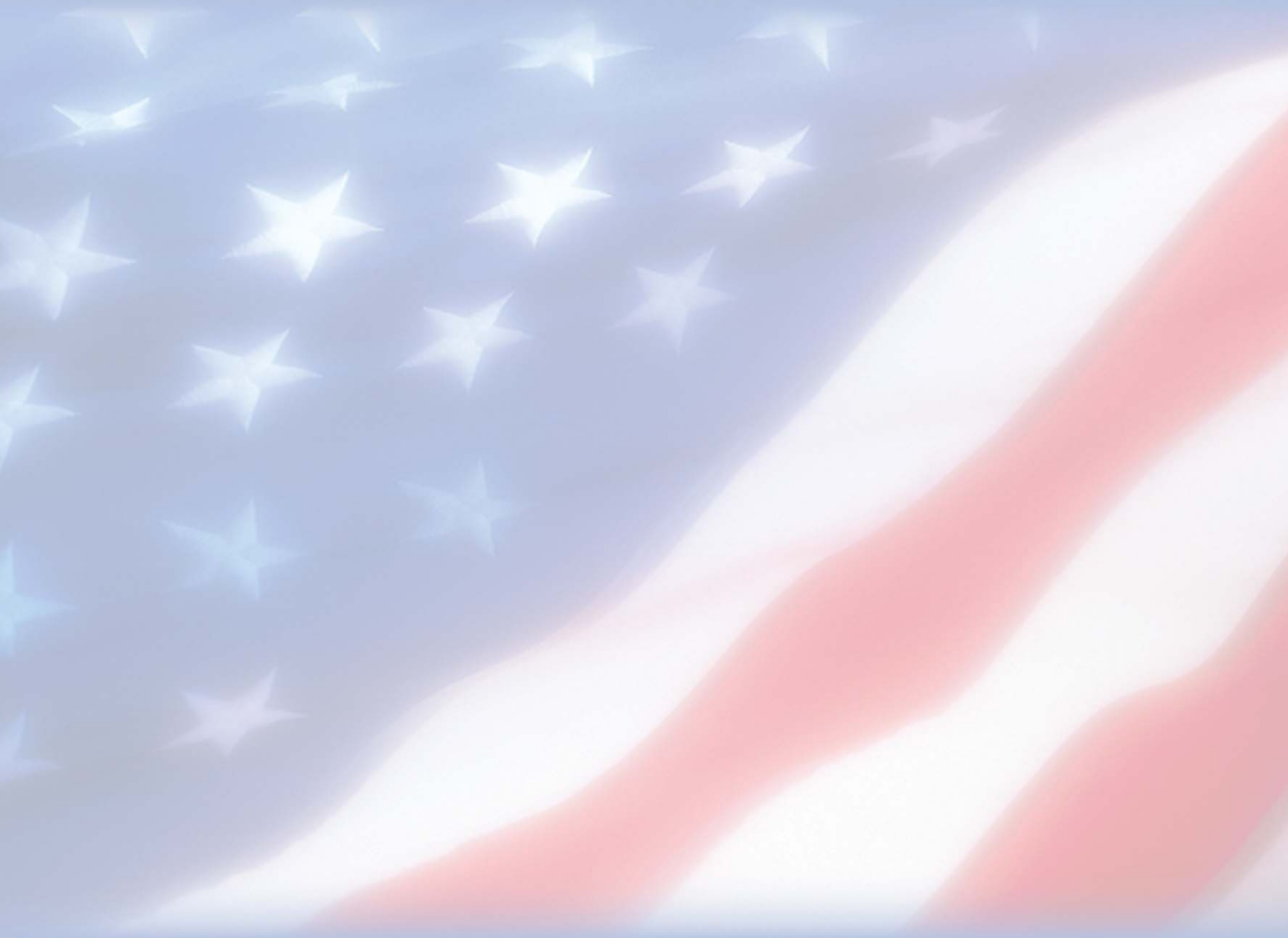
HUD OIG and the **Lakeland, FL**, Police Department executed two State arrest warrants. Oveta Hicks, a Section 8 tenant, was arrested on an underlying charge of failure to appear on charges for obtaining property with insufficient funds. Sharian Hicks, a public housing resident, was arrested in a public housing unit on an underlying charge of battery array. This operation is part of an ongoing Fugitive Felon initiative with the Lakeland Police Department and the Lakeland Housing Authority.

In **Miami, FL,** 15 fugitives that received Section 8 subsidies were arrested in an innovative "sting" operation coordinated by HUD OIG and the Miami Dade Housing Agency. The tenants were notified by the MDHA to report to the MDHA Section 8 Office on July 30, 2005, for their routine annual certification of household composition. Once positively identified by HUD OIG agencies working in an undercover capacity as MDHA employees, the fugitives were detained and arrested by Miami-Dade Police Officers. Additionally, the fugitives were notified by

MDHA personnel of the intent to terminate their Section 8 subsidy based on the clear violation of HUD's One Strike regulation. The 15 subjects, with outstanding State warrants ranging from violation of probation to armed robbery, collectively defrauded HUD and the taxpayers of more than $244,000 in Section 8 subsidies to which they were not entitled.

The initiative named "Operation Fugitive Tenant" was one of several cooperative efforts between HUD OIG and the Miami Dade Housing Agency in response to Inspector General Kenneth M. Donohue's commitment to reduce erroneous payments in HUD's rental assistance programs.

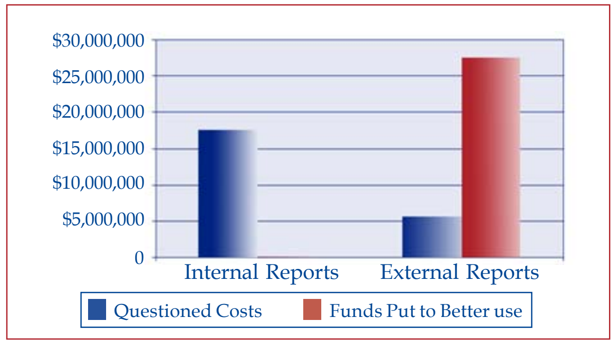
Chapter 4



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.

Chart 4.2: Multifamily Housing Dollars

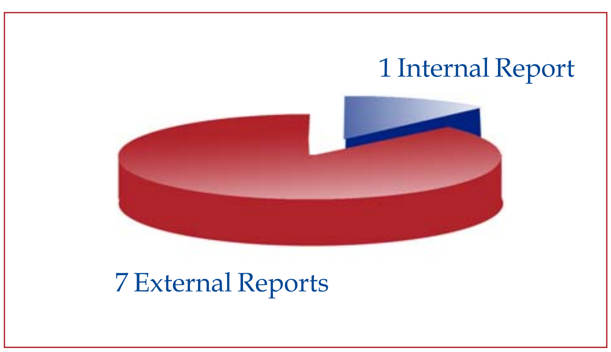


Audits

During this period, the Office of Inspector General (OIG) issued 1 internal and 7 external reports in the multifamily housing program area. These reports disclosed more than $16 million in questioned costs and more than $7 million in recommendations that funds be put to better use.

Over the past 6 months, OIG audited owner and management agent operations with an emphasis on combating equity skimming. The results of its more significant audits are described below.

Chart 4.1: Multifamily Housing Program Reports Issued



Suburban Mortgage Associates

HUD OIG audited specific HUD-insured mortgages originated and serviced by Suburban Mortgage Associates, Incorporated, of **Bethesda, MD**. The audit objective was to assess the performance of Suburban Mortgage in carrying out its origination and servicing functions through a review of its HUD-insured loans.

Of six HUD-insured loans reviewed, four were originated to identity-of-interest entities. Suburban Mortgage also originated a HUD-insured loan to a property that its executive vice president formerly owned. It originated another HUD-insured loan to a property of which the owners had other business ventures with its executive vice president. As of January 24, 2005, three affiliated entities had defaulted on their loans. Suburban Mortgage requested assignment of the three defaulted loans to HUD. HUD paid Suburban Mortgage's claim for two of the defaults, causing HUD a combined net loss of $14 million. The third defaulted loan has an unpaid principal balance of $12.6 million. The claim for insurance was denied for this loan. The risk of loss on this

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.

defaulted loan and two other identity-of-interest loans could cause HUD to lose an additional $26.2 million. Suburban Mortgage's servicing failures contributed to unnecessary interest and penalties of more than $229,000 connected with late payment of real estate taxes.

OIG recommended that HUD (1) require reimbursement of more than $229,000 for the unnecessary charges allowed by Suburban Mortgage and (2) terminate the $26.2 million in HUD-insured loans to the remaining three identity-of-interest properties. In addition, OIG recommended that HUD take appropriate administrative sanctions against Suburban Mortgage and its principals for its failure to perform its mortgage-related fiduciary duties. (Audit Report: **2005 BO 1008**)

Audit hits nursing home operator

The Department of Housing and Urban Development's inspector general says developer Antonio L. Giordano, of North Kingstown, misled the agency about his level of ownership in a company that financed his nursing-home ventures.

BY JENNIFER LEVITZ
JOURNAL STAFF WRITER

Federal auditors say a local businessman and his partners should be forced to repay taxpayers $14 million to cover the government's loss on two failed nursing homes in Rhode Island.

The auditors say the U.S. Department of Housing and Urban Development should pursue repayment from Suburban Mortgage Associates Inc., a Maryland-based company that is half-owned by Antonio L. Giordano, of North Kingstown.

projo.com

READ the full HUD audit of Suburban Mortgage Associates, the company that financed Antonio Giordano's nursing-home operations, at: http://projo.com/audit

The auditors also say HUD should cancel $26 million in loan guarantees for Suburban's other Rhode Island properties.

Idaho Housing and Finance Association

HUD OIG audited Idaho Housing and Finance Association, in **Boise, ID**. The audit objectives were to determine whether Idaho Housing followed Federal regulations and HUD guidelines when it (1) allowed project owners to prepay project mortgages and (2) refunded bonds in 1994.

Idaho Housing did not properly follow Federal regulations and HUD guidelines when it allowed 10 project owners to prepay project mortgages. As a result, HUD paid more than $8.5 million in subsidies in excess of fair market rents for these projects. Further, Idaho Housing did not properly follow Federal regulations and HUD guidelines when it did not return HUD's 50 percent share of the savings of more than $6 million generated from the 1994 bond refunding for 30 McKinney Act projects and did not use more than $997,000 of its 50 percent of the McKinney Act savings appropriately. As a result, the McKinney Act savings were not available for HUD programs including those administered by Idaho Housing.

OIG recommended that HUD require Idaho Housing to (1) reimburse HUD, its Federal programs, and the affected project's residual receipts account from nonfederal funds for excessive subsidy payments on the terminated contracts and for inappropriately distributed bond proceeds; (2) keep HUD apprised whenever a project owner prepays the mortgage on a project subject to the old regulations and renegotiate the housing assistance payment contract with HUD; and (3) implement procedures to ensure the proper identification of old regulation projects with respect to the applicable regulations and guidance. (Audit Report: **2005-SE-1008**)

HUD-Insured Mortgages-Owner and Management Agent Operations

HUD OIG audited America House, Inc., in **Marshall, VA**, at the request of the director of HUD's Richmond Multifamily Program Center. The objective of the audit was to determine whether America House and its subsidiaries complied with HUD requirements covering their HUD-insured mortgages.

America House and its subsidiaries did not comply with HUD requirements covering their HUD-insured mortgages. Contrary to their regulatory agreements with HUD, America House and its subsidiaries failed to make the mortgage payments for their three HUD-insured properties even when the mortgaged properties produced sufficient income to cover the payments. In addition, America House improperly commingled funds in violation of its regulatory agreements and did not properly maintain project records. These later actions prevented us from performing a thorough audit of the three HUD-insured properties. America House defaulted on the notes, and HUD was compelled to sell the properties at a loss of $4.1 million in September 2004.

OIG recommended that HUD pursue appropriate administrative sanctions against the owner and president of America House and its three wholly owned subsidiaries. (Audit Report: **2005-PH-1011**)

HUD OIG reviewed the books and records of Savannah Trace Apartments, an 80-unit multifamily housing project in **Kalamazoo, MI**. OIG initiated the review based on a request from HUD's Detroit Multifamily Hub. The review was also part of OIG's efforts to combat multifamily equity skimming on HUD's Federal Housing Administration (FHA) insurance fund. The objective was to determine whether the owner/management agents used project funds in compliance with the regulatory agreement and HUD's requirements.

Maplegrove Property Management, LLC, the project's former identity-of-interest management agent; Keystone Property Management, Inc., the project's current management agent; and/or Richland Housing Partners, LLC, the project's owner, inappropriately used more than $5,500 in project funds from January 2002 through April 2005 when the project was in a non-surplus-cash position and/or had defaulted on its HUD-insured mortgage. The inappropriate disbursement included excessive management fees, late fees/finance charges, lawn service, and office supplies/equipment. Further, Maplegrove charged the project more than $2,000 in excessive management fees that were not paid as of April 30, 2005. Maplegrove and/or Richland also lacked documentation to support that more than $1,000 in project funds was properly used.

OIG recommended that HUD ensure Richland, Keystone, and/or Maplegrove (1) reimburse the project's reserve for replacement account and/or HUD's FHA insurance fund for the inappropriate expenses, (2) provide documentation to support the unsupported payments or reimburse the appropriate amount to the project's reserve account and/or HUD's FHA insurance fund, and (3) implement procedures and controls regarding the use of project funds. OIG also recommended that HUD, in conjunction with HUD OIG, pursue double damages remedies if Richland, Maplegrove, and/or Keystone do not make the reimbursement. Further, OIG recommended that HUD impose civil money penalties against Richland, Maplegrove, Keystone, and/or their principals/officers for the inappropriate use of project funds. (Audit Report: **2005-CH-1012**)

HUD OIG reviewed the books and records of Ivan Woods Senior Apartments, a 90-unit multifamily housing project in **Lansing, MI**. OIG initiated the review based on a request from HUD's Detroit Multifamily Hub. The review was also part of OIG's efforts to combat multifamily equity skimming on HUD's FHA insurance fund. The objective was to determine whether the owner/management agents used project funds in compliance with the regulatory agreement and HUD's requirements.

Maplegrove Property Management, LLC, the project's former identity-of-interest management agent; Keystone Property Management, Inc., the project's current management agent; and/or Ivan Woods Limited Dividend Housing Association Limited Partnership, the project's owner, inappropriately used almost $10,000 in project funds from June 2002 through April 2005 when the project was in a non-surplus-cash position. Further, Maplegrove charged the project more than $260 in excessive management fees that were not paid as of April 30, 2005. Maplegrove and/or the Partnership also lacked documentation to support that more than $3,000 in project funds was properly used.

OIG recommended that HUD ensure the Partnership, Keystone, and/or Maplegrove (1) reimburse the project's reserve for replacement account and/or HUD's FHA insurance fund for the inappropriate expenses, (2) provide documentation to support the unsupported payments or reimburse the appropriate amount to the project's reserve account and/or the FHA insurance fund, and (3) implement procedures and controls regarding the use of project funds. OIG also recommended that HUD, in conjunction with HUD OIG, pursue double damages remedies if the Partnership, Maplegrove, and/or Keystone do not make the reimbursement. Further, OIG recommended that HUD impose civil money penalties against the Partnership, Maplegrove, Keystone, and/or their principals/officers for the inappropriate use of project funds. (Audit Report: **2005-CH-1013**)

HUD OIG reviewed the books and records of Petersen Health Center. The project consists of three skilled nursing home facilities—Friendly Village, Horizons Unlimited, and Taylor Park—totaling 327 beds in **Rhinelander, WI**. The review was part of OIG's efforts to combat multifamily equity skimming on HUD's FHA insurance fund. OIG chose the project based upon its negative surplus-cash position since 1999, its default status, and indicators of diverted project funds/assets. The objective was to determine whether the owner/operator used project funds in compliance with the regulatory agreement and HUD's requirements.

Petersen Health Care of Wisconsin, Inc., the project's identity-of-interest operator, improperly used more than $728,000 in project funds when the project was in a non-surplus-cash position and/or in default of its HUD-insured loan. The inappropriate disbursement included approximately $600,000 to P.P.F. Enterprises II, another identity-of-interest company, to pay estimated taxes of the partners of P.P.F. Enterprises, the owner of the project; more than $80,000 in prepaid legal services; $47,000 for legal services not related to the project's operations; $3,000 for scholarships; approximately $2,000 for Christmas presents; and $600 related to charitable activities.

OIG recommended that HUD ensure that the owner and/or operator reimburse HUD's FHA insurance fund more than $728,000 for the inappropriate disbursements and implement procedures and controls to ensure funds required to be used for project expenses are used according to the regulatory agreement. OIG also recommended that HUD, in conjunction with HUD OIG, pursue double damages remedies if the owner and/or operator do not reimburse the insurance fund for the inappropriate disbursements. OIG further recommended that HUD impose civil money penalties and pursue administrative sanctions against the owner, operator, and/or their principals/owners for the payment of inappropriate disbursements that violated the project's regulatory agreement. (Audit Report: **2005-CH-1016**)

In response to a citizen's complaint, HUD OIG audited the Rudolphy/Mercy-Douglass Home for the Blind, **Philadelphia, PA**, an independent living facility for low-income persons with blindness and other disabilities. The complainant alleged project development funds and project facilities were improperly used, two payments were improper, and project management deficiencies existed. The objectives were to determine whether the owner used project development funds and project facilities properly and whether the payments questioned were proper.

OIG found the owner properly used project development funds to pay for expenditures and payments related to the project. However, contrary to HUD regulations, one cosponsor of the project, Mercy-Douglass Human Services Affiliate, the management agent, used project facilities to perform work not exclusively related to the administration of the project. As a result, the project lost commercial rent of more than $19,000. Correcting this situation will result in future rental income of approximately $18,000 per year.

OIG recommended that HUD require the owner to ensure the cosponsor, Mercy-Douglass Human Services Affiliate, pays past rent of more than $19,000 and future rent of approximately $18,000 per year for the extra space it occupies in the project. (Audit Report: **2005-PH-1010**)

Active Partners Performance System

HUD OIG audited the Active Partners Performance System to determine whether it has been fully implemented and is being used as intended. The audit was initiated because OIG was unable to obtain needed information on multifamily program participants from the system.

Although the Active Partners Performance System has been operational since 1999, its use by principal participants has not been required. Consequently, the previous participation certification (Form HUD-2530, *Previous Participation Certification*) process has not been fully automated, and HUD does not have a complete computer database of required participant information. In April 2004, HUD published in the *Federal Register* a proposed change to 24 CFR [Code of Federal Regulations] Part 200 that would make use of the Active Partners Performance System mandatory for all multifamily participants. After undergoing required legal evaluation of the requested changes and public comments, the revised rules received final approval in March 2005 and were published on April 13, 2005.

OIG recommended that HUD fully implement the Active Partners Performance System and ensure its use by all HUD multifamily housing program participants, thus putting more than $5.7 million in funds to better use. (Audit Report: **2005-DP-0006**)

Investigations

During this reporting period, OIG opened 66 investigation cases and closed 103 cases in the multifamily housing program area. Judicial action taken on these cases during the period included $3,648,858 in investigative recoveries, $19,377,603 in funds put to better use, 70 indictments/informations, 51 convictions/pleas/pretrial diversions, 149 administrative actions, 4 civil actions, 2 personnel actions, and 189 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 OIG's more significant investigations are described below.

Chart 4.3: Multifamily Investigative Recoveries

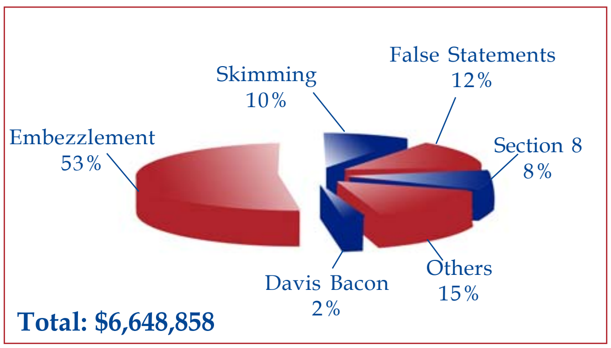
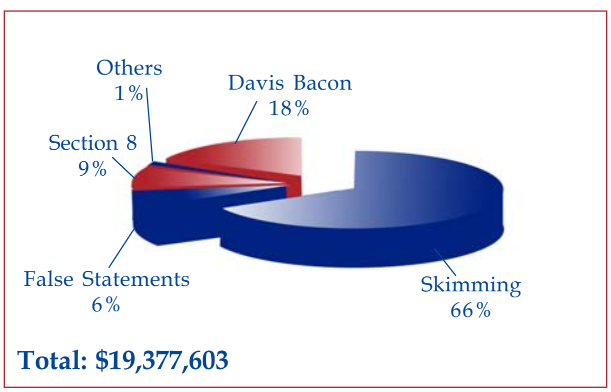


Chart 4.4: Multifamily Funds Put to Better Use



Equity Skimming

Donald Baldyga was sentenced in U.S. District Court, **Portland, ME,** to 1 year and 1 day in prison, which commenced on September 16, 2005. Upon his release, Baldyga will be placed on supervised release for 3 years. Baldyga was also ordered to pay $340,392 in restitution and a $100 fine. Baldyga was indicted by a grand jury in Portland, ME, in December 2004 for criminal equity skimming. The one-count indictment was based on the period from June 2000 through February of 2002, during which Baldyga skimmed

Nursing homes' ex-owner gets a year in prison

Donald Baldyga, whose homes in York County failed, is sentenced for misusing their proceeds.

By ELBERT AULL
Staff Writer

A New Jersey man will begin serving a one-year sentence in federal prison next month, almost three years after the York County nursing homes he once owned closed because of financial troubles.

The U.S. Attorney's Office said Thursday that Donald A. Baldyga Jr., 46, of West Milford, N.J., must pay about $340,000 in restitution after pleading guilty to misusing proceeds from the homes.

An audit in 2003 revealed that Baldyga, president and owner of AdultCare Centers of America, based in New Jersey, illegally used money designated to pay back a federally insured loan for personal items and unrelated business projects.

Baldyga also received three years of probation at his sentencing Wednesday for his role in a scheme that left hundreds of employees and residents at homes in Biddeford, Saco and Sanford with worthless paychecks and no food.

"We were buying milk and bread for the residents," said Jennifer MacPhail, who was activities director at Parkview Adult Care centers in Sanford from 1997 to 2001.

Baldyga, reached by telephone Thursday in New Jersey, declined to comment.

MacPhail said she blew the whistle after learning that her paychecks kept bouncing – or didn't arrive on time – because Baldyga was using money from her facility on other projects.

She said employees weren't compensated for bounced-check fees and were lied to about the financial state of the company.

The state, which licenses assisted-living centers, stepped in and assigned a Portland property-management firm to manage the homes' finances in February 2002.

Investigators learned that Baldyga had defaulted on a $2.98 million mortgage insured by the U.S. Department of Housing and Urban Development, making only one payment between June 2000 and February 2002.

A subsequent federal audit claimed Baldyga made about $392,000 in "questionable" withdrawals from the project's bank accounts while the loan was in default. The audit said Baldyga used about $101,000 for corporate expenses and $48,000 for personal compensation.

approximately $300,000 from the Family Living Adult Care Center operating account. The two buildings, which make up the Family Living Adult Care Center, are located in Biddeford and Sacco, ME. The elderly housing site was purchased using a HUD-insured loan; Baldyga only made one mortgage payment during the course of the loan.

False Statements

Section 8 tenant defendant Carol Jackson of **Scranton, PA**, pled guilty in Federal Court, Middle District of Pennsylvania, to making false statements to obtain the benefit of housing assistance to which she was not entitled. The OIG investigation, which included the execution of a search warrant at the subsidized unit in Village Park Apartments, Scranton, disclosed that for at least 16 years, Jackson ran a private duty-nursing registry, for which she received fees of up to $400 per referral. She never reported this source of income, only income from welfare and/or sporadic employment at odd jobs. Jackson has agreed to repay approximately $197,000 in rental assistance benefits that were improperly paid on her behalf.

Conspiracy

Defendant Janet Gaibl, former property manager, was sentenced in U.S. District Court, **Boston, MA**, to one charge of conspiracy. Gaibl was sentenced to 4 months home confinement with an electronic bracelet, 3 years probation, and a $100 special assessment fee and ordered to make restitution of $125,000 to HUD. Joseph O'Connor was also sentenced in U.S. District Court, Boston, MA, to charges of conspiracy. O'Connor was sentenced to 1 year and 1 day incarceration, 2 years probation, and a $100 special assessment fee and ordered to make restitution of $125,000 to HUD. The sentence was a result of O'Connor's guilty plea to one count of conspiracy. This sentence is the result of a HUD OIG investigation in which Janet Gaibl and Joseph Cassidy were indicted by a Federal grand jury in the District of Massachusetts on November 19, 2003, charging both with one count of conspiracy. The indictment alleged that between 1988 and continuing to 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 identified certain federally subsidized units at the development for their own use and provided a unit to O'Connor who then ran a maintenance company out of a federally subsidized unit, which caused false statements to be made on related HUD forms and caused supporting documents to be fabricated for the purpose of obtaining subsidized units for individuals who would not otherwise qualify. By their actions, Gaibl, Cassidy, and O'Connor caused a loss to HUD in excess of $140,000 and deprived qualified families of use of the units.

Defendant Vern Strauch of **Lincoln, NE**, owner/manager of Blanket Corporation, doing business as Serenity Place Apartments, was sentenced in the U.S. District Court of Nebraska on one count of conspiracy. Defendant Strauch and others conspired to defraud various United States Government agencies through an assisted living scheme. Serenity Place receives money from HUD, the U.S. Department of Health and Human Services (HHS), the Social Security Administration (SSA), and various State agencies for subsistence, transportation, lodging, and medication. Defendant Strauch deprived the occupants of amounts they are entitled to as well as providing false statements to HUD, HHS, and SSA to receive funds to which he was not entitled. Defendant Strauch was sentenced to 12 months and 1 day confinement and 3 years supervised release. Blanket Corp et al were fined $800, and both Strauch and the corporations were ordered to pay restitution of $250,000. Four other persons and three corporations were indicted in June 2003.

Theft and Embezzlement

Defendant Everett Eighmy of **Pittsburgh, PA**, co-owner of the HUD-assisted and Section 8-subsidized Butler Family Housing Apartments, was charged in Federal Court, Western District of Pennsylvania, with embezzlement. The investigation was initiated after HUD advised that Eighmy had stopped making mortgage payments even though the development was at or close to full occupancy. It is alleged that Eighmy had improperly written at least 80 project checks totaling in excess of $80,000 to himself, to accomplices, or to cash, and the funds were used in major part to purchase crack cocaine. Further, his failure to make timely mortgage payments allegedly resulted in foreclosure of the HUD-insured mortgage and a claim to the insurance fund of $1.5 million

Defendant Mark Southard of **Stockton, CA**, former employee of The Garibaldi Company and the management agent for the Sea Breeze Apartments, was sentenced to 4 years incarceration. Southard was ordered to make restitution to Tomas Tomanek, owner of Sea Breeze Apartments, and Mark Garibaldi of the Garibaldi Company in the amount of $1.5 million. This investigation found that Southard embezzled more than $1 million from a HUD mortgage-insured multifamily project through fraudulent contractor's invoices and the manipulation of rent rolls and rental income. It is believed that a majority of the money involved was cash.

Wire Fraud

In the U.S. District Court, Northern District of Illinois, **Chicago, IL**, a Federal grand jury returned a two-count indictment against William Moorehead, Patricia Taylor, and Brian Townsend for wire fraud. Moorehead and his company, William Moorehead and Associates (WMA), acted as the managing agent for numerous properties in and around the Chicago metropolitan area. These multifamily properties were owned by either the Chicago Housing Authority or independently owned, and mortgage insurance was provided by HUD. Moorehead was also the chairman of the board of the Marion Stamps Memorial Charity Fund, which was established to benefit low-income children by providing life skills programs and a day care center. Taylor and Townsend were both employed in the capacity of controller for Moorehead's company.

The indictment alleges that Moorehead illegally transferred funds from one property to another and stole property funds for personal use. To cover these transfers and thefts, Moorehead, Townsend, and Taylor purportedly maintained two sets of records, altered invoices, created false bank statements and bank confirmations, wrote nonsufficient funds checks on various bank accounts, and submitted false financial statements. According to the allegations, Moorehead also stole funds from the charity for his personal use. The indictment alleges that the total thefts amounted to $995,000. To carry out his scheme, the indictment alleged that Moorehead transferred or ordered his controllers to transfer funds from one property to another to cover shortages in various property accounts. Moorehead then used a nonexistent credit union to make it appear funds were held and available in bank accounts when they had been stolen or misappropriated. Moorehead also wrote checks to WMA and to himself by forging the name of the other signatory on the Marion Stamps Memorial Charity Fund bank account. Moorehead was alleged to have stolen approximately $400,000 from this charity.

On June 15, 2005, a civil complaint was filed in the Northern District of Illinois against Moorehead and WMA for the same fraudulent activities mentioned above. The complaint alleges Moorehead and WMA used project assets or income from the projects he managed for personal use and that they were liable for $3,128,550.

Multifamily Task Force Operations

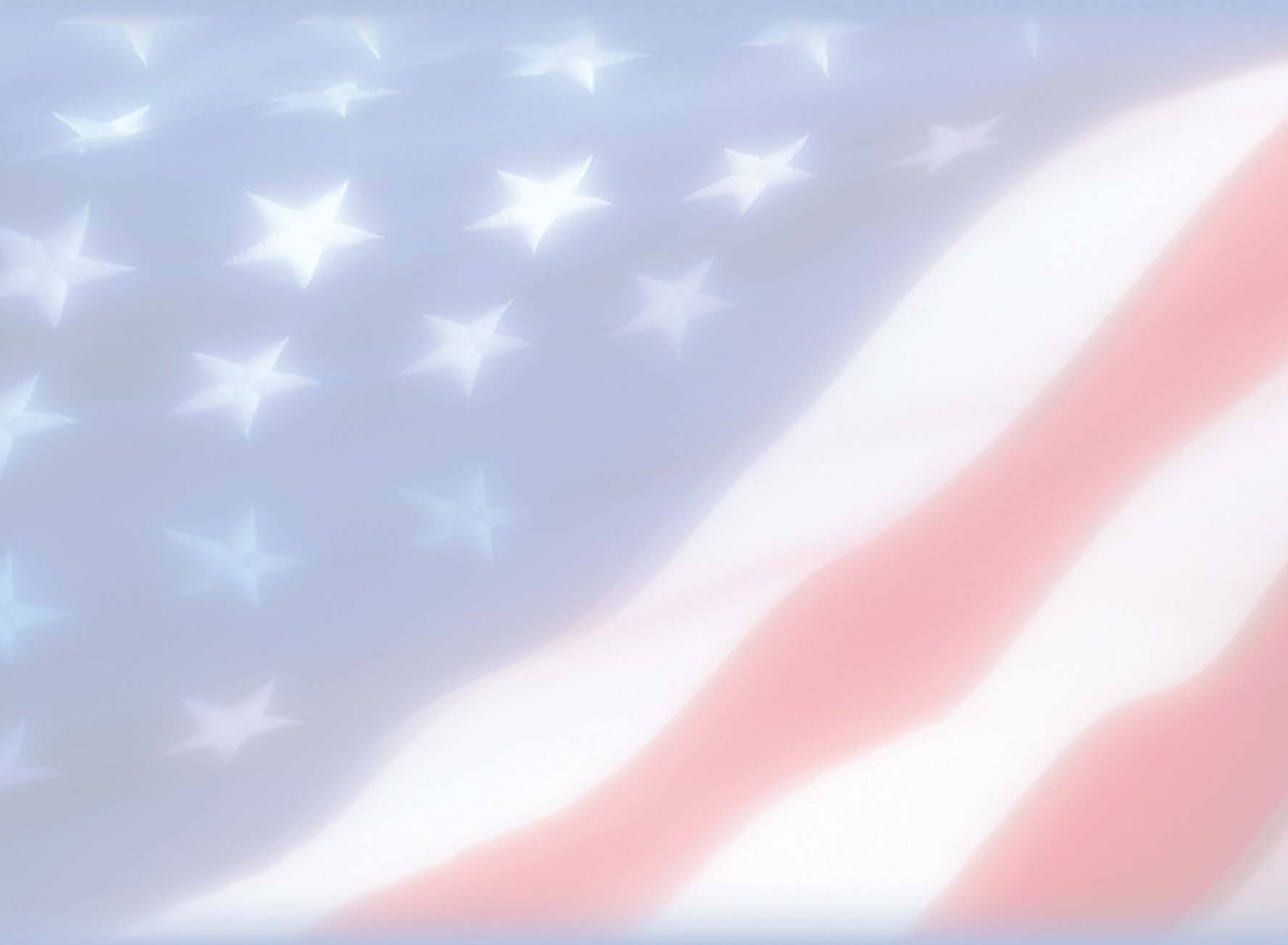
A multiagency task force conducted a warrant/fraud sweep at North Oak Crossing Apartments of **Kansas City, MO,** a multifamily property. This effort resulted in the arrest of 21 individuals on charges ranging from drug violations to felony assaults. The sweep was conducted based on complaints from residents and management alleging that illegal activity was occurring on the property. Administrative action to terminate tenants based on these arrests will be initiated. Information received during the sweep will be used to investigate fraudulent activity.

The **Kansas City, MO,** joint task force conducted a warrant sweep at Englewood Apartments. This multiagency task force arrested 22 individuals, based on charges ranging from welfare fraud to drug violations, and attempted to locate four sex offenders who were believed to be living on the premises. The sweep was conducted based on complaints from residents and management alleging that illegal activity was occurring on the property. Administrative actions to terminate tenants based on these arrests will be initiated.

Grand Larceny

Michael Caridi, Joseph Rotonde, and Orry Osinga of **New York, NY,** were arrested on 59 counts of falsifying business records to HUD and one count of second degree grand larceny. All three defendants were indicted in August but the Rockland County District Attorney's Office requested that the indictments remain sealed until they were arrested. All three defendants have been arraigned on the previous charges. Caridi and Rotonde are both officers in a construction company called SRC Industries Incorporated. Osinga is a subcontractor who did some work on the job site. SRC obtained a contract from HUD to build a residential property for disabled adults for a nonprofit agency called Jawanio. The contract between SRC and HUD stated that SRC would pay Davis Bacon wages to all the workers on the job site. It came to the attention of HUD OIG that SRC was allegedly paying the workers on the job site $10-$18 per hour and then sending false payrolls to HUD stating that the workers were earning Davis Bacon wages, which were approximately $36 per hour. These alleged false payrolls submitted to HUD resulted in the workers on the job site being underpaid by approximately $800,000. The money for the workers was paid to SRC by HUD and subsequently is the loss amount in this case.

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, 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 eight external audit reports in the CPD program area. These reports disclosed nearly $8 million in questioned costs and more than $21 million in recommendations that funds be put to better use.

OIG audited Community Development Block Grant (CDBG) programs, Home Investment Partnership (HOME) programs, and Special Purpose Grant programs.

Chart 5.1: Community Planning and Development Housing Program Reports Issued

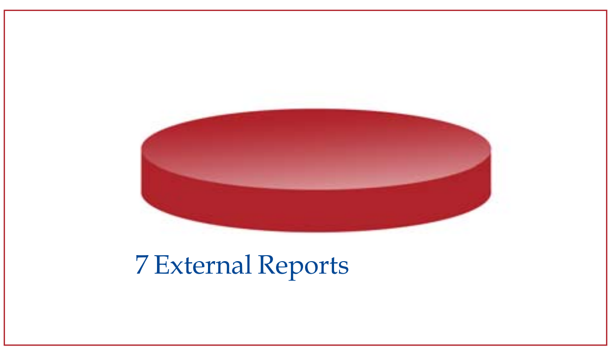
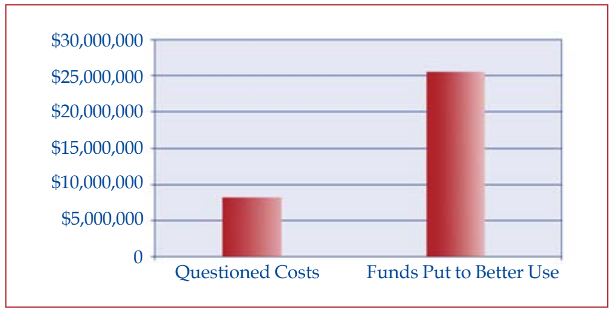


Chart 5.2: Community Planning and Development Housing Dollars



Community Development Block Grant Program

In **New York, NY**, HUD OIG performed its fifth audit of the Lower Manhattan Development Corporation's (LMDC) administration of the CDBG Disaster Recovery Assistance funds, which were provided to the State of New York as a result of the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The objectives of the current review were to determine whether LMDC (1) disbursed Disaster Recovery Assistance funds in accordance with HUD-approved action plans, (2) expended Disaster Recovery Assistance funds for eligible planning and administrative expenses in accordance with applicable laws and regulations, (3) maintained a financial management system that adequately safeguarded the funds, and (4) developed and implemented procedures to recover funds owed to the Residential Grant Program.

LMDC generally disbursed Disaster Recovery Assistance funds in accordance with the HUD-approved action plans.

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.

LMDC also expended Disaster Recovery Assistance funds for eligible planning and administrative expenses in accordance with applicable laws and regulations and maintained a financial management system that adequately safeguarded the funds. However, LMDC disbursed more than $2 million for items either not included in the budget of the subrecipient agreement for the Hudson River Park Improvements Program or for costs incurred before the time of performance specified in the agreement. Additionally, LMDC developed and implemented collection procedures to recover funds owed to the Residential Grant Program. However, its collection efforts were not always fully documented, and there is a need to consider additional actions to recover amounts owed.

OIG recommended that HUD require LMDC to reimburse the more than $2 million inappropriately disbursed and to maintain complete documentation of its efforts to collect amounts owed to the Residential Grant Program. OIG also recommended that additional actions to collect amounts owed to the Residential Grant Program be considered. (Audit Report: **2005 NY 1008**)

HUD OIG audited the Corporación para el Fomento Económico de la Ciudad Capital, a nonprofit subgrantee for the Municipality of **San Juan, PR**. The review was initiated in response to a request from HUD's San Juan Office of Community Planning and Development, which was not satisfied with the Corporation's overall performance in administering its independent capital fund.

Contrary to HUD requirements, the Corporation retained more than $1.48 million in interest earned from its CDBG revolving fund account. The Corporation's financial management system did not properly identify the application of more than $1 million in administrative fees charged, allowed the use of more than $463,000 for ineligible expenditures, did not account for all program income, and maintained a high balance in its CDBG fund account. In addition, the Corporation did not maintain adequate records to demonstrate that activities met at least one of the three CDBG national objectives. Therefore, the related expenditures of four loans totaling more than $631,000 are considered unsupported pending an eligibility determination by HUD.

OIG recommended that HUD require the Municipality of San Juan to repay $1.48 million in interest earned from the CDBG revolving fund and repay more than $463,000 in ineligible expenditures. HUD should also require the Municipality to provide all supporting documentation and determine the appropriateness and eligibility of $1.64 million in CDBG disbursements. OIG also recommended that HUD require the Municipality to develop and implement an internal control plan to ensure the independent capital fund has a financial management system that complies with HUD requirements and that funds are used in a timely manner. (Audit Report: **2005-AT-1013**)

Home Investment Partnership Grant Fund Program

HUD OIG conducted a limited review of the Maricopa HOME Consortium, City of **Mesa, AZ's** use of $570,000 in Home Ownership Made Easy (HOME) grant funds to assist in the rehabilitation of 35 single-family scattered site public housing units, located within the jurisdiction of the City and County of Maricopa. The objective was to determine whether the use of HOME funds to rehabilitate these public housing units was an eligible HOME activity.

This Consortium/City grant activity was not an eligible use of HOME funds as the units were, and remain, under an annual contributions contract between HUD and the Housing Authority of Maricopa County and are receiving operating subsidy (including capital grant funding). This is an ineligible activity, according to the HOME regulations set out in 24 CFR [Code of Federal Regulations] 92.214, which prohibits the use of HOME funds to assist housing units receiving assistance under Section 9 of the 1937 Housing Act (public housing capital and operating funds).

OIG recommended that the Consortium be required to reimburse the $570,000 in HOME funds to its local HOME investment trust fund. (Audit Report: **2005-LA-1006**).

In response to a request from the former Assistant United States Attorney of the Commonwealth of Pennsylvania, in **Harrisburg, PA,** HUD OIG audited the Pennsylvania Department of Community and Economic Development's (Commonwealth) administration of the HOME Investment Partnerships Program. The audit objectives were to determine whether the Commonwealth was 1) adequately monitoring localities to ensure HOME funds are expended on allowable activities and 2) properly allocating its staff's time for the administration of the HOME program in accordance with applicable HUD and other Federal regulations.

The Commonwealth was not adequately monitoring its localities to ensure HOME funds were expended on eligible activities. Three of the four localities that were reviewed spent approximately $79,000 of their HOME funds on ineligible expenses/activities. In addition, the Commonwealth had accumulated more than $6.9 million in administrative fees from the program by obligating more funds than it spent to administer its HOME program. These excess funds should have been used to strengthen the Commonwealth's monitoring program and to fund additional eligible HOME projects. Doing so would have enabled the Commonwealth's HOME program to better meet its main goal of providing affordable housing for low-income households.

In addition, the Commonwealth improperly allocated its staff's time for the administration of the HOME program. Instead of maintaining accurate timesheets, the Commonwealth followed an unwritten policy that required staff time to be split equally between the HOME and CDBG programs. As a result, the Commonwealth was unable to ensure HOME funds are only being used to pay for the administration of the HOME program.

OIG recommended that HUD require the Commonwealth to recover more than $79,000 in ineligible fees from the localities we reviewed. In addition, the Commonwealth should use the more than $6.9 million in accumulated administrative fees to improve its monitoring program and recommit the funds to eligible HOME projects. OIG also recommended that HUD require the Commonwealth to establish proper time allocations that meet the requirements of Office of Management and Budget (OMB) Circular A-87. (Audit Report: **2005-PH-1013**)

HUD OIG reviewed the City of New Orleans, **New Orleans, LA's** matching contribution to its HOME funds to determine whether the City documented and matched its disbursed HOME funds in accordance with HUD regulations.

Between fiscal years (FY) 2000 and 2003, the City did not provide $3.6 million in matching HOME funds as required by HUD. In addition, the City failed to maintain a system that identified the type and amount of each matching contribution.

OIG recommended that HUD require the City to (1) submit matching contributions in the amount of $3.6 million, (2) update its policies to comply with HUD and other Federal rules and regulations, and (3) provide documentation of its matching contributions as it draws funds until it has a plan that ensures compliance with HUD requirements. Further, OIG recommended that HUD review and monitor the City's plan to ensure the matching deficiency is corrected. (Audit Report: **2005-FW-1008**)

Special Purpose Grant Program

Continued concerns over the capacity of nonprofit entities receiving funding from HUD programs require that audits of such activities be given priority. Of particular concern are Special Purpose Grants. During this period, OIG reviewed three Special Purpose Grant activities and found instances in which HUD's interest on the property was not properly recorded.

HUD OIG audited Mount Union College's Economic Development Initiative – Special Purpose Grant in **Alliance, OH**. OIG initiated the audit in conjunction with its internal review of HUD's oversight of these Grants. OIG chose the College's Grant based upon a statistical sample of Grants for FY 2002 and 2003, in which 90 percent or more in funds were disbursed. The objectives were to determine whether the College used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

The College used the Grant funds in accordance with HUD's requirements. It used $1 million in Grant funds to pay for architectural fees for the construction of Bracy Hall, a science facility. However, the College did not place a covenant on the property title for Bracy Hall, assuring nondiscrimination based on race, color, national origin, or handicap. Further, HUD did not request the College to record HUD's interest on the property title for Bracy Hall.

OIG recommended that HUD require the College to record a covenant on the title, assuring nondiscrimination based on race, color, national origin, or handicap, and record a lien on the property title for Bracy Hall, showing HUD's interest in the assisted property. If the covenant and lien are not recorded, the College should reimburse HUD $1 million in nonfederal funds for the Grant funds used to pay for Bracy Hall's architectural fees. (Audit Report: **2005-CH-1018**)

HUD OIG audited the City of **Carmel, IN's** Economic Development Initiative – Special Purpose Grant. OIG initiated the audit in conjunction with its internal review of HUD's oversight of these Grants. The review is part of OIG's FY 2005 annual audit plan. OIG chose the City's Grant based upon a statistical sample of Grants for FY 2002 and 2003, in which 90 percent or more in funds were disbursed. The objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

The City used the Grant funds in accordance with HUD's requirements. It used $1 million in Grant funds to pay for the areawide subterranean detention system and reflecting pool design of Veterans Plaza and the Reflecting Pond. However, it did not place a covenant on the property title for Veterans Plaza and the Reflecting Pond, assuring nondiscrimination based on race, color, national origin, or handicap. Further, HUD did not request the City to record HUD's interest on the property title for Veterans Plaza and the Reflecting Pond.

OIG recommended that HUD require the City to record a covenant on the title, assuring nondiscrimination based on race, national origin, or handicap, and record a lien on the property title for Veterans Plaza and the Reflecting Pond, showing HUD's interest in the assisted property. If the covenant and lien are not recorded, the City should reimburse HUD $1 million from nonfederal funds for the Grant funds used to pay for the areawide subterranean detention system and reflecting pool design of Veterans Plaza and the Reflecting Pond. (Audit Report: **2005-CH-1019**)

HUD OIG audited the City of **Indianapolis, IN's** Economic Development Initiative – Special Purpose Grant. OIG initiated the audit in conjunction with its internal review of HUD's oversight of these Grants. The review is part of OIG's FY 2005 annual audit plan. OIG chose the City's Grant based upon a statistical sample of Grants for FY 2002 and 2003, in which 90 percent or more in funds were disbursed. The objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

The City used the Grant funds in accordance with HUD's requirements. It disbursed more than $134,000 in Grant funds to the Indiana University Research and Technology Corporation to pay for the construction of the Indiana University Emerging Technologies Center's wet laboratory space. However, it did not place a covenant on the property title for the Center, assuring nondiscrimination based on race, color, national origin, or handicap.

OIG recommended that HUD require the City to ensure the Corporation records a covenant on the property title for the Center, assuring nondiscrimination based on race, color, national origin, or handicap. If the covenant is not recorded, the City should reimburse HUD $134,000 from nonfederal funds for the Grant funds used to pay for the Center's wet laboratory space. (Audit Report: **2005-CH-1021**)

Investigations

During this reporting period, OIG opened 20 investigative cases and closed 34 cases in the CPD program area. Judicial action taken on these cases during the period included $42,179,216 in investigative recoveries, $42,775,121 in funds put to better use, 47 indictments/informations, 20 convictions, pleas, and pretrial diversions, 28 administrative actions, 1 civil action, 17 personnel actions, and 47 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 OIG's more significant investigations are described below.

Chart 5.3: Community Planning and Development Investigative Recoveries

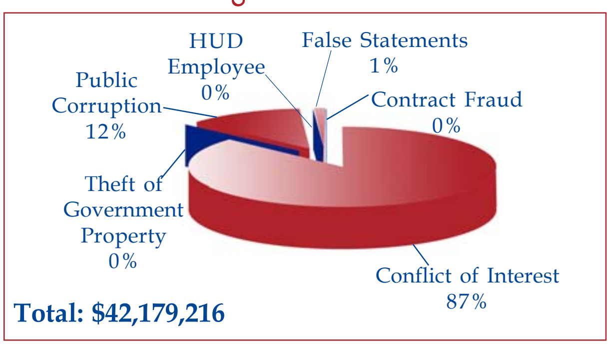
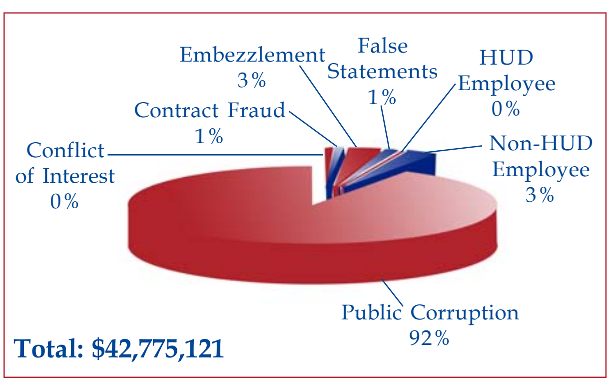


Chart 5.4: Community Planning and Development Funds Put to Better Use



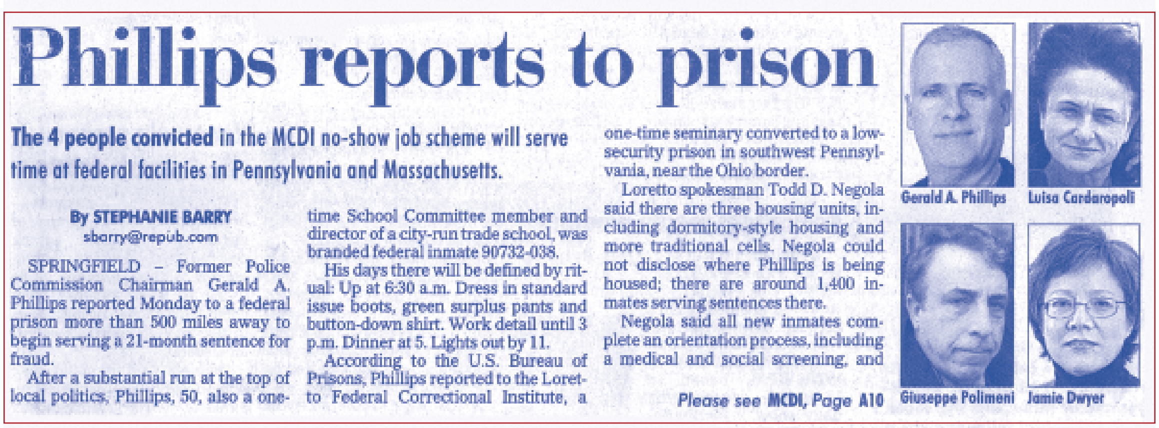
Investigations Involving Public Officials

Defendants Lola Thrower, Malik Blackmon, Lee Langston, and Reverend Lamar Wright of **Little Rock, AR**, were each indicted by a Federal grand jury in the Eastern District of Arkansas relating to five counts of theft of Federal property and four counts of aiding and abetting. Lola Thrower was the Human Immunodeficiency Virus (HIV) Services Program Administrator for the Arkansas Department of Health (ADH), a grantee of HUD-funded Housing Opportunities for Persons with AIDS (HOPWA) funds and HHS-funded Ryan White Title II Consortia funds. Thrower administered HOPWA and Title II grant monies, which were to be used for HIV/Acquired Immune Deficiency Syndrome (AIDS) services within the State of Arkansas. Lee Langston was the executive director of Positive Voices, a nonprofit corporation and subgrantee of Federal funds administered by Thrower. Malik Blackmon was the minority AIDS initiative coordinator for Positive Voices and Thrower's boyfriend and later spouse. Reverend Lamar Wright is a church pastor and the president and chief executive officer of the nonprofit corporation Save Our Children Community Project and its subsidiary nonprofit corporation called People United for Change. Save Our Children and People United for Change were subgrantees of Federal funds administered by Thrower.

Lola Thrower allegedly used her position with the State of Arkansas to direct Lee Langston and Reverend Lamar Wright to steal Federal grant money from their nonprofit corporations and give it to her. Thrower, Langston, and Wright also allegedly fabricated invoices to conceal the grant money stolen. Langston allegedly stole Federal grant money from his nonprofit corporation by writing checks to himself for work he did not perform. In addition, Thrower and Blackmon established a nonprofit corporation called B'MON, Inc. They allegedly directed Langston and Future Builders, another nonprofit corporation and subgrantee of Federal funds administered by Lola Thrower, to write checks payable to B'MON from Federal grant money to pay for supposed legitimate grant-related expenses. However, Thrower and Blackmon allegedly used the majority of the Federal grant money received to pay for personal expenses from the B'MON bank account, including a $5,000 diamond engagement ring for Thrower. Thrower and Blackmon allegedly created phony invoices and receipts to conceal the amounts stolen.

Erma Kendrick of **Fresno, CA**, former executive director of Kern County Mental Health Association (KCMHA), and Edwina Jackson, former assistant executive director of KCMHA, pled guilty in Federal District Court, the Eastern District of California, to felony charges that they conspired to defraud HUD in connection with the Supportive Housing Program. 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 in 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 (SSA) Payee Program. More than $36,000 of the grant funds was 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 as nonsufficient funds, and the $36,000 was paid to him to cover those checks.

Gerald Phillips, former director of the Massachusetts Career Development Institute (MCDI), a CDBG-funded State organization was sentenced in U.S. District Court, **Springfield, MA**. Phillips was sentenced to serve 21 months incarceration and 3 years supervised release, to be served concurrently. Phillips was also fined $30,000, ordered to pay a $200 special assessment fee, and ordered to make restitution of $2,526 to HUD. The restitution represents the housing assistance payments (HAP) paid on behalf of an MCDI student by the Springfield Housing Authority for a Section 8 voucher that Phillips was instrumental in having issued to the student.



Phillips reports to prison

The 4 people convicted in the MCDI no-show job scheme will serve time at federal facilities in Pennsylvania and Massachusetts.

By STEPHANIE BARRY
sbarry@repub.com

SPRINGFIELD – Former Police Commission Chairman Gerald A. Phillips reported Monday to a federal prison more than 500 miles away to begin serving a 21-month sentence for fraud.

After a substantial run at the top of local politics, Phillips, 50, also a one-time School Committee member and director of a city-run trade school, was branded federal inmate 90732-038.

His days there will be defined by ritual: Up at 6:30 a.m. Dress in standard issue boots, green surplus pants and button-down shirt. Work detail until 3 p.m. Dinner at 5. Lights out by 11.

According to the U.S. Bureau of Prisons, Phillips reported to the Loretto Federal Correctional Institute, a one-time seminary converted to a low-security prison in southwest Pennsylvania, near the Ohio border.

Loretto spokesman Todd D. Negola said there are three housing units, including dormitory-style housing and more traditional cells. Negola could not disclose where Phillips is being housed; there are around 1,400 inmates serving sentences there.

Negola said all new inmates complete an orientation process, including a medical and social screening, and

Please see MCDI, Page A10

Gerald A. Phillips
Luisa Cardaropoli
Giuseppe Polimeni
Jamie Dwyer

Defendant Giuseppe Polimeni, former administrator of the MCDI, a CDBG-funded State organization, was sentenced in U.S. District Court, Springfield, MA. Polimeni was sentenced to serve 1 year and 1 day incarceration and 3 years supervised release, to be served concurrently. Poliminei was also fined $50,000 and ordered to pay a special assessment fee of $800.

Defendant Jamie Dwyer, former secretary for the MCDI, a CDBG-funded State organization, was sentenced in U.S. District Court, **Springfield, MA**. Dwyer was sentenced to serve 6 months in a community corrections facility and 6 months home confinement under electronic monitoring, to be served concurrently. Dwyer was also sentenced to 3 years probation.

No-show worker gets 15 months

2 more defendants will be sentenced later this month.

By JACK FLYNN
jflynn@repub.com

SPRINGFIELD – A federal judge sentenced a defendant in a high-profile corruption case to 15 months in prison yesterday after a prosecutor described her as a politically connected "leech" who cashed in on a no-show job at a city vocational training school.

"I recognize the serious impact that this type of crime has on the city of Springfield," U.S. Judge Michael J. Ponsor said before handing down one of the harshest sentences yet in a four-year corruption probe to Luisa Cardaropoli, 49, of East Longmeadow.

"It's not fair to the city of Springfield; it's not fair to the people of Springfield," Ponsor added.

Cardaropoli, a close relative of slain mob boss Adolfo "Big Al" Bruno, rested her face on her right hand, then dabbed away a tear as Ponsor spoke. In addition to the prison term, Cardaropoli was ordered to repay $51,000 in salary and health benefits she collected while on the payroll of the Massachusetts Career Development Institute, a city-managed job training center.

Luisa Cardaropoli

Another defendant in the case, Jamie Dwyer, 54, of Springfield, was sentenced to six months in a half way house and six months home confine-

Please see Prison, Page A5

Luisa Cardaropoli, a former no-show employee of the MCDI, was sentenced on June 30 in U.S. District Court, Springfield, MA. Cardaropoli was sentenced to serve 15 months incarceration and 2 years supervised release, to be served concurrently and to commence within 4 weeks. Cardaropoli was also fined $4,000 and ordered to make restitution of $51,293 to the City of Springfield, MA.

A Federal jury in U.S. District Court in **Springfield, MA,** had previously convicted Phillips, Dwyer, Cardaropoli, and Polimeni on 11 counts, including one count of conspiracy to commit program fraud and one count of program fraud. Phillips was convicted along with three former officials of the MCDI. All four defendants in this case were charged in a 19-count superseding Federal indictment in Springfield, MA. This indictment was previously handed down by a Federal grand jury. The indictment included violations of conspiracy, program fraud, wire fraud, obstruction of justice, making false statements, threatening a witness, and aiding and abetting. The four, who were charged and convicted, had been employed by MCDI, which provided educational and job-training programs for income-eligible individuals in the Springfield, MA, area. The investigation concerned no-show employees, including Polimeni's son-in-law. During the course of the investigation, Gerald Phillips threatened, intimidated, and corruptly persuaded a witness to prevent the testimony of this witness to a Federal grand jury.

In **Flint, MI**, Joseph Giacalone, president of OK Industries and recipient of a HUD 108 Economic Development loan, was charged and subsequently arrested by the Genesee County Prosecutors Office for larceny by conversion of more than $20,000. Dana Robin, the chief financial officer for OK

Industries, was also charged and arrested for larceny by conversion of more than $20,000 for his role in using the 108 loan proceeds for his personal benefit.

Giacalone applied for and received approximately $220,000 from the Flint Area Investment Fund (FAIF) and $870,000 from the City of Flint through the 108 loan program. According to the FAIF contract, Giacalone was to pay off the FAIF bridge loan when the 108 loan was funded, which he failed to do.

Giaclone's 108 loan application purported the following three uses for the loan funds: 1) renovate and relocate to a factory he owned in downtown Flint, MI, 2) hire 100 additional employees that were classified as low-income, and 3) purchase equipment to accommodate the additional employees.

According to the charges, Giacalone did not complete, nor did he start, any of the conditions specified and certified to in his application. In addition, Giacalone failed to make payments on the 108 loan. Giacalone and Robin purportedly diverted much of the funds to pay delinquent taxes on personal property, pay outstanding personal loans, and make cash transfers to nonbusiness accounts. Alexander Thomas, Flint's community planning director at the time Giaclone applied for the 108 loan, was also arrested and charged with embezzlement by a public official for his role in the scheme. Thomas was alleged to have failed to monitor the disbursements and draws on the loan proceeds and failed to accurately verify that OK was in compliance.

In **Orange County, NY**, the Mayor of Middletown, defendant Joseph DeStefano, was sentenced to a year of conditional discharge and imposed a court surcharge, a fine in the amount of $100. DeStefano resigned from his position as Mayor for the City of Middletown. Defendant DeStefano was found guilty of two counts of second degree offering a false instrument for filing in violation of New York State Penal Code § 175.30, a class A misdemeanor. Judge Stewart Rosenwasser found DeStefano guilty for his answer to the same question, 2 years in a row, on city ethics forms that all public officials must fill out. DeStefano answered "no" about whether he had done more than $1,000 worth of business with anyone doing business with the City.

Francis G. Keough, former director of the Friends of the Homeless, was arrested and brought before the Magistrate in the District of **Springfield, MA**, had his pretrial release revoked, and was ordered incarcerated in the Franklin County House of Correction, Greenfield, MA, pending an additional motion hearing. This was as the result of a motion filed by the U.S. Attorney's Office, District of Springfield,

Shelter board fires indicted leader Keough

The search for a replacement to head the Springfield agency begins later this month.

By JACK FLYNN
jflynn@repub.com

SPRINGFIELD – Ending the second act of his public life, former City Councilor Francis G. Keough III was fired last night as the $95,000-a-year director of Friends of the Homeless Inc., the taxpayer-funded charity he ran before being indicted in a public corruption probe earlier this year.

The firing, approved by the agency's board of directors on a 9-0 vote, marked the latest turn in a tumultuous career for Keough, who stepped down from the council in 1993 following a tax fraud conviction. With no experience working with the homeless, Keough landed a job running the charity, and eventually stocked the board of directors with friends and political allies.


Francis G. Keough III

MA, requesting revocation of Keough's pretrial release based upon additional contacts by Keough with two additional witnesses. After a superseding indictment, the Magistrate held a revocation hearing, at which time Keough's unsecured bond was raised from $50,000 to $100,000 and the court ordered that Keough's wife also post a $100,000 bond binding real estate holdings. Keough was admonished by the Magistrate for contacting witnesses and warned that further tampering with the ongoing investigation would not be tolerated.

Keough was later arrested again and brought before the Magistrate in the District of Springfield, MA. The Magistrate revoked his pretrial release and ordered Keough incarcerated in the Franklin County House of Correction, Greenfield, MA, until his trial. This was the result of contacts by Keough of two additional witnesses after he had been warned by the Magistrate to stay away from witnesses.

False Statements

Defendant Joyce Ashcraft of **Cedar Rapids, IA**, grant recipient, was sentenced in Federal Court in the Northern District of Iowa to 9 years imprisonment and was ordered to pay $134,311 in restitution. Defendant Ashcraft previously pled guilty to making false statements to HUD, identity theft, bank fraud, and Social Security fraud. Defendant 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 (IRA), and falsely obtaining State medical assistance. This case was initiated based on a congressional complaint to OIG.

Boris Yakowyna, a **Rochester, NY,** rehabilitation specialist, pled guilty to one count of making false statements to HUD. Yakowyna admitted that he accepted kickbacks from contractors involved in rehabilitation projects with the City of Rochester Rehabilitation Program. 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, which will be sold to low-income families.

Jose Cipolla pleaded guilty to one count of perjury. Cipolla admitted he lied to a Federal grand jury in connection with his involvement in giving kickbacks to City of **Rochester, NY**, rehabilitation specialists for home rehabilitation contracts he was awarded. Cipolla lied to the grand jury by denying he paid rehabilitation specialist David Lippa. 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. Lippa was scheduled for sentencing.

Conspiracy/Program Fraud/ Extortion

A Federal jury in U.S. District Court, **Springfield, MA**, convicted Jamie Dwyer of conspiracy to commit program fraud, two counts of Federal program fraud, conspiracy to obstruct justice by making a false statement, and making a false statement to a Federal agent. The same jury convicted Luisa Cardaropoli on three counts of fraud and one count of giving a false statement to a Federal agent. The four defendants, to include Dwyer and Cardarolpoli, in this case were charged in a 19-count superseding Federal indictment in Springfield, MA. This indictment had previously been handed down by a Federal grand jury. The indictment included violations of conspiracy, program fraud, wire fraud, obstruction of justice, making false statements, threatening a witness, and aiding and abetting. The four charged and convicted had been employed by MCDI, which provided educational and job-training programs for income-eligible individuals in the Springfield, MA, area. The investigation concerned no-show employees. During the course of the investigation, one defendant, Gerald Phillips, threatened, intimidated, and corruptly persuaded a witness to prevent the testimony of this witness to a Federal grand jury. This superseding indictment included additional information required under the Blakely decision.

Defendant Warren Godbolt of **Bridgeport, CT,** executive director of Progressive Training Associates (PTA), pled guilty to an information charging two counts of theft of Federal funds and one count of conspiracy. These charges stem from Warren Goldbolt's admission to paying approximately $5,000 in cash to a public official in exchange for the awarding of a $100,000 State of Connecticut bond to PTA. Further, Warren Godbolt admitted to embezzling between $70,000 and $120,000 from PTA bank accounts and utilizing this money for personal use, including the purchase of an automobile and motorboat, vacations, and home renovations. PTA is a nonprofit organization assisting lower income people in the City of Bridgeport, which has received approximately $488,000 through HUD's Supportive Housing Program. Goldbolt and PTA have been suspended from doing business with HUD.

A jury in the U.S. District Court for the Eastern District of Wisconsin found Mhammad Aziz Abu Shawish guilty of Federal program fraud, relative to defrauding the City of Milwaukee's CDBG program. Abu Shawish, the founder and then executive director of Arabian Fest Arab American Festival, Inc., a nonprofit organization receiving HUD CDBG funds through the City of Milwaukee and the County of **Milwaukee, WI**, was originally charged in October 2003.

Abu Shawish was found guilty of submitting a study to block grant administrators, stating that it was prepared by Arabian Fest and funded by the City's Community Block Grant Administration, when the plan was not formulated by Arabian Fest but was an identical copy of another plan with minor cosmetic changes, which had been completed by an individual unrelated to Arabian Fest and funded by another unrelated organization at a cost of $25,000. Abu Shawish also fraudulently submitted documentation to the City to support $30,000 in expenses associated with the study. The County awarded Arabian Fest $15,000 in CDBG funds to pay a portion of salary and fringe benefits of an executive director to operate a business development program to provide technical assistance to a minimum of three small business owners, "microenterprise owners," in a specific low- and moderate-income service area. However, in support of the costs claimed, he submitted a false document identifying three storeowners to whom he claimed to have provided assistance and with two of whom he claimed to have scheduled followup meetings. Finally, he submitted multiple fraudulent claims for reimbursement to the County until January 2003, although his contact with all three businesses ended in the summer of 2002 and consisted of less than 50 minutes of time with all three businesses and no additional work or technical assistance was done after the summer 2002, causing the County to spend $15,000 of CDBG funds for less than 50 minutes of work.

In **San Juan, PR,** in the U.S. District Court for Puerto Rico, defendant Jose A. Acevedo-Martinez was sentenced to a term of 2 years of imprisonment, 3 years under supervised release, and a $600 special assessment fee. On May 10, 2005, Acevedo-Martinez pleaded guilty to six counts of a 10-count indictment before U.S. District Court Judge Perez-Gimenez. Acevedo-Martinez had been previously charged with knowingly and corruptly soliciting, demanding, accepting, and agreeing to accept something of value of $5,000 or more for monies and services intended to be influenced or rewarded in connection with a business transaction or series of transactions of the Health and Medical Services Administration for Drug Addicts (ASSMCA), an organization that received in a 1-year period benefits of more than $10,000 under a Federal program. Acevedo-Martinez unlawfully requested payments (kickbacks) in exchange for granting the contractors contracts to provide services for ASSMCA.

Mail/Wire Fraud

The Eastern District of Tennessee unsealed a 14-count indictment charging defendant Anthony C. Auyer of **Chattanooga, TN**, with wire fraud. Auyer is president of Anthony Construction Company, Inc. (ACCI). Auyer allegedly submitted fraudulent invoices pertaining to a $485,000 CBDG loan, administered by the Tennessee Department of Economic and Community Development. These invoices were purported for the purchase of sawmill equipment and caused the Tennessee Department of Economic and Community Development to electronically transfer $408,920 to ACCI's bank account. Auyer did not repay any of these funds when the note came due. Teresa Rikard Auyer, along with McMinnville, TN, appraiser James Passons, was also charged in the indictment. Teresa Auyer and her husband Anthony Auyer were both charged in two counts of wire fraud for the submission of fraudulent invoices for the CDBG loan. Both Auyerses and Passons were charged in multiple counts of mail fraud, bank fraud, conspiracy, and money laundering, stemming from fraud involved in the purchase of the lumber mill, which was secured by a U.S. Department of Agriculture (USDA) rural development loan. Defendant Auyer obtained a loan in the amount of $1.77 million from the Bank of Tennessee to purchase the lumber mill based on false and inflated appraisals. Auyer failed to repay this loan.

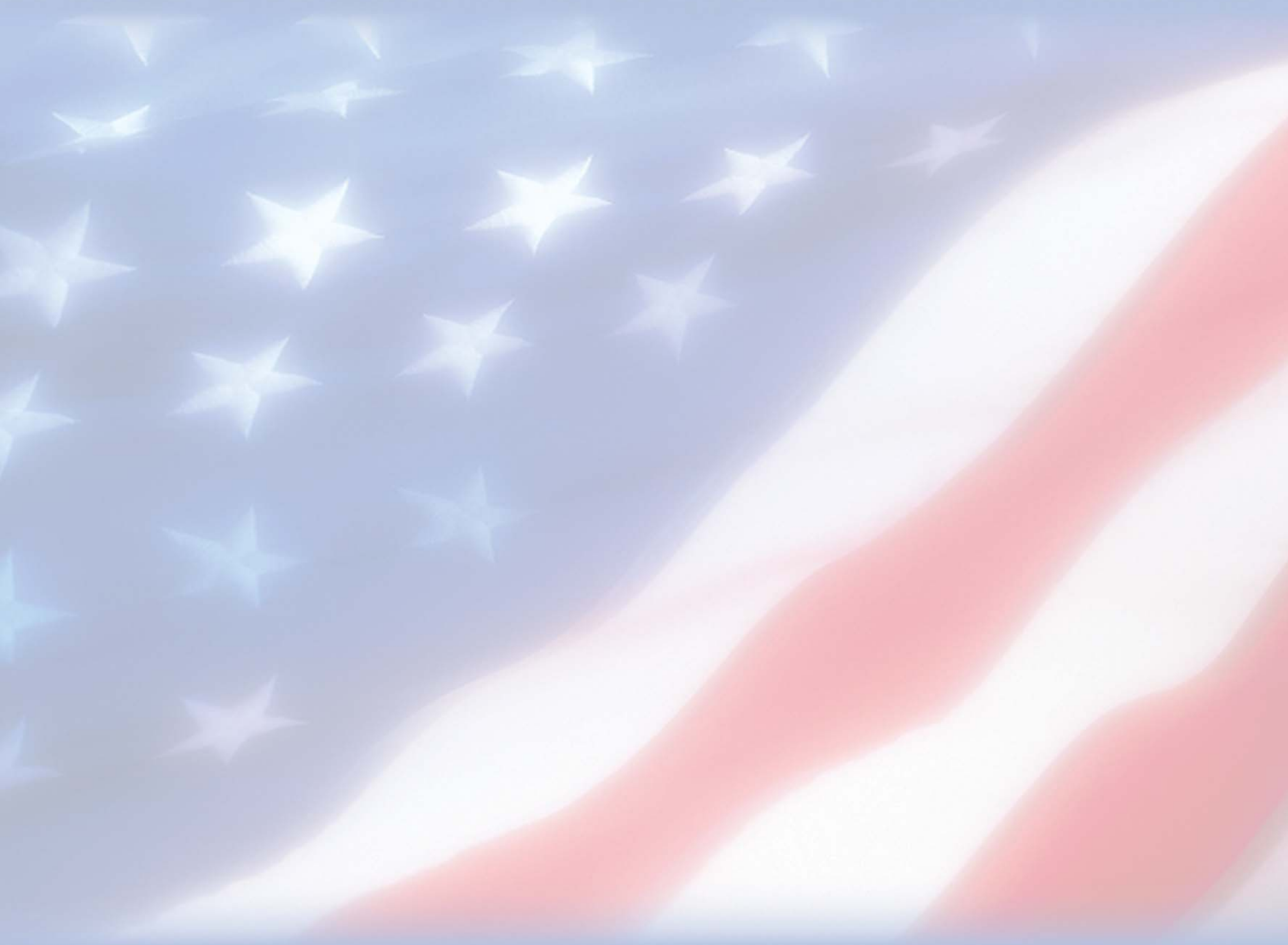
Defendant Steven Young was sentenced in Federal Court to 3 years probation and 6 months home confinement, assessed a $100 fee, and ordered to pay restitution in the amount of $5,000 to HUD. Steven Young pled guilty to one count of mail fraud. Defendant Young was charged in the Western District of New 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 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.

Embezzlement/Theft of Government Funds

Defendant Frank Zdankowski of **Mifflin County, PA**, was sentenced in Federal Court, Middle District of Pennsylvania, for receiving business loans from USDA and the HUD CDBG program to which he was not entitled. He received 2 years probation and was ordered to repay the Federal Government $97,861, which included the improperly received $35,000 CDBG loan. The investigation disclosed that the defendant applied concurrently for loans from both agencies for stated purpose of starting an animal breeding business, failed to start the business, and defaulted on both loans almost immediately.

Jarmena To of **New York, NY**, who was indicted on charges of theft of government funds in connection with a scheme to defraud HUD and the Lower Manhattan Development Corp (LMDC) of Federal grant money, was arrested on July 12, 2005. Jarmena To allegedly devised a scheme to fraudulently obtain money from a grant program established by the LMDC to retain and attract residents to Lower Manhattan. LMDC was created by the State and City of New York after the September 11, 2001, terrorist attacks to coordinate the rebuilding and revitalization of Lower Manhattan. LMDC is funded by HUD and has received $2.7 billion from HUD.

Chapter 6



Other Significant HUD Audits and Investigations/OIG Hotline

Audits

During this reporting period, the Office of Inspector General (OIG) issued four reports: three internal audits and one 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's more significant audits are discussed below.

Chart 6.1: Other Significant Audit Reports Issued

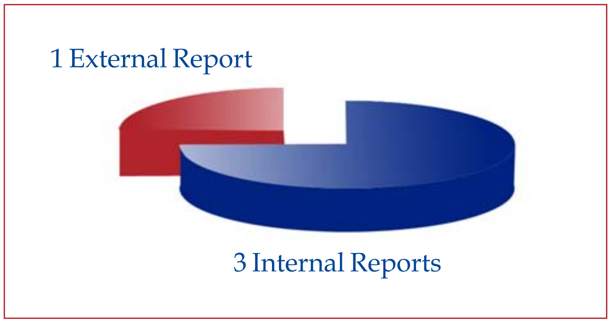
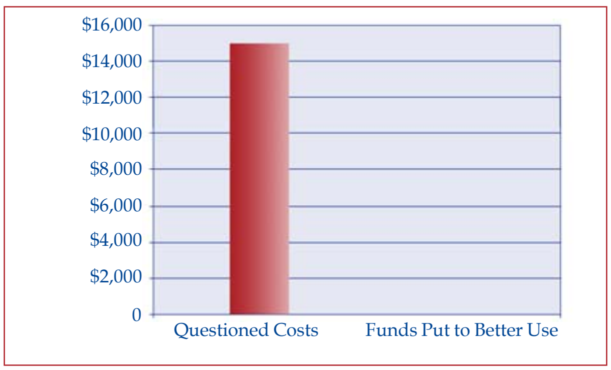


Chart 6.2: Other Significant Audit Dollars



Office of Healthy Homes and Lead Hazard Controls

HUD OIG is auditing the Office of Healthy Homes and Lead Hazard Control's (Office of Healthy Homes) process for awarding fiscal year 2004 grants in response to congressional inquiries and complaints alleging the Office of Healthy Homes inappropriately awarded its fiscal year 2004 grants. The objective was to determine whether the allegation had merit.

The audit was still in progress at the end of this reporting period. However, OIG issued an interim report that disclosed errors in the award process for all seven grant applications reviewed, causing applicants to either receive an award they were not entitled to or to lose an award (totaling more than $6.3 million) they should have received. In large part, these problems occurred because the Department established a deadline of September 30, 2004, to process and award the grants without having an effective process in place. To meet this deadline, the Office of Healthy Homes and its contractor did not always follow established procedures in evaluating and scoring the grant applications. Additionally, the Office of Healthy Homes' decision to restrict its search for a contractor under HUD's accelerated contracting process to small business and 8(a) firms severely limited the pool of qualified contractors. The contractor selected to evaluate and rate the grant applications made a number of significant errors in processing the applications that compromised the integrity of the award process.

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.

OIG questioned whether the remaining fiscal year 2004 grants were properly awarded and recommended that the Department take immediate action to ensure the 2005 grant award process was completed according to notice of funding availability requirements and HUD's established grant processing procedures. (Audit Report: **2005-PH-0002**)

Security of Windows 2000 Server

HUD OIG completed a security assessment of HUD's implementation of "Security of Windows 2000 Server." The objective of the audit was to assess HUD's configuration of the Windows 2000 operating system for security and its backup and recovery practices.

OIG concluded that HUD generally implemented the Microsoft Windows 2000 operating system configuration settings properly. However, deficiencies in configuration security and backup and recovery practices were identified. The report presents detailed results of our assessment and appropriate recommendations for corrective action that will improve HUD's overall security posture through recommended configurations. OIG has determined that the contents of this report would not be appropriate for public disclosure; therefore, OIG limited its distribution to selected HUD officials. (Audit Report: **2005-DP-0005**)

Quality of the Process for Certifications and Accreditations of HUD Information Systems

HUD OIG audited the quality of the process for certifications and accreditations of the HUD information systems that were completed through the end of calendar year 2004. The objective of the audit was to assess the quality of the HUD process for certification and accreditation of its information systems. For criteria, OIG used recommendations from special publications issued by the National Institute of Standards and Technology (NIST) and requirements from Office of Management and Budget and Federal Information Processing Standards.

The quality of the process for certification and accreditation of HUD's information systems in calendar year 2004 was poor and resulted in presentation of inadequate certification and accreditation packages to the authorizing official. Because the packages were incomplete and did not contain the information necessary for the authorizing official to accredit HUD's systems, no accreditations were made in calendar year 2004.

OIG recommended that HUD appoint senior officials within the program and administrative offices as authorizing officials and direct them to complete certifications and accreditations for their systems in accordance with OMB requirements and guidance for Federal agencies published by NIST. OIG also recommended that HUD ensure that policies and procedures for the certification and accreditation process are developed, approved, and implemented and that they address roles and responsibilities assigned during the process. (Audit Report: **2005-DP-0007**)

Investigations

During this reporting period, OIG opened seven investigation cases and closed three cases involving areas of HUD operations that do not fall under specific program categories. Judicial action taken on these cases during the period included $118,347 in funds put to better use and four 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 OIG's more significant investigations are described below.

During the week of April 4, 2005, HUD OIG, in cooperation with the United States Marshals Service (USMS) and various other Federal, state, county, and local law enforcement agencies, conducted a nationwide fugitive apprehension operation. This apprehension operation coincided with National Crime Victims Rights Week. Within the 93 U.S. Attorney districts, the USMS has 83 district fugitive task forces and five regional fugitive task forces. HUD OIG participated on 37 of these task forces. Nationwide, Operation Falcon resulted in 10,343 arrests, of which HUD OIG directly participated in the arrest of 359 subjects who resided in public or subsidized housing.

Fraudulent Use of Government-Issued Impact Credit Cards

In **Baltimore, MD**, Walter McKeithan, Jr., was arrested pursuant to a warrant issued by a U.S. District Judge, District of Maryland, based on an investigation by HUD OIG and six other agency OIGs. for the fraudulent use of government-issued IMPACT credit cards involving all seven agencies. Investigation in this matter began after a creditor contacted the HUD Hotline alleging misuse of a credit card belonging to a former HUD OIG employee to purchase sizable amounts of copier toner. The investigation disclosed that McKeithan allegedly fraudulently obtained and used credit card numbers from the various agencies and allegedly purchased or attempted to purchase at least $163,500 in goods and services with an actual loss to date of $54,000.

Accessory After the Fact

In **Tampa, FL**, Defendant Richard Doty appeared before the Honorable Steven D. Merryday for the United States District Court for the Middle District of Florida, Tampa Division. Doty was subsequently sentenced on count one of the information charging him with accessory after the fact and ordered to be committed to the custody of the Bureau of Prisons for 15 months, sentenced to supervised release for a term of 3 years, and ordered to pay restitution in the amount of $69,834 to HUD, $91,876 to Sterling Bank and Trust, and $44,290 to Republic Bank for a total of $206,000.

Systemic Implications Reports

In the **New York/New Jersey region**, a deficiency was discovered when the Mortgage Review Board (MRB) notified OIG of a pending withdrawal of First Alternative Mortgage Corporation's (FAMC) HUD Federal Housing Administration (FHA) approval for 3 years. In its letter to the MRB on June 25, 2004, with respect to 10 loans in which "FAMC signed false Lender Certifications, indicating that the loans were originated by full time employees," the Associate General Counsel for Program Enforcement stated "Board staff recommends civil penalties in the amount of $10,000 ($1,000 x 10 loans) because the alleged violation, while important, is not sufficiently serious to warrant the maximum penalty per loan." The Assistant United States Attorney assigned to the criminal prosecution of the FAMC took exception to the Department's characterization of the offense as not being "sufficiently serious." In response to the concerns set forth in the Systemic Implications Reports (SIR), HUD agreed to refrain from using any language that depicts the criminal activity of mortgage fraud as not being serious.

A deficiency was discovered when a single-family criminal investigation determined that the subject, John Null, gained unlawful access to HUD Real Estate Owned (REO) property in **Baltimore, MD**, by using a REO property master key. Null entered the subject REO property with the intent to remove a government-owned furnace from the basement. REO property master keys were produced, issued, and maintained by the original HUD management and marketing (M&M) contractor, Michaelson, Connor, and Boul (MCB). According to MCB officials, copies of such master keys were commonly given to any licensed realtor or subcontractor hired to perform work or services at the given REO property. Consequently, the holder of the master key was constructively given access to all REO properties in the multistate region. MCB does not maintain a record of who issued a master key. Additionally, there was no contractual requirement for MCB property inspectors to record the serial numbers on major kitchen and other household appliances including furnaces. In response to concerns set forth in the SIR, the Department believed that it was prudent to notify all M&M contractors of the findings reported in the SIR. HUD will also review the business practices followed by HUD's M&M contractors, related to access of properties, in order to determine whether there are additional steps available that would result in a reduction of such reported incidents.

Child Exploitation

HUD OIG Special Investigations Division (SID), **Washington, DC,** conducted a joint investigation with the Commonwealth of Pennsylvania, Office of 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 subsequently 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 2003, 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 1 year and not to exceed 10 years, to be followed by a term of probation of 10 years. The defendant was also required to register as a sex offender. Prior to imposition of 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" and noting 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

Antonio Loura, a 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, who was suspected of living with his Section 8 tenant.

OIG Hotline

The HUD OIG Hotline is operational 5 days a week, Monday through Friday, from 10:00 a.m. to 4:30 p.m. The Hotline is staffed by six full-time OIG employees, who take allegations of waste, fraud, abuse, or mismanagement in HUD or HUD-funded programs from HUD employees, contractors, and the public and coordinate reviews with internal audit and investigative units or with HUD program offices.

During this reporting period, the Hotline received and processed 10,229 complaints—76 percent received by telephone, 19 percent by mail, and 5 percent by e-mail. Every allegation received by the Hotline is logged into a database and tracked.

Of the complaints received, 1,385 were related to the mission of the OIG and were addressed as Hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of Hotline case referrals by percentage.

Hotline closed 820 cases during this reporting period. The closed Hotline cases included 96 substantiated allegations. The substantiated allegations resulted in 18 administrative sanctions against HUD employees for personnel violations or investors for improprieties involved in the purchase of a home. The Department also took 97 corrective actions that resulted in $196,726 in recoveries of losses and $2,012,404 in HUD funding that could be put to better use. 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 made false claims when purchasing homes insured by Federal Housing Administration (FHA) loans.

Chart 6.3: Hotline Cases Opened by Program

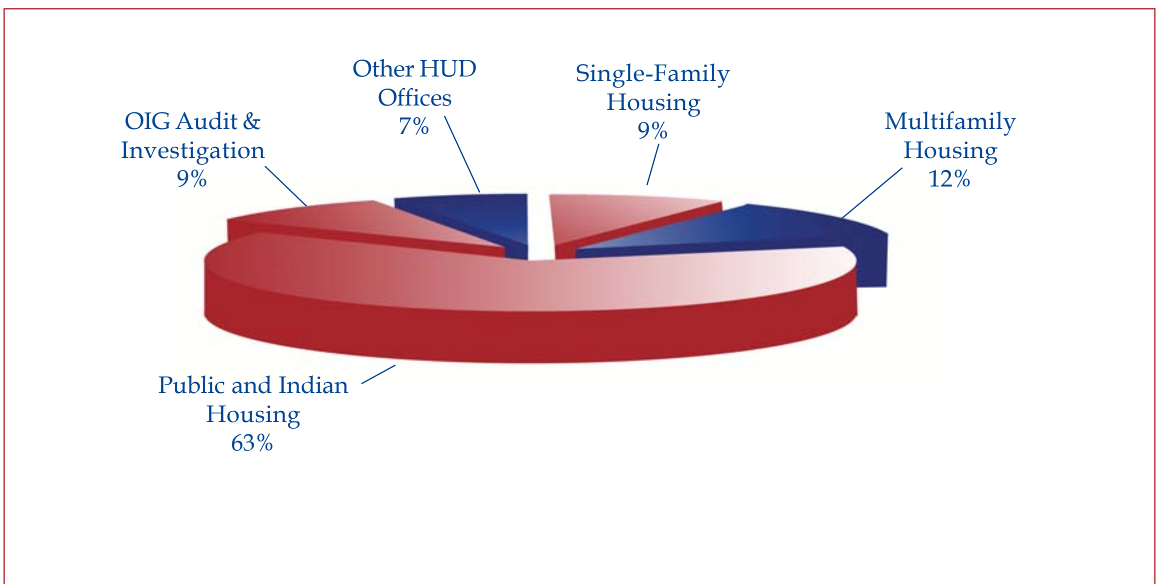


Chart 6.3: Hotline Dollar Impact from HUD Program Offices

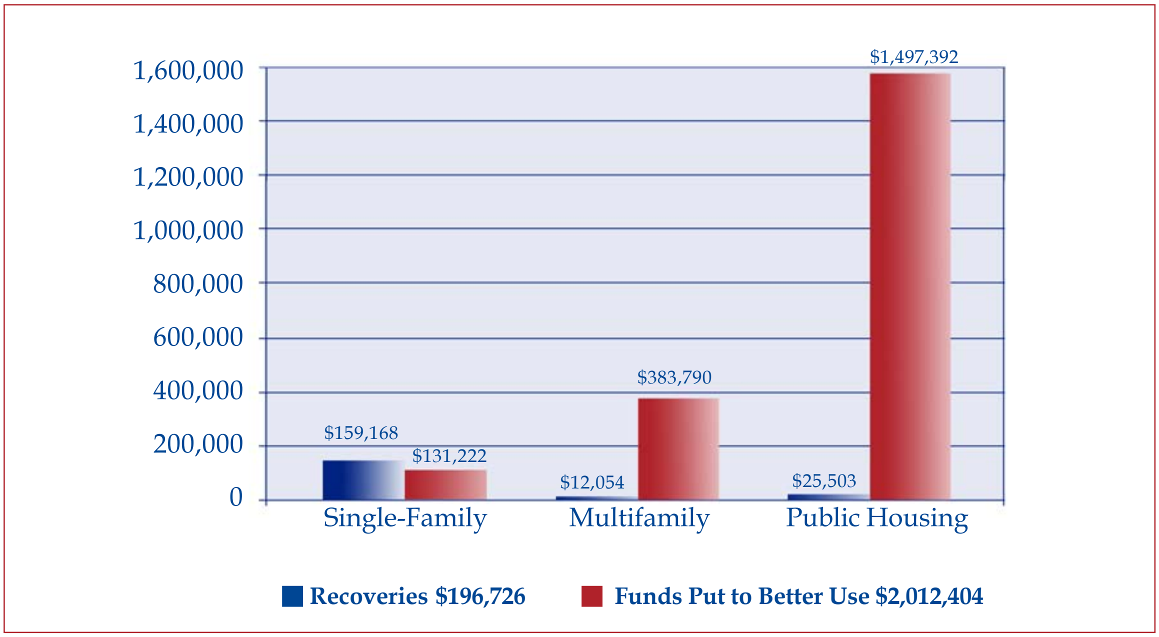
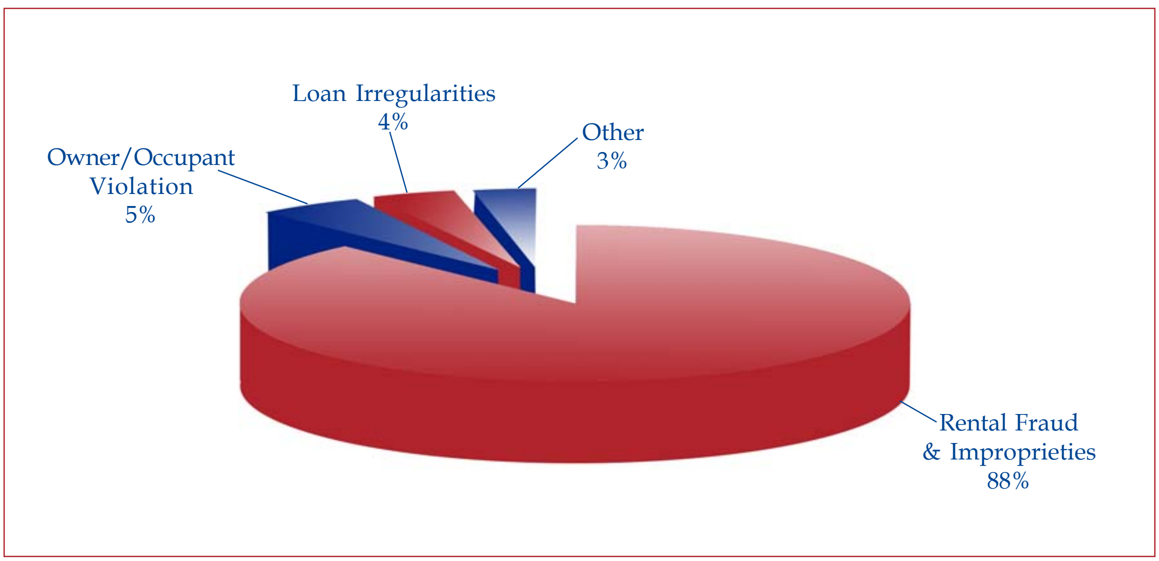
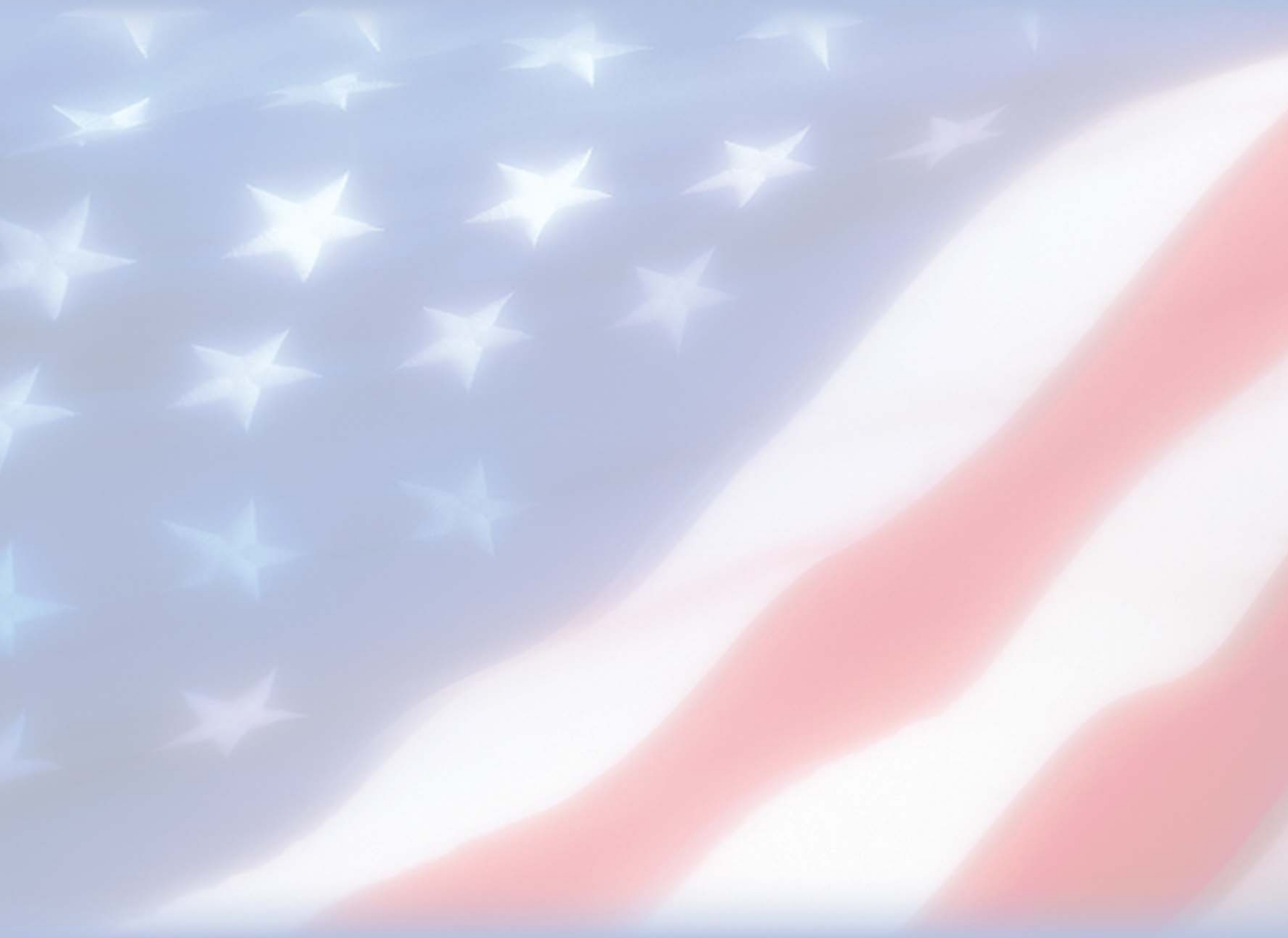


Chart 6.4: Substantiated Cases by Type of Complaint Received by Hotline



Chapter 7



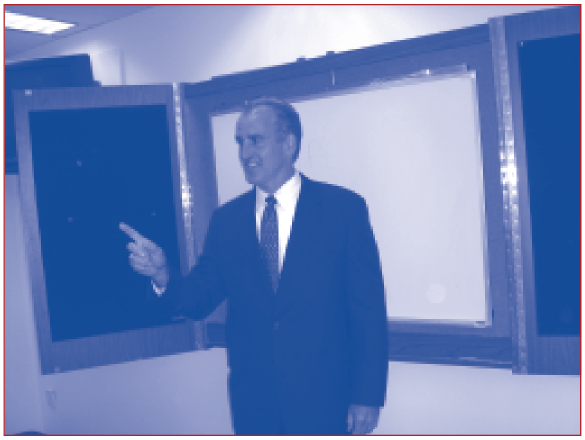
Outreach Efforts

To foster cooperative, informative, and mutually beneficial relationships with agencies and organizations whose intent is to assist 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 OIG's regular coordination with Federal, State, and local law enforcement agencies; other OIGs; and various congressional committees and subcommittees. During these outreach efforts, OIG not only presents the results of its audit and investigative work and discusses its goals and objectives; it also provides information about OIG's role and function.

Inspector General (IG) Kenneth M. Donohue welcomed the attendees of the "Mid America Crime Free Multifamily Housing" Conference. Mid America Crime Free, Inc., is an organization developed to educate police officers and apartment managers about each other's responsibilities within assisted housing. IG Donohue expressed his gratitude for the efforts and sacrifices of the participating managers and law enforcement officers. During his address, IG Donohue also recognized the contributions of the **Kansas City, MO**, Police Department in supporting nine Section 8 sweep operations in the Kansas City area. At the same conference, Assistant Inspector General in Charge (ASAC) Michael Powell and Special Agent (SA) Karen Gleich provided training on fraud in assisted housing.

Special Agent in Charge (SAC) John McCarty, Criminal Investigative Division (CID); SAC James Beaudette, Region 9/10; and ASACs Lori Chan and Tony Meeks, Region 9/10, provided a presentation to approximately 200 members of the National Association of Housing and Redevelopment Officials (NAHRO) in **San Francisco, CA**. NAHRO members were provided an introductory presentation regarding the history, responsibilities, and basic mission of HUD OIG. The presentation then focused on HUD OIG's Fugitive Felon and Rental Assistance initiatives, with emphasis on how the goal of each initiative is to assist housing authorities in providing safe and affordable housing for deserving members of our society. ASACs Chan and Meeks provided presentations focusing on measures for detecting and preventing fraud within rental assistance programs. The entire presentation became an open forum–question and answer session, which resulted in constructive round-table discussions for accomplishing positive results with regard to HUD's Housing Integrity Improvement Project (RHIIP) and HUD OIG's Fugitive Felon and Rental Assistance initiatives.

SAC Peter Emerzian, ASAC Diane DeChellis, and Assistant Regional Inspector General for Audit (ARIGA) Mike Motulski gave a presentation to approximately 70 participants at the HUD Federal Housing Administration (FHA) Update Seminar, which took place at the HUD regional office in **Boston, MA**. The participants included real estate agents, mortgage brokers, and closing agents from companies throughout New England. SAC Emerzian discussed OIG's mission as well as the OIG priorities for 2005/2006, which include the reduction of single-family fraud. ASAC DeChellis identified various types of mortgage fraud that OIG has encountered, to include the characteristics of such fraud and the impact that the fraud has on HUD and the community. ARIGA Motulski explained the role of the Office of Audit (OA) in the detection and prevention of single-family mortgage fraud.



SAC Peter Emerzian presenting at the HUD Federal Housing Administration Update Seminar.

ASAC Diane DeChellis identifying the various types of fraud to 70 participants.

Regional Inspector General for Audit (RIGA) Joan Hobbs and ARIGA Clyde Granderson, attended the Regional NAHRO Conference in **San Francisco, CA**, and spoke about public housing-related audit results. There were about 200 people in attendance.

ARIGA Mike Motulski and SAs Edward Redmond and Stephen Tufts addressed the annual conference of the Massachusetts NAHRO in **Falmouth, MA**. The presentation, "Protecting Your Agency from Fraud," outlined HUD OIG's role in auditing and investigating the operations of federally aided local housing authorities. The presentation began with an overview of HUD OIG operations and later focused on preventing and detecting fraud in the Section 8 program. Recent investigations that representatives from the HUD OIG New England Region have successfully completed and HUD OIG findings on fraud, waste, and mismanagement were discussed as well as how to contact the HUD OIG Hotline.

ARIGA Ron Farrell, assisted by Technical Oversight and Planning Division (TOP) Management Analyst Jennifer Houghton, gave a presentation on HUD's Audit Resolution and Corrective Action Tracking System (ARCATS) to Ohio HUD managers in **Perrysburg, OH**, on August 24, 2005. Ms. Houghton and Mr. Farrell provided information on conducting a paperless audit resolution process in ARCATS to the 30 HUD staff in attendance. Ms. Houghton discussed upcoming proposed revisions to ARCATS.

ARIGA Rose Capalungan and Senior Auditor Kelly Anderson made a presentation regarding HUD OIG (who we are and what we do) at the 2005 Supportive Housing Program Start-Up Conference, held in HUD's office in **Chicago, IL**, on August 31, 2005. HUD's Chicago Regional Office of Community Planning and Development hosted the conference. More than 90 conference attendees who have involvement in HUD's supportive housing program were present.

ASAC Tony Meeks and SA Leonard de Vera attended a **Garden Grove, CA**, Responsible Effective Apartment Team meeting aimed at improving the quality of life and providing a sense of security to community members in the city of Garden Grove, CA. In attendance were representatives from the Garden Grove Housing Authority, Garden Grove Police Department, Garden Grove Community

Services, and local apartment owners and managers. ASAC Meeks and SA de Vera offered resources and assistance to city representatives and conveyed the mission of HUD OIG, especially with regard to the Rental Assistance initiative. After the meeting, officers and housing authority officials provided information to assist this office in pursuing investigations with regard to forms of rental assistance fraud, to include various cases of unreported income and falsifications of total family composition.

ARIGA Clyde Granderson and Senior Auditor Helen Sparks spoke before the San Joaquin Valley Escrow Association on the topic "Single Family Fraud." There were approximately 100 people in attendance.

HUD OIG Region 6 ASAC Michael Wilson and Forensic Auditor Katherine Howell gave a presentation on mortgage fraud to the **Dallas, TX**, Chapter of the International Association of Financial Crimes Investigators (IAFCI). IAFCI sponsored the training given by HUD OIG and the Department of Veterans Affairs (VA) OIG. In addition to investigators from the banking community, personnel from various Federal, State, and local law enforcement agencies were in attendance. Mortgage fraud is a growing concern in the Dallas-Fort Worth banking community.

Region 6 ARIGA Theresa Carroll, assisted by Senior Auditors Lynelle Kunst and Danita Wade, spoke at the Finance Focus Group for Housing Authorities Roundtable Discussion on June 9, 2005. The Finance Focus Group, which is comprised of finance officers of housing authorities, requested that OIG staff speak at their meeting in **Ft. Worth, TX**. Ms. Carroll's presentation provided a brief background on HUD OIG, a brief history of the Section 8 program, a description of why auditing Section 8 is a HUD OIG priority, and a synopsis of the last 12 months of Public and Indian Housing program audits issued by the OA.

ARIGAs Tanya Voigt and Vince Mussetter attended the California State University, Northridge, job fair. Ms. Voigt and Mr. Mussetter spoke with many students about possible career opportunities in both auditing and investigations fields. They gave out recruiting brochures and collected resumes from more than 50 interested students.

ASAC Lori J. Chan gave a presentation to the Hawaii Chapter of the Institute of Appraisers in **Honolulu, HI.** ASAC Chan provided an overview of HUD OIG and mortgage fraud along with a case study. After the presentation, there was a question and answer session. There were approximately 50 individuals in attendance.

HUD OIG ASAC Brad Geary and a representative from the State of Illinois, Department of Banks and Real Estate, provided a presentation to approximately 50 representatives from the Illinois Association of Mortgage Brokers in **Chicago, IL**. The presenters provided updates on multiple real estate schemes and their agencies' most recent enforcement efforts.

As part of Region 5's proactive efforts to reduce fraud in HUD's assisted housing, ASAC Ray Espinosa and ASAC Brad Geary provided a training session to 18 different housing authorities as well as employees from HUD's Multifamily and Public Housing divisions in **Chicago, IL**. More than 100 individuals attended the session, entitled "Fraud in Assisted Housing," which covered the Rental Housing Integrity Improvement Project

(RHIIP) initiative, the latest tenant and landlord schemes, OIG's Felony Fugitive mission, OIG partners, "Red Flags," and some of the most current prosecutorial initiatives within the Region.

ASAC Michael Powell addressed the "Fair Housing/Predatory Lending Partnership" Consortium sponsored by the HUD Office of Fair Housing and Equal Opportunity in **Kansas City, MO.** ASAC Powell discussed the roles of the OIG divisions, the types of cases the Office of Investigations (OI) handles, and ways to provide information regarding criminal activity to the OI.

As part of Region 5's proactive efforts to reduce fraud in HUD's assisted housing, ASAC Ray Espinosa and ASAC Brad Geary provided a training session to 50 different housing authorities as well as representatives from the local police department and the resident Federal Bureau of Investigation (FBI) office in **Springfield, IL**. More than 150 individuals attended the session, entitled "Combating Fraud in Assisted Housing," which covered the RHIIP initiative, the latest tenant and landlord schemes, OIG's Felony Fugitive mission, OIG partners, "Red Flags," and some of the most current prosecutorial initiatives within the Region.

ASAC Brad Geary and ASAC Ray Espinosa provided a fraud presentation to Chapter 7 Trustees, Chapter 13 Trustees, and representatives from the United States Trustees Office in **Lake Delavan, WI**. These individuals represented Region 11 for the United States Trustee, which is comprised of the entire state of Wisconsin and the Northern District of Illinois. The session focused on HUD FHA loan fraud and how it interacts/crosses over with bankruptcy fraud. More than 200 people were in attendance at this session, which is part of Region 5's bankruptcy initiative to not only address current frauds, but to educate and train those individuals in the bankruptcy process as to how real estate fraud is integral to their work.

During the week of July 29, 2005, in **Los Angeles, CA**, ASAC Tony Meeks met with housing authority officials from the cities of Anaheim, Garden Grove, Inglewood, Newbury Park, Oxnard, and Santa Ana, CA, and discussed HUD OIG's Fugitive Felon and Rental Assistance initiatives and how these initiatives coincide with HUD's RHIIP. ASAC Meeks stressed the importance of a collaborative effort between housing authorities and HUD OIG to achieve the common goal of identifying and removing violators of rental assistance programs. ASAC Meeks further emphasized that OIG is in full support of the contributions, mission, and role housing authorities in administering HUD funds. The housing authority officials agreed to promptly provide information of indicators of fraud within their respective tenant and/or landlord rolls.

Senior Forensic Auditor Loretta Burns and ASAC Phyllis Grissom made a presentation to the Greater Ft. Worth Association of Realtors, **Ft. Worth, TX,** on July 18, 2005. The presentation was made to approximately 50 realtors from the Ft. Worth area regarding current mortgage fraud issues.

ASAC Lori J. Chan and SA James Carrieres gave a presentation for the Mortgage Bankers Association in **San Francisco, CA**, training entitled "Detecting and Preventing Mortgage Fraud." The presentation provided an overview of HUD OIG and reviewed case studies of successful single-family fraud cases that were prosecuted in Arizona. There were approximately 65 individuals from across the Nation in attendance.

Region 6 ARIGA Theresa Carroll was the speaker at the **Ft. Worth, TX,** Chapter of the Association of Government Accountants on September 27, 2005. The event was attended by accountants and auditors in the Fort Worth, TX, area. Ms. Carroll spoke about how HUD OIG has revised its audit process to comply with the Government Performance Results Act in the area of public housing.

ARIGAs Tanya Voigt and Vince Mussetter, along with ASAC Tony Meeks and ARIGA Tony Putzulu, gave a presentation to HUD **Los Angeles, CA**, field office staff about OIG in conjunction with a HUD cross-training effort. Ms. Voigt and Mr. Mussetter provided extensive information on OIG's mission, organization, and responsibilities. They also talked about the audit planning, reporting, and resolution processes. ASAC Meeks and ARIGA Putzulu discussed the various types of cases pursued by their office and the importance of reporting fraud, waste, and abuse to OIG.

Region 7/8 RIGA Ron Hosking and SAC Rebecca Kiser met with the HUD Region 7 field office directors during their annual meeting in **Kansas City, MO**. RIGA Hosking and SAC Kiser gave the directors an overview of OIG operations, explaining how OIG identifies subjects to audit and investigate, how OIG conducts reviews, what OIG does with the results, and how OIG measures its work. They also explained how HUD staff can help OIG do its work and reviewed the most recent semiannual report.

ARIGA Ronald Farrell, assisted by Senior Auditor Paul Adler, spoke at the Ohio Housing Authorities Conference (OHAC) on September 22, 2005. OHAC and the Columbus, OH, Office of Public Housing requested that OIG staff speak at the Conference in **Dublin, OH**. The OA's presentation provided a brief background on HUD OIG, a description of why auditing public housing authority nonprofit development activities is a HUD OIG priority, and a synopsis of the nonprofit development activities audits issued by the OA.

Senior Auditor Kelly Anderson and Auditor Anthony Smith, Region 5, participated in Bradley University's Fall Job Fair in **Peoria, IL**, on September 22, 2005. Ms. Anderson and Mr. Smith spoke with students about OIG's mission and the benefits of pursuing a career in auditing and investigations. They accepted 10 resumes from students interested in full-time employment with HUD OIG.

ASAC Ruth Valdes and ARIGA Barry Shulman presented a fraud awareness seminar to participants in the State of Florida Small Cities Community Development Block Grant (CDBG) Disaster Assistance Funds Program located in **Northern Florida**. These participants are tasked with rebuilding communities affected by the four major hurricanes that hit Florida in the 2004 season. As a result of the destruction caused by Hurricanes Charley, Frances, Ivan, and Jeanne, the Florida Department of Community Affairs, which administers the Small Cities CDBG program, has received more than $100 million from HUD earmarked for disaster recovery assistance. ASAC Valdes discussed HUD OIG OI and OA and their roles in preventing fraud, waste, and abuse of HUD programs. ARIGA Shulman addressed the importance of maintaining adequate documentation for cost items for possible future audits. The 2005 CDBG

ASAC Ruth Valdes presenting at a fraud awareness seminar.

ARIGA Shulman addressing participants in the seminar.

Implementation Workshops, held in Quincy, FL, and Lakeland, FL, were the first to involve HUD OIG participation for the purpose of increasing awareness and preventing possible misappropriating of CDBG Disaster Recovery Assistance funds. Approximately 100 CDBG contractor participants and city, State, and county administrators representing Northern and Central Florida attended the workshops on September 7-8 and September 14-15.

ASAC Diane H. DeChellis and SA Jessica Piecuch of HUD OIG's New England Region met with staff from the **Boston, MA,** Police Department (BPD), Youth Violence Strike Force, to include Lieutenant Kelley J. McCormick and Sergeant Gary Eblan. The Youth Violence Strike Force is responsible for addressing the gang activity within the City of Boston. This meeting was held to discuss gang activity within HUD's housing sites in the City of Boston, MA. The meeting with BPD detailed several local and national gangs that are operating out of both public and assisted housing in Boston, MA. It was agreed that intelligence reports prepared by BPD would be supplied to HUD OIG, outlining the gang activity within HUD's Boston housing sites for the last 6 months.

In **Tyler, TX**, HUD OIG Region 6 ASAC Michael Wilson and SA Stan Mercer gave a presentation on mortgage fraud to the East Texas Bankers Association. Attendees were provided an overview of OIG and were presented with case studies on single-family investigations. ASAC Wilson and SA Mercer detailed the investigative methods and criminal schemes common in single-family investigations. Approximately 80 mortgage bankers and law enforcement professionals were in attendance. Mortgage fraud is a growing concern in East Texas.

As part of Region 5's proactive efforts to reduce fraud in HUD's public and assisted housing, ASAC Ray Espinosa and ASAC Brad Geary provided a training session to 10 different housing authorities in **Mt. Vernon, IL**. More than 50 individuals attended the session, entitled "Combating Fraud in Assisted Housing," which covered the RHIIP initiative, the latest tenant and landlord schemes, OIG's Felony Fugitive mission, OIG partners, "Red Flags," and some of the most current prosecutorial initiatives within the Region. This was the third training session in a three-part public and assisted housing initiative to reach out to more than 90 different housing authorities in the State of Illinois. During the last 6 months, more than 300 individuals have been trained in these sessions. Those in attendance included housing authority executive directors and employees, HUD public housing authority (PHA) staff, HUD multifamily staff, local police officers, and FBI agents.

ARIGAs Charlie Johnson and Tanya Voigt gave a presentation at the Pacific Southwest Regional Council of NAHRO's Annual Spring Conference in **Sacramento, CA**. Mr. Johnson and Ms. Voigt presented an overview of how OIG is structured and its audit and investigative responsibilities and spoke on the topic, "Problems Frequently Encountered at Public Housing Authorities."

SA Scott Savedow conducted a single-family fraud presentation to the South Florida Appraisal Institute in **Boca Raton, FL**. SA Savedow discussed the impact and consequences of loan origination fraud on HUD FHA to increase awareness of common fraudulent schemes. Approximately 100 appraisers representing all areas of Florida attended the presentation.

SA Daniel Harding of the Baltimore field office spoke to the Eastern Shore (MD) Investigator's Conference in **Suddlersville, MD**, which included attendees from almost 20 police departments/agencies. SA Harding discussed the OIG mission and priorities, with particular emphasis on mortgage, bankruptcy, and rental assistance fraud. He highlighted pertinent rules and criminal statutes pertaining to rental assistance fraud and OIG's emphasis on removing HUD-assisted tenants who engage in criminal activity or otherwise violate pertinent leasehold requirements. He encouraged joint enforcement efforts to address HUD-related criminal issues that impact on the local agencies. His presentation resulted in followup for possible joint efforts by three different police agencies.

SA Jennifer Howell presented a workshop on "Mortgage Fraud" at the annual Emerging Trends in Fraud Investigation and Prevention Conference in **Columbus, OH**. Approximately 65 police officers, investigators, auditors, and accountants from the public and private sectors were in attendance. SA Howell identified red flags common in mortgage fraud schemes while discussing the various types of schemes that occur in HUD mortgage fraud investigations. The conference was presented by the Association of Certified Fraud Examiners in conjunction with the Ohio State Auditor, Ohio State Attorney General, National White Collar Crime Center, Ohio Society of Certified Public Accountants, Ohio Investigators Association, and the Ohio Office of Criminal Justice.

SA Eric Huhtala made a presentation to 60 attendees at the HUD **Sacramento, CA**, Multifamily Housing Industry Meeting in Sacramento, CA. The presentation consisted of a general overview of OIG's mission and role in investigating and prosecuting fraud. Information was also provided on detecting, preventing, and reporting fraud. Also present during the presentation were ASAC Lori Chan and SA Keith Fong.

On August 23, 2005, in **Los Angeles, CA**, SA Neil McMullen and ASAC Tony Meeks met with the SAC and Supervisory SA of the California Department of Justice (DOJ), Bureau of Investigations, Sex Offender Task Force ("Los Angeles County 290 Task Force"). This meeting focused on the importance of a collaborative effort between the task force and HUD OIG to achieve the common goal of identifying, tracking, and monitoring sex offenders in Southern California. ASAC Meeks described HUD OIG's Sex Offender Registry Matching initiative and how this initiative strives to prevent such offenders from illegally receiving and/or residing in government-subsidized housing. ASAC Meeks further explained how OIG agents are aggressively working with various local housing authorities to develop a more efficient process and to identify those already receiving HUD subsidies. The task force supervisors agreed to allow a HUD OIG agent to be assigned as an "affiliated agency" ad hoc provisional member, which will allow the sharing of investigative intelligence information.

Acting ASAC Daniel Ellis and SA Louis Mancini met with employees of the **Chester, PA,** Housing Authority, including the executive director, counsel, and rental assistance supervisors, to acquaint them with OIG's role regarding tenant fraud and discuss a potential initiative with the Authority. ASAC Ellis and SA Mancini provided an overview of OIG responsibilities, mission, and goals with regard to tenant fraud, which included a summary of OIG successes in obtaining both Federal and local prosecution of egregious tenant fraud cases or in "packaging" groups of cases for impact and deterrent purposes. They also discussed procedures and protocols for identifying potential fraud cases and referring them to OIG for investigation.

SA James Carrieres gave a presentation to the **Phoenix, AZ**, HUD staff during an all employees meeting. SA Carrieres provided an overview of HUD OIG investigations and provided examples of successful fraud cases that were prosecuted in Arizona. There were approximately 40 individuals from the local HUD office in attendance.

SA Nancy Valencic presented a training session on "Section 8 Fraud Schemes and Remedies" to approximately 80 attendees at the Kentucky Housing Association annual conference and training seminar held in **Belterra, IN**. The training session included case examples of tenant and landlord fraud schemes, multifamily equity skimming, theft, and cases involving housing authority employees. Topics of discussion also included Federal and State statues currently being used by prosecutors, thresholds for criminal prosecution, and what is required to present a case for prosecution. Attendees were provided contact information for the Nashville HUD OIG office for future referrals.

SA Don Varner attended the 2nd Annual Georgia Real Estate Fraud Prevention and Awareness Conference in **College Park, GA**. The conference focused on the recently signed Georgia Residential Mortgage Loan Fraud Act and industry best practices. The title of this year's conference was "Honesty, Integrity & Ethics, a Future without Fraud." Keynote speakers included U.S. Attorney for the Northern District of Georgia David Nahmias and David McLaughlin, State of Georgia Assistant Attorney General. Topics included loan officer and appraisal practices, fraud schemes, prevention awareness for industry professionals, prosecution, and statutes. The Mortgage Asset Research Institute presented statistical data to include the current most challenged states for loan origination fraud, which placed Georgia first on the scale, South Carolina second, Florida third, and North Carolina fifth. SA Varner provided contact information for the Atlanta Regional Office.

SA Keith Williams and ASAC Timothy A. Mowery presented a seminar on fraud awareness and the various responsibilities of HUD OIG to the Florida Association of Housing and Redevelopment Officials (FAHRO) during FAHRO's 2005 annual convention in **Daytona, FL**. FAHRO is comprised of public housing officials, employees, and other individuals representing public housing entities and interests throughout the State of Florida. Their respective funding is primarily HUD subsidies administered through HUD's Offices of Public Housing in Jacksonville and/or Miami. The seminar addressed the various initiatives in which HUD OIG is involved, including the Sexual Offender, Fugitive Felon, Section 8 Tenant, and Landlord Fraud initiatives. Attendees were provided a PowerPoint presentation illustrating common fraud schemes, fraud indicators, measures to help prevent fraud, and an overview of HUD OIG's responsibilities to the OIG mission and were provided contact information for reporting fraudulent activity to HUD OIG, both locally and nationally. The seminar concluded with a question and answer session, which revealed that a number of attendees were interested in referring fraudulent activity to HUD OIG.

SA Jim Siwek and SA Bob Wenzel gave a presentation at the Mortgage Bankers Association Quality Assurance Conference in **Chicago, IL**. The presentation was part of a forum discussing quality assurance requirements, recent developments, quality hot button issues, and trends in mortgage fraud. The forum outlined issues and trends occurring in the mortgage industry and the methods being used to help detect and deter mortgage fraud. The panel members included individuals from Fannie May, Freddie Mac, HUD, and Standard and Poor's Corporation. Approximately 150-200 attended the session, which was followed by a question and answer session.

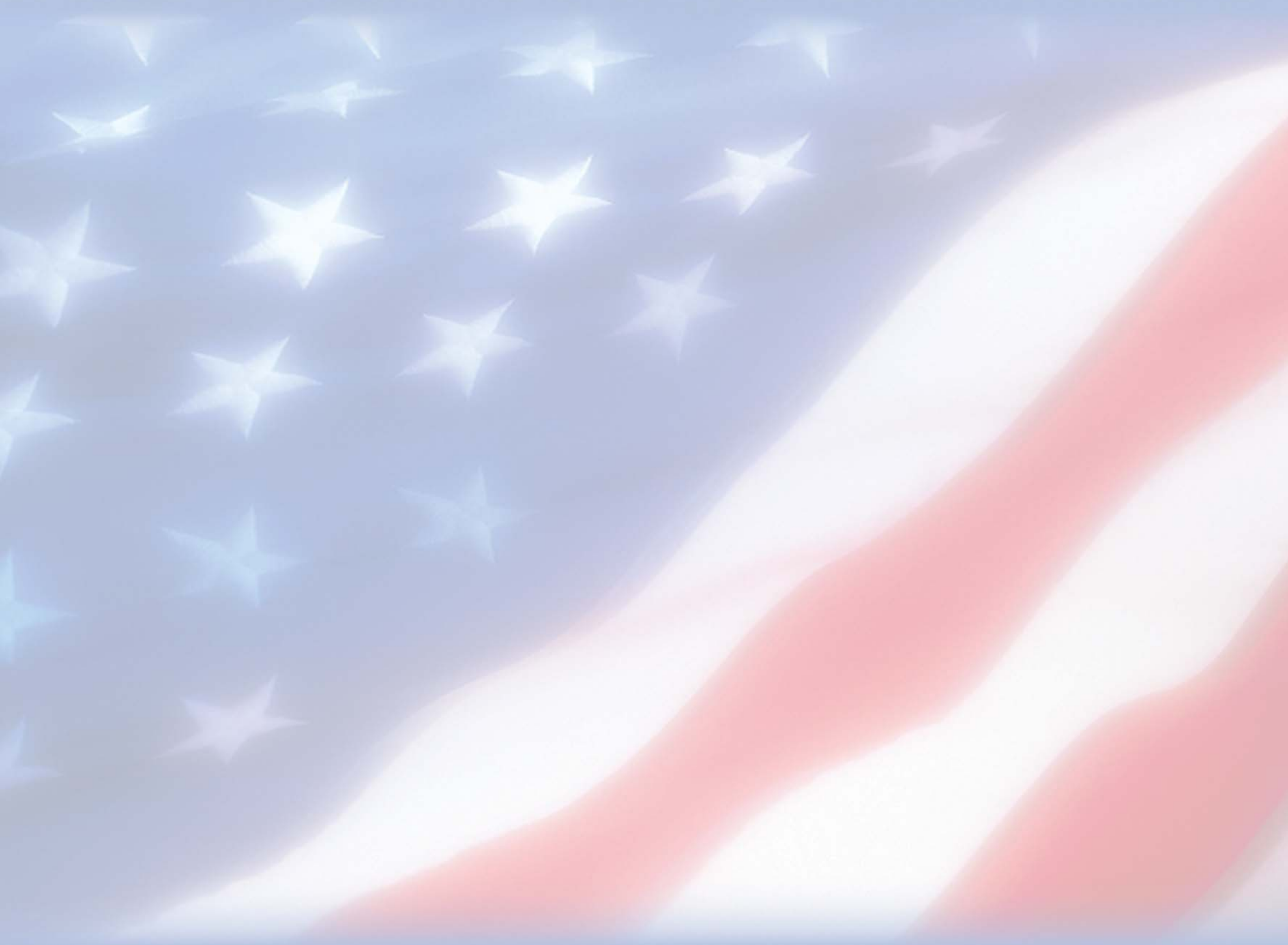
SA Teresa Carson gave a presentation to members of NAHRO at their annual Spring Conference in **Sacramento, CA,** on the topic, "Preventing, Detecting, and Combating Fraud Through Education and Partnership." PHA and industry officials located in Washington, Oregon, California, Arizona, and Nevada attended the conference.

Region 4 SAs Angela Stewart and Malinda Antonik provided training to approximately 40 executive directors at the Alabama Public Housing Authority Directors Association Training Conference in **Opelika, AL**. Topics included housing authority crimes such as embezzlement, contractor fraud, and tenant and landlord fraud. Detailed training was provided on identifying tenant fraud, referring matters to HUD OIG, and the types of information and documentation needed by HUD OIG in support of an investigation. Training was also conducted on enforcement of HUD's One Strike Policy and Public Law 104-193 regarding probation and parole violators. Examples of successful prosecutions, sample documents, and valuable case law were provided to those in attendance.

From April 4 through April 7, 2005, the HUD OIG **Newark, NJ,** office along with Newark HUD officials participated in TopOff 3, an international antiterrorism exercise designed to strengthen the Nation's capacity to prevent, prepare for, respond to, and recover from large-scale attacks involving weapons of mass destruction. This exercise simulated the release of pneumonic plague in New

Jersey, the explosion of a chemical bomb in New London, CT, and the explosion of a chemical bomb in the United Kingdom by a foreign terrorist network. Participation in this exercise included 275 Federal, State, and local government authorities, first responders, the private sector, and medical communities. This full-scale exercise involved more than 12,000 participants in New Jersey alone. Authorities in Washington, DC, and Canada also participated in this exercise.

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.

Proposed Rules

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

The U.S. Department of Housing and Urban Development (HUD) issued a proposed rule to expand the eligibility of the Officer Next Door (OND) and Teacher Next Door (TND) programs to full time law enforcement officers including tribal officers, firefighters, and emergency rescue workers under a "Good Neighbor Next Door" title. The program typically gives a 50 percent price reduction as an incentive to these potential buyers of HUD single-family properties located in urban revitalization areas.

OIG commented that the proposed changes to the OND/TND program appear to remain vulnerable to abuse and may not achieve the stated purpose of reducing neighborhood crime rates and urban blight. A sufficient inventory of properties in the targeted areas nationwide is not available to effect timely and measurable neighborhood change, and, consequently, expanding eligibility to other special occupations does not appear warranted or workable.

The Department issued the rule as originally written.

Housing Opportunities for Persons with AIDS

This rule is proposed for the Housing Opportunities for Persons with AIDS (HOPWA) program to improve the partnership with the recipient states, local governments, and nonprofit organizations that plan, develop, operate, and evaluate the housing assistance and related supportive services programs in their areas. These changes are intended to ensure that recipients undertake activities that meet the current requirement for an ongoing assessment of the housing assistance and supportive services required by program participants. The rule should clarify how an individual housing service plan would be developed to guide the assistance provided to beneficiaries in relation to the program's performance goals.

OIG commented because the proposed rule change does not address the following requirements that the Inspector General believes are important areas: 1) capacity of the grantee and 2) audits of the grantee's financial management systems. The Code of Federal Regulations requires that the grantee ensure any project sponsor selected to carry out an activity shall have the capacity and capability to effectively administer the activity. The Code further requires that the financial management system used by State or local governments that are grantees provide for audits.

The proposed rule has not been published as of the end of this semiannual reporting period.

Use of Capital and Operating Funds for Financing Activities

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

Public Housing Capital Fund

The following information about the above three subject draft rules was included in the March 31, 2005, Semiannual Report to Congress, and HUD has not reached a final decision. Therefore, OIG is repeating the issues in this report.

For the three subject draft rules, the Office of Public and Indian Housing (PIH) has not conducted a risk assessment. The Appropriations Act mandates that a risk assessment be conducted on each program. The Department policy and handbooks provide the method for meeting the statutory requirement relating to a risk assessment and provide that a risk assessment must be completed before issuing a rule. Until the risk assessment is completed or the PIH office obtains a waiver of the policy from the Chief Financial Officer, OIG cannot concur with the proposed rules.

The Housing Act of 1937 as amended 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 at October 1, 1999. OIG did not concur with the proposed rules because HUD has not established a control method to ensure the housing agencies do not build more units than entitled under the statute. Further, regarding the conversion rule, the Department did not establish control measures to preclude housing agencies from constructing new units to replace units converted from the low-income program to the Section 8 voucher program and building units that cost more to operate under the low-income program. OIG did not concur with the draft rule because HUD did not establish the necessary preventive control measures.

For the Use of Capital and Operating Funds for Financing Activities rule, the Office of Management and Budget (OMB) determined this rule as a "significant regulatory action" and required an economic analysis. The proposed bond rule contained the OMB-required analysis of proposed need; however, it did not contain the examination of alternative approaches and an evaluation of the benefits, costs, quantitative factors, and qualitative measures of the proposed action and the main alternative approaches. In addition to the previously mentioned factors, OIG cannot concur with this proposed rule because it cannot conduct an appropriate analysis of the proposed rule without the required economic information.

HUD is considering OIG's noncurring comments and is completing risk assessments for the Capital Fund and Operating Funds draft rules. HUD has completed a risk assessment for the draft rule on conversion of developments.

Revision to the Public Housing Operating Fund Program (Final Rule)

The proposed final rule amends the regulations of the Public Housing Operating Fund program to provide a new formula for distributing operating subsidies to public housing agencies and to establish requirements for housing agencies to convert to asset management. Annually, about $3 billion in operating subsidies is disbursed through the formula. OMB identified the draft rule as being economically significant.

OIG provided the following comments to the PIH office concerning the proposed rule.

Executive Order 12898 requires HUD to identify and address human health and environmental effects of its policies, programs, and activities on minority populations and low-income populations. Additionally, it requires HUD to collect, maintain, and analyze information assessing environmental and human health risks borne by populations identified by race, national origin, or income. This is important to ensure that nonassisted low-income families are not adversely affected by the placement of assisted families.

The Department issued the "Regulatory Impact Analysis of Revisions to the Operating Fund Program," subject to OMB Circular A-4. It specified the proposed need for the formula as required by the circular. However, its discussion on the different alternative approaches to the proposed rule did not comply with the circular regarding the enforcement methods, different degrees of stringency, different requirements for different geographic regions, performance standards, market versus direct controls, and informational measures rather than regulations. Also, its cost-benefit analysis did not comply with the circular regarding baseline comparisons, cost savings, final outcomes, and quality of life issues.

The United States Housing Act of 1937 as amended states that to ensure the accuracy of any housing agency certification, HUD is authorized to require an independent auditor to substantiate each certification submitted by the agency and withhold assistance to pay for the review. The statutory requirement extends beyond the single audit compliance supplement scope and will generate a separate procurement for an attestation engagement. The draft rule does not provide the organizational element accountable for procuring this attestation engagement, the indicators identifying the need for the attestation engagement, and the requirement for withholding funds.

Further, the United States Housing Act of 1937 as amended states that the formula should provide an incentive to encourage housing authorities to facilitate increases in earned income by families in occupancy and the incentive may be used only to benefit low-income housing or residents of the agency. The draft rule does not provide for control measures to ensure the benefits accruing to the agency are used for low-income housing or for residents of the agency.

The PIH office is currently revising the draft final rule.

Proposed Notices

Using HOME Tenant-Based Assistance to Mitigate Displacement

The HUD draft notice describes how participating jurisdictions can use Home Ownership Made Easy (HOME) funds to mitigate the displacement of low-income tenants who are losing their monthly Housing Choice Voucher rental subsidy because the local housing authority must terminate housing assistance payments contracts with the tenants' landlords due to insufficient subsidy funds.

OIG did not concur with the proposed notice for the following reasons:

The HOME Investment Partnership Act states funds may not be used to provide tenant-based rental assistance or extend or renew tenant-based assistance under Section 8 of the United States Housing Act of 1937. In OIG's opinion, the draft notice is effectively extending the vouchers and is contrary to the provision on prohibiting funding for the Section 8 program in the statute.

The Appropriation Acts for both fiscal years 2004 and 2005 state that no part of the appropriation shall be available for any program, project, or activity in excess of amounts set forth in the budget estimates submitted to Congress. HUD estimated in the budget to Congress that HOME tenant-based assistance funds would assist 13,335 families. The notice does not provide a control measure for limiting tenant-based assistance to 13,335 families and obtaining compliance with the Appropriation Acts.

Executive Order 12898 requires HUD to identify and address human health and environmental effects of its policies, programs, and activities on minority populations and low-income populations and to collect, maintain, and analyze information assessing environmental and human health risks borne by populations identified by race, national origin, or income. The draft notice does not specify the reporting methodology to obtain compliance with this executive order.

HUD regulations state that it is the policy of the Department to provide for public participation in rule making with respect to all HUD programs and functions, including matters that relate to grants, even though such matters would not otherwise be subject to rule making by law or executive policy. Therefore, HUD publishes notices of proposed rule making in the Federal Register and gives interested persons an opportunity to participate in the rule making through submission of written data and arguments. Rules are defined as all or part of any HUD statement of general or particular applicability and future effect designed to (1) implement, interpret, or prescribe law or policy or (2) describe HUD's organization or its procedure or practice requirements. Rule making is defined as the process for considering and formulating the issuance, modification, or repeal of a rule.

The Department is considering our comments. The proposed notice has not been published.

Establishment of Amnesty Program at Public Housing Agencies Resulting from Inspections of Family Income

The following information was included in the March 31, 2005, Semiannual Report to Congress, and HUD had not reached a final decision. Therefore, OIG is repeating the issue in this report.

The draft Notice PIH 2004 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' claim 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 resulting from tenants underreporting or not reporting their income.

OIG did not concur with this draft notice because it inappropriately empowers housing agencies to decide who will be prosecuted. The U.S. Code 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 numerous cases involving tenants who falsely reported their incomes. These investigations resulted in successful prosecutions or other remedial actions. OIG has pending investigations involving tenants who have defrauded PIH housing assistance programs. The draft notice threatens to jeopardize current investigations and to undermine the fairness of past convictions.

The PIH office has not issued the draft notice and is reconsidering its provisions.

Mortgagee Letters

Late Request for Endorsement Procedures/Certification Eliminated, Proposed Mortgagee Letter

HUD drafted a mortgagee letter to remove the certification requirement from the Federal Housing Administration's (FHA) late endorsement procedures. HUD believes the certification requirement does not materially contribute to reducing insurance risk.

OIG nonconcurred because the certification is a critical document in supporting and enforcing departmental remedies for noncompliance, and, therefore, OIG disagrees with its proposed elimination. HUD OIG has done significant testing of "late endorsement" compliance by major direct endorsement lenders as part of its audit focus on FHA single-family lending practices beginning in 2004. OIG found that lenders certified full compliance and eligibility for FHA insurance when some loans were not eligible because the borrowers were in arrears on their mortgage payments. OIG recommended that HUD take appropriate remedies to reduce noncompliance, including loan indemnifications and Program Fraud Civil Remedies Act recoveries. Noncompliance was particularly problematic during the high refinance loan volumes of 2003-2004. It remains a control concern because most ineligible late-endorsed loans are early defaults and represent higher risks of foreclosure and claims against the insurance fund.

The Department is evaluating our nonconcurrence.

Streamline (K) Limited Repair Program

HUD issued a mortgagee letter to reduce documentation and control requirements over 203(k) Rehabilitation Mortgage loans, an acknowledged high risk to the 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) mortgage, lenders and borrowers rely primarily on consultants to ensure contractor work quality and timely completion. However, the Streamline (K) requires that borrowers develop a work plan, estimate costs, identify the vendor or contractor, and inspect the work.

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

The Department issued the letter as originally drafted, except it reduced the amount of the supplemental loan origination fee.

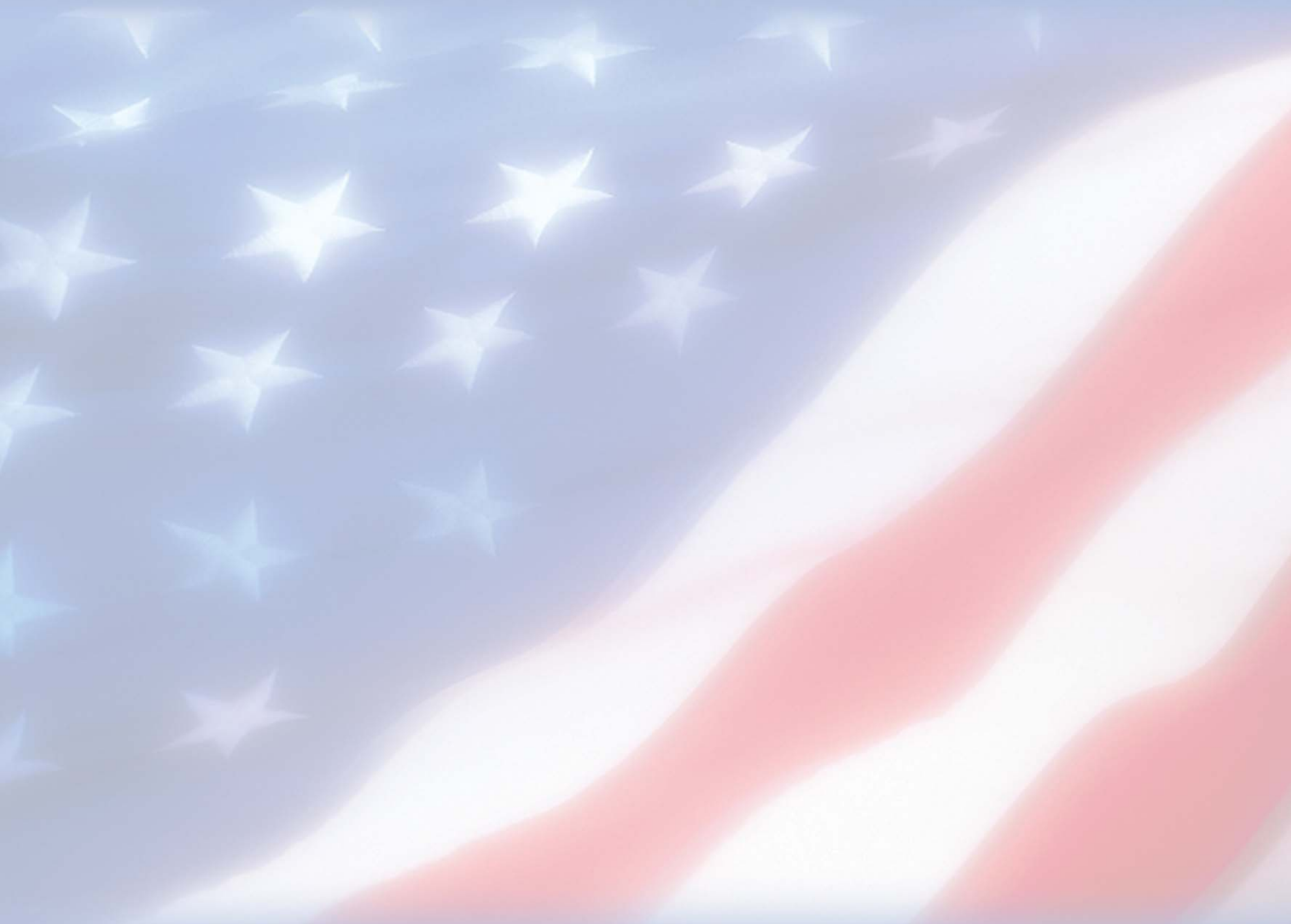
Premium Pricing on FHA-Insured Mortgages

The following information was included in the March 31, 2005, Semiannual Report to Congress, and HUD had not reached a final decision. Therefore, OIG is repeating the issue in this report.

At the end of the March 2005 semiannual reporting period, HUD was reviewing OIG's nonconcurring comments on a mortgagee letter to allow premium pricing of FHA-insured mortgages to fund the homebuyer's required 3 percent cash investment or downpayment. OIG commented that the proposed mortgagee letter placed no obligation on the lender to use the funds from premium pricing for the borrower's benefit. OIG's mortgagee audits disclosed that instead of helping FHA homebuyers pay closing costs, lenders used the monies from premium priced mortgages to compensate loan officers and generate higher profits.

The Department obtained additional data on premium priced mortgages and is reviewing the data to evaluate the risk of a policy change.

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, OIG hopes 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 (FFMIA). In addition to this chapter on audit resolution, see appendix 2, table A, "Audit Reports Issued before Start of Period with No Management Decision as of September 30, 2005," and table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 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, OIG 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 subsidy re-estimates. 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 3 years.

The Family Living Adult Care Center, Biddeford and Saco, ME

Issued November 4, 2003. OIG's review disclosed that the Family Living project had suffered serious financial problems, including a default on the HUD-insured mortgage, and had ceased being a profitable entity. These problems were caused by questionable cash distributions (withdrawals) from the project's bank accounts by the owner. OIG considers these distributions, totaling more than $455,000, to be "equity skimming" and to be in violation of applicable Federal statutes and HUD regulations. From June 2000 to February 2002, the owner diverted project funds to other businesses he owned and for personal expenses.

In February 2002, the State of Maine took control of Family Living due to the project's poor financial condition and to ensure the safety and continued care of the project's residents. In November 2002, pursuant to a decision by HUD to foreclose on the property, the tenants were moved from the facility, and the project discontinued operations. As of April 2003, the owner owed HUD $3,663,000 in mortgage principal, interest, and miscellaneous charges.

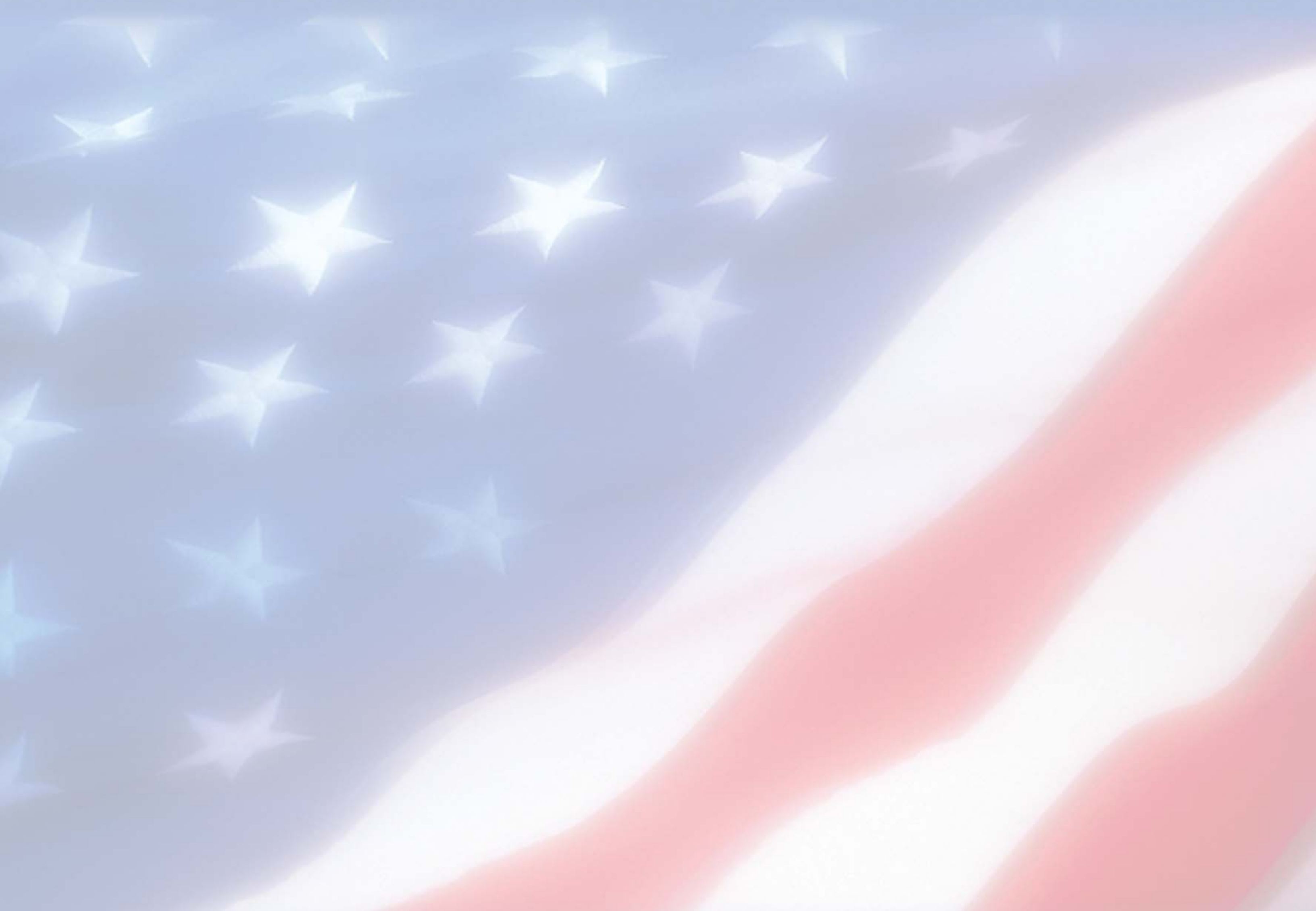
Due to pending court action, HUD had not completed actions to ensure that it addressed the audit report's recommendations. The court action was settled August 19, 2005. As of September 30, 2005, HUD had not initiated actions to (1) pursue recovery of $2,688,000 from the owner, representing the difference between the $3,663,000 the owner owed to HUD and the $975,000 in proceeds from the foreclosure sale; (2) pursue all applicable administrative sanctions against the owner, including consideration of debarment, limited denial of participation, or suspension; (3) pursue recovery of $786,000 from the owner, representing double the $393,000 in questionable cash distributions, as stipulated in 12 U.S.C. Sec. 1715z-4a; and (4) obtain from the owner justification supporting the more than $62,000 in cash distributions (unsupported costs) to unidentified recipients or pursue recovery of more than $124,000, representing double this amount as stipulated in 12 U.S.C. Sec. 1715z-4a. (Report No. 2004-BO-1002)

Federal Financial 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 Office of Management and Budget (OMB) concurrence if more time is needed. FFMIA requires OIG to report in its 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 2005, the Department continued to report that 3 of its 44 financial management systems were not in substantial compliance with FFMIA. These three systems are Facilities Integrated Resources Management System (FIRMS), Loan Accounting System (LAS), and Housing Multifamily Insurance System (MFIS). HUD reported FIRMS as noncompliant in its 2005 self-assessment. HUD is in the process of replacing LAS with a commercial off-the-shelf software package in the first quarter of 2006. MFIS was determined to be noncompliant in 2003. This fiscal year, the Office of Housing's management reported that improvements have been made and the system is now substantially compliant with FFMIA, pending a limited review by the Office of the Assistant Chief Financial Officer for Financial Management. This limited review will be completed in October 2005.

■ ■ ■

Appendix 1



Audit Reports Issued

Internal Reports

9 Audit Reports

Chief Financial Officer (2 Reports)

2005-DP-0005 Security of Windows 2000 Server, 04/21/2005.

2005-DP-0006 Review of HUD's Information Systems Certification and Accreditation Process, 08/22/2005.

Housing (4 Reports)

2005-DE-0001 HUD's Controls over Federal Housing Administration Claims Payments, 05/12/2005. Better Use: $30,521,629.

2005-DP-0006 Active Partners Performance System, 07/12/2005. Better Use: $5,780,720.

2005-LA-0001 Single Family Preforeclosure Sale Program, 09/13/2005. Questioned: $744,468; Unsupported: $588,428; Better Use: $6,808,606.

2005-NY-0001 Title 1 Loan Debt Collection, Asset Recovery Division, Financial Operations Center, 05/18/2005.

Public and Indian Housing (3 Reports)

2005-BO-0001 Office of Public and Indian Housing, Region 1, Boston, MA, 05/12/2005. Better Use: $408,508.

2005-BO-0002 Public Housing Mortgages and Security Interest Program, 09/30/2005. Better Use: $4,912,932.

2005-SE-0001 Design and Implementation of the Public Housing/Section 8 Moving to Work Demonstration Program, 04/12/2005.

Audit-Related Memorandums*

Lead Hazard Controls (1 Report)

2005-PH-0002 Interim Memorandum Report on the Office of Healthy Homes and Lead Hazard Control's Issuance of Its Fiscal Year 2004 Grants, Washington, DC, 05/16/2005.

* 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

72 Audit Reports

Community Planning and Development (8 Reports)

2005-AT-1013	Corporacion para el Fomento Economico de la Ciudad Capital, San Juan, PR, 09/15/2005. Questioned: $3,588,348; Unsupported: $1,642,996; Better Use: $4,099,501.
2005-CH-1018	Mount Union College Economic Development Initiative Special Purpose Grant (B-02-SP-OH-0555), Alliance, OH, 09/28/2005. Better Use: $1,000,000.
2005-CH-1019	City of Carmel, IN, Economic Development Initiative Special Purpose Grant (B-02-SP-IN-0220), 09/28/2005. Better Use: $1,000,000.
2005-CH-1021	City of Indianapolis, IN, Economic Development Initiative Special Purpose Grant (B-03-SP-IN-0240), 09/30/2005. Better Use: $134,123.
2005-FW-1008	City of New Orleans, LA, Did Not Contribute Approximately $3.6 Million in HOME Funds, 04/08/2005. Questioned: $3,591,209; Unsupported: $3,591,209.
2005-LA-1006	Maricopa HOME Consortium/City of Mesa, AZ, HOME Program, 07/28/2005. Questioned: $570,000.
2005-NY-1008	Lower Manhattan Development Corporation, Community Development Block Grant Program, Disaster Assistance Fund, New York, NY, 09/27/2005. Better Use: $8,469,385.
2005-PH-1013	Review of the Commonwealth of Pennsylvania's HOME Investment Partnership Program, Harrisburg, PA, 07/29/2005. Questioned: $79,070; Better Use: $6,930,916.

Housing (35 Reports)

2005-AT-1014	National City Mortgage Company, Miamisburg, OH, 09/15/2005. Questioned: $326,132; Unsupported: $159,690; Better Use: $153,674.
2005-BO-1007	Fairfield Financial Mortgage Group, Inc., Danbury, CT, 09/26/2005. Better Use: $1,204,981.
2005-BO-1008	Suburban Mortgage Associates, Inc., Providence, RI, 09/30/2005. Questioned: $229,673; Better Use: $26,256,580.
2005-CH-1009	Union Federal Bank of Indianapolis, Supervised Direct Endorsement Lender, Fort Wayne, IN, 04/07/2005. Questioned: $209,528; Unsupported: $209,528; Better Use: $965,777.
2005-CH-1012	Savannah Trace Apartments, Multifamily Equity Skimming, Kalamazoo, MI, 08/04/2005. Questioned: $8,665; Unsupported: $1,045.

2005-CH-1013	Ivan Woods Senior Apartments, Multifamily Equity Skimming, Lansing, MI, 08/05/2005. Questioned: $13,279; Unsupported: $3,089.
2005-CH-1015	National City Mortgage Company, Nonsupervised Lender, Miamisburg, OH, 08/23/2005. Questioned: $5,500,905; Unsupported: $3,194,948; Better Use: $63,543,360.
2005-CH-1016	Petersen Health Center, Multifamily Equity Skimming, Rhinelander, WI, 09/16/2005. Questioned: $728,801.
2005-DE-1003	Citywide Home Loans, Salt Lake City, UT, 05/04/2005.
2005-DE-1004	Aspen Home Loans, American Fork, UT, 05/06/2005. Better Use: $130,230.
2005-FW-1009	Allied Home Mortgage Capital Corporation, Houston, TX, 05/24/2005.
2005-FW-1010	Broad Street Mortgage Company, Subsidiary of Fieldstone Mortgage Company, San Antonio, TX, 05/26/2005. Better Use: $2,324,196.
2005-FW-1011	Harry Mortgage Company, Oklahoma City, OK, 06/01/2005. Better Use: $138,061.
2005-FW-1013	First Mortgage Company, Oklahoma City, OK, 08/03/2005. Questioned: $37,086; Better Use: $62,879.
2005-FW-1014	Realty Mortgage Corporation, Flowood, MS, 09/12/2005. Questioned: $1,277.
2005-FW-1015	MortgageIT Incorporated, New York, NY, 09/15/2005. Questioned: $1,407.
2005-FW-1016	Aegis Wholesale Corporation, Houston, TX, 09/16/2005. Questioned: $581; Better Use: $58,088.
2005-FW-1017	Allied Home Mortgage Corporation, Houston, TX, 09/22/2005. Questioned: $1,919; Better Use: $123,028.
2005-FW-1019	Wells Fargo, Des Moines, IA, 09/28/2005. Questioned: $75,793; Better Use: $383,469.
2005-KC-1005	Mortgage Express Incorporated, La Vista, NE, 04/21/2005.
2005-KC-1006	Corinthian Mortgage Corporation, Mission, KS, 05/13/2005. Questioned: $191,639; Unsupported: $191,049; Better Use: $297,269.
2005-KC-1007	Union Planters Bank, Memphis, TN, 07/07/2005. Questioned: $641; Better Use: $74,333.
2005-KC-1009	Washington Mutual Bank, Seattle, WA, 09/30/2005. Questioned: $87,639; Better Use: $224,901.
2005-LA-1003	First Source Financial USA, Henderson, NV, 05/12/2005. Questioned: $159,663; Better Use: $389,000.
2005-LA-1007	KB Home Mortgage Company, Las Vegas, NV, 08/12/2005. Questioned: $79,260; Better Use: $537,578.

2005-LA-1010	First Magnus Financial Corporation, Las Vegas, NV, 09/23/2005. Questioned: $204,826; Better Use: $127,893.
2005-LA-1011	KB Home Mortgage, Phoenix, AZ, 09/26/2005. Questioned: $446,999; Unsupported: $291,974; Better Use: $781,082.
2005-NY-1007	Security Atlantic Mortgage Company, Inc., Edison, NJ, 09/16/2005. Questioned: $242,848; Unsupported: $6,874; Better Use: $3,048,552.
2005-NY-1009	Golden First Mortgage Corporation, Nonsupervised Direct Endorsement Lender, Great Neck, NY, 09/28/2005. Questioned: $259,154; Better Use: $1,118,717.
2005-PH-1010	Rudolphy/Mercy-Douglass Home for the Blind, Philadelphia, PA, 04/13/2005. Better Use: $37,658.
2005-PH-1011	America House, Incorporated, and Its Subsidiaries, Marshall, VA, 06/01/2005.
2005-PH-1015	Gateway Funding Diversified, Lender Review, Cherry Hill, NJ, 08/11/2005. Better Use: $690,241.
2005-SE-1006	Washington Mutual Bank, Seattle, WA, 07/05/2005. Questioned: $1,091,214; Unsupported: $907,612; Better Use: $18,695,820.
2005-SE-1007	City Bank, Puyallup, WA, 09/16/2005. Questioned: $349,059; Unsupported: $323,004; Better Use: $1,068,997.
2005-SE-1008	Idaho Housing and Finance Association, Boise, ID, 09/16/2005. Questioned: $15,747,156; Better Use: $1,339,881.

Public and Indian Housing (29 Reports)

2005-AT-1009	The Housing Authority of Fulton County, Atlanta, GA, 04/21/2005. Questioned: $2,100,552; Unsupported: $2,100,552; Better Use: $640,221.
2005-AT-1010	The Chattanooga, TN, Housing Authority, 06/09/2005. Questioned: $9,201; Better Use: $4,835,024.
2005-AT-1011	The Housing Authority of High Point, NC, 06/27/2005. Better Use: $524,337.
2005-AT-1012	The Town of Crossville, TN, Housing Authority, 07/06/2005. Questioned: $547,800; Better Use: $36,000.
2005-AT-1015	The Municipality of San Juan, PR, Housing Authority, Section 8 Housing Choice Voucher Program, 09/29/2005. Questioned: $544,566; Unsupported: $121,638; Better Use: $559,165.
2005-BO-1003	Milford, CT, Housing Authority, Audit of Selected Programs, 04/25/2005. Questioned: $407,168; Unsupported: $3,735; Better Use: $1,118,628.
2005-BO-1004	Bridgeport, CT, Housing Authority, Housing Choice Voucher and Low-Income Public Housing Program Deficiencies, 07/29/2005. Questioned: $2,330,692; Unsupported: $1,101,060; Better Use: $1,465,688.

2005-BO-1005	Fall River, MA, Housing Authority, 08/31/2005. Questioned: $3,530,080.
2005-BO-1006	The Hartford, CT, Housing Authority, 09/06/2005. Questioned: $3,702,403.
2005-CH-1010	Kankakee County, IL, Housing Authority, Low-Rent Housing Program, 04/08/2005. Questioned: $129,772; Better Use: $75,396.
2005-CH-1011	Stark Metropolitan Housing Authority, Nonprofit Development Activities, Canton, OH, 05/31/2005. Questioned: $696,592; Unsupported: $528,402; Better Use: $261,182.
2005-CH-1014	Kankakee County, IL, Housing Authority, Low-Rent Unit Conditions, 08/05/2005. Questioned: $129,141; Better Use: $254,735.
2005-CH-1017	Flint, MI, Housing Commission, Section 8 Housing Program, 09/23/2005. Questioned: $136,467; Better Use: $701,71.
2005-CH-1020	Housing Authority of the City of Gary, IN, Section 8 Housing Program, 09/29/2005. Questioned: $1,861,053; Unsupported: $814,274; Better Use: $8,318,795.
2005-DE-1005	The Housing Authority of the County of Salt Lake, UT, 09/16/2005. Better Use: $375,000.
2005-FW-1012	The Housing Authority of the City of Houston, TX, 07/20/2005. Questioned: $1,960; Better Use: $1,102,162.
2005-FW-1018	The Housing Authority of the City of Houston, TX, Section 8 Housing Choice Voucher Tenants and Units, 09/27/2005. Questioned: $7,448,762; Unsupported: $7,448,762; Better Use: $7,939,494.
2005-KC-1004	The Kansas City, KS, Housing Authority, 04/18/2005.
2005-KC-1008	St. Louis, MO, Housing Authority, 07/28/2005. Questioned: $24,750; Better Use: $173,618.
2005-LA-1004	Housing Authority of the County of Marin, San Rafael, CA, 05/20/2005. Questioned: $318,139.
2005-LA-1005	Housing Authority of the City of Inglewood, CA, 07/11/2005. Questioned: $1,836,282; Unsupported: $1,836,282.
2005-LA-1008	Housing Authority of the City of Inglewood, CA, Portability, 08/26/2005. Better Use: $1,991,283.
2005-LA-1009	Housing Authority of the City of Inglewood, CA, Housing Quality Standards, 09/07/2005. Questioned: $295,686; Unsupported: $261,411.
2005-NY-1005	The Housing Authority of the City of Newark, NJ, Bond Financing Activities and Section 8 Housing Choice Voucher Administrative Fee Reserves, 05/26/2005. Questioned: $6,524,886; Better Use: $729,423.

2005-NY-1006 Syracuse, NY, Housing Authority, Section 8 Housing Choice Voucher Program, 08/10/2005.

2005-PH-1009 Richmond, VA, Redevelopment and Housing Authority, 04/08/2005. Questioned: $7,552,981; Better Use: $60,956.

2005-PH-1012 The Lycoming County Housing Authority, Williamsport, PA, 06/06/2005. Better Use: $2,888,300.

2005-PH-1014 McKeesport, PA, Housing Authority, Section 8 and Public Housing Programs, 07/29/2005.

2005-SE-1005 Housing Authority of the City of Tacoma, WA, 05/24/2005. Questioned: $33,012.

Audit-Related Memorandums*

General Counsel (1 Report)

2005-CH-1803 Actions under Program Fraud Civil Remedies Act, Charles Gahan, Former Loan Officer of AIM Financial, Inc., Caledonia, MI, 09/15/2005. Questioned: $15,000.

Housing (2 Reports)

2005-AT-1801 Residential Lending Corporation, Direct Endorsement Mortgagee, Duluth, GA, 06/30/2005.

2005-AT-1804 American Financial Network, Direct Endorsement Lender, Boca Raton, FL, 09/29/2005.

Public and Indian Housing (2 Reports)

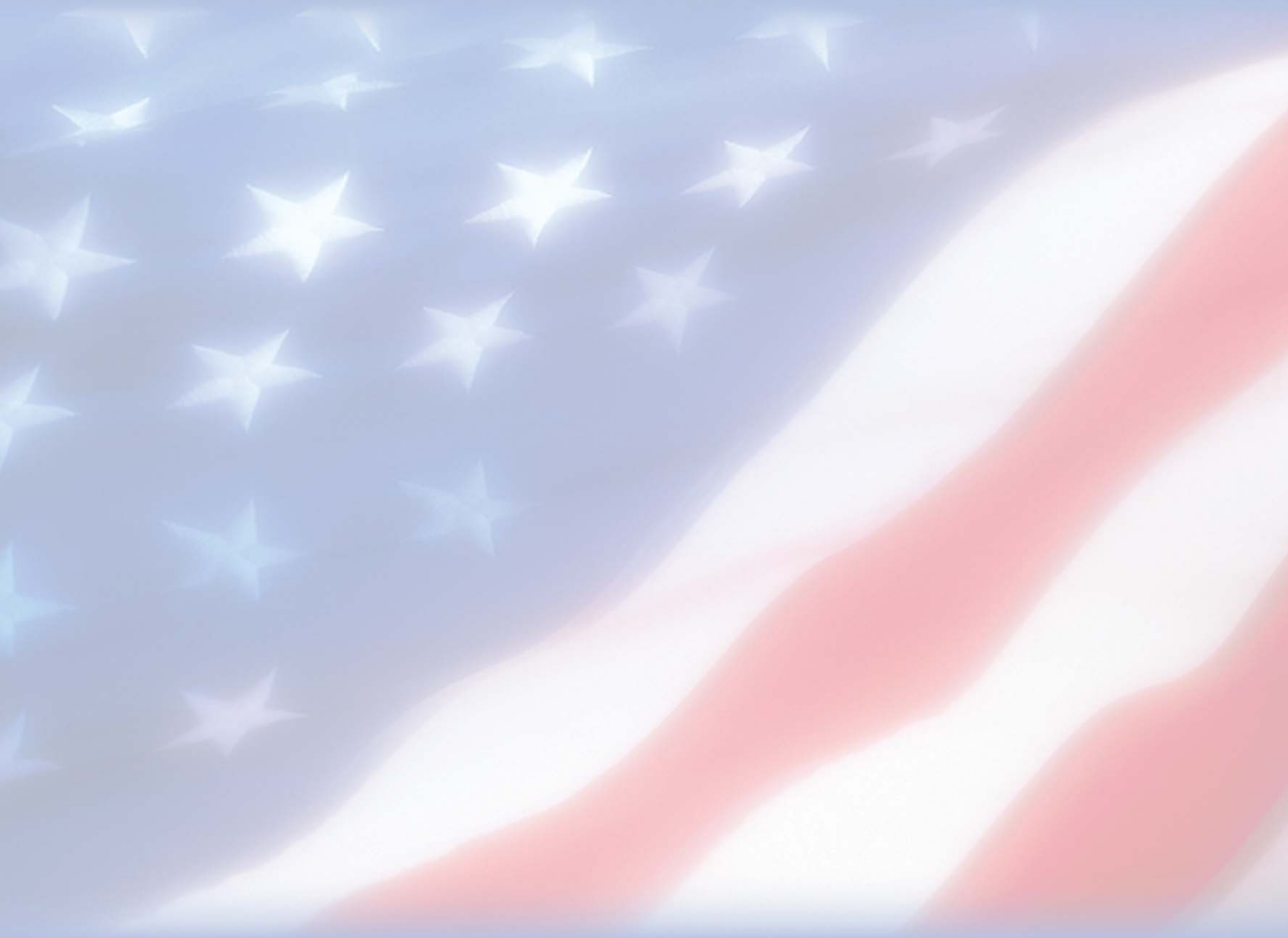
2005-AT-1802 Housing Authority of Winston-Salem, NC, 08/23/2005.

2005-AT-1803 Montgomery, AL, Housing Authority, Section 8 Housing Choice Voucher Program, 09/07/2005. Questioned: $3,920.

* 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.

Audit Reports Issued

Appendix 2



Tables

Table A
Audit Reports Issued Prior to Start of Period with No Management Decision as of September 30, 2005

** Significant Audit Reports Described in Previous Semiannual Reports*

Report Number & Title	Reason for Lack of Management Decision	Issue Date/Target for Management Decision
* 2005-CH-1004 Lakewood Care Center, Multifamily Equity Skimming, Milwaukee, WI	At the end of the semiannual period, management decisions had not been reached on two of four reported recommendations. The Inspector General referred the issue to the Deputy Secretary in June 2005 because agreement could not be reached with the Office of Housing. The Deputy Secretary subsequently asked the Office of Housing to meet with the Inspector General's staff to further attempt to reach agreement. The Office of Housing's proposed timetable to accomplish the regulatory changes to Section 232 projects was unacceptable. Strengthening the regulatory agreement has been a matter of concern to Congress. The Office of Housing's proposed 21-month timetable did not show priority to the matter and was contrary to the OIG recommended completion date of September 30, 2006. Additionally, the Office of General Counsel informed OIG that 12 months is the average length of time needed to get a final rule published. After further consideration, on October 7, 2005, the Office of Housing agreed to initiate notice and comment rulemaking and publish a final rule with a target date of December 31, 2006.	12/22/2004 10/31/2005
* 2005-CH-1005 Wood Hills Assisted Living Facility, Multifamily Equity Skimming, Kalamazoo, MI	At the end of the semiannual period, management decisions had not been reached on two of five reported recommendations. The Inspector General referred the issue to the Deputy Secretary in June 2005 because agreement could not be reached with the Office of Housing. The Deputy Secretary subsequently asked the Office of Housing to meet with the Inspector General's staff to further attempt to reach agreement. The Office of Housing's proposed timetable to accomplish the regulatory changes to Section 232 projects	01/12/2005 10/31/2005

Report Number & Title	Reason for Lack of Management Decision	Issue Date/Target for Management Decision
	was unacceptable. Strengthening the regulatory agreement has been a matter of concern to Congress. The Office of Housing's proposed 21-month timetable did not show priority to the matter and was contrary to the OIG recommended completion date of September 30, 2006. Additionally, the Office of General Counsel informed the OIG that 12 months is the average length of time needed to get a final rule published. After further consideration, on October 7, 2005, the Office of Housing agreed to initiate notice and comment rulemaking and publish a final rule with a target date of December 31, 2006.	

Table B
Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
1997-CH-1010	Major Mortgage Corporation,	09/17/1997	01/06/1998	Note 2
2000-FO-0002	Federal Housing Administration, Audit of FY 1999 Financial Statements	02/29/2000	08/09/2000	12/31/2005
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	12/31/2006
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	12/31/2006
2001-CH-1007	Detroit, MI, Housing Commission, Hope VI Program	05/16/2001	09/13/2001	06/30/2011
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	10/15/2006
2002-FO-0002	Federal Housing Administration, Audit of FY 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
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-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

Tables

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	06/30/2006
2002-FW-1002	Houma, LA, Housing Authority, Low Rent Housing Program, Cash & Procurement Controls	09/18/2002	01/16/2003	04/15/2006
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 1
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 1
2002-PH-1003	Delaware Housing Coalition, Outreach and Training Assistance and Intermediary Training Assistance Grant, Dover, DE	09/30/2002	03/31/2003	Note 1
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 1
2002-PH-1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT0020MD	09/30/2002	03/31/2003	Note 1
2002-PH-1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT98012MD	09/30/2002	03/31/2003	Note 1
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 1
2003-SE-1001	Community Alliance of Tenants Outreach and Training Assistance and Intermediary Training Assistance Grants, Portland, OR	10/31/2002	03/31/2003	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	Note 1
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-FO-0004	Audit of HUD's Financial Statements Fiscal Years 2002 and 2001	01/31/2003	05/22/2003	10/31/2005
2003-FW-1001	Housing Authority of the City of Morgan City, LA, Low-Rent Program	02/21/2003	06/20/2003	04/15/2006
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	12/31/2005
2003-CH-1014	Coshocton, OH, Metropolitan Housing Authority, Public Housing Program	03/28/2003	07/28/2003	04/30/2047
2003-DE-0001	HUD Office of Multifamily Housing Assistance Restructuring's Oversight of the Sec 514 Program Activities	03/31/2003	03/31/2003	Note 1
2003-CH-0001	HUD's Oversight of Empowerment Zone Program	05/07/2003	09/11/2003	Note 2
2003-BO-1003	City Of Bridgeport, CT, Home Investment Partnership Program	05/16/2003	09/16/2003	10/31/2005
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-CH-1018	Chicago, IL, Housing Authority, Outsourced Property Management Contracts Review	07/18/2003	01/14/2004	12/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
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-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	Note 2
2004-PH-0001	Procedures for Filing Uniform Commercial Code Continuation Statements	11/26/2003	04/14/2004	04/15/2007
2004-DP-0001	Fiscal Year 2003 Review of Information Systems Controls in Support of the Financial Statements Audit	12/01/2003	05/28/2004	03/31/2006
2004-BO-1004	Danbury, CT, Housing Authority, Capital Fund Program	12/05/2003	04/05/2004	12/01/2008
2004-FO-0003	HUD Audit of Fiscal Year 2003 and 2002 Financial Financial Statements	12/19/2003	07/20/2004	11/30/2005
2004-AT-0001	Public Housing Authority Development Activities	01/13/2004	05/20/2004	05/13/2006
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-AO-0001	Award and Administration of Lead-Based Paint Hazard Reduction Grants	02/06/2004	06/30/2004	Note 2
2004-DP-1002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	10/15/2006
2004-FW-1002	Jester Trails Apartment, Multifamily Project, Houston, TX	02/26/2004	05/18/2004	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-FW-1003	City of New Orleans, LA, Section 108 Loan Program, Jazzland Theme Park	03/15/2004	09/07/2004	04/15/2006
2004-NY-1001	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	03/25/2004	06/30/2004	Note 2
2004-AT-1006	Puerto Rico Public Housing Administration, San Juan, PR	04/22/2004	07/12/2004	07/31/2006
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-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-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
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	10/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
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	06/30/2006
2004-CH-1803	Somerset Point Nursing Home, Multifamily Equity Skimming, Shaker Heights, OH	08/09/2004	08/09/2004	06/29/2006
2004-KC-1005	The City's Housing Program and the Role of the Housing 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	02/28/2006
2004-SE-1006	Apreva, Inc., Nonsupervised Mortgagee, Bellevue, WA	08/19/2004	01/11/2005	10/31/2006
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	12/31/2005
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR	09/17/2004	02/23/2005	10/14/2005
2004-LA-1007	Housing Authority of Maricopa County, Phoenix, AZ	09/22/2004	01/14/2005	01/20/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
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	12/12/2005
2004-DE-1004	New Freedom Mortgage Corporation, Single Family Direct Endorsement Mortgagee, Salt Lake City, UT	09/29/2004	01/28/2005	06/30/2006
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
2005-KC-1001	Karim Enterprises, DBA Prime Mortgage, St. Charles, MO	10/04/2004	12/22/2004	06/30/2006
2005-BO-1001	Waterbury, CT, Housing Authority, Selected Programs	10/31/2004	02/09/2005	10/31/2005
2005-PH-1001	The Lehigh County Housing Authority, Emmaus, PA	10/15/2004	12/22/2004	11/30/2005
2005-DP-0001	Fiscal Year 2004 Review of Information Systems Controls in Support of the Financial Statements Audit	10/19/2004	02/16/2005	03/31/2006
2005-SE-1001	Tulalip Tribes Housing Authority, Marysville, WA	10/21/2004	02/02/2005	10/21/2005
2005-AT-1001	The Housing Authority of the City of Carrollton, GA	11/01/2004	03/10/2005	12/31/2005
2005-FW-1801	Highland Meadows Apartments, Dallas, TX	11/02/2004	02/24/2005	02/28/2006
2005-LA-1801	The Carmichael, CA, Rehabilitation Center	11/04/2004	01/27/2005	10/31/2005
2005-FW-1001	City of New Orleans, LA, Section 108 Program, Louisiana ArtWorks	11/05/2004	03/02/2005	04/15/2006
2005-AT-1002	The Housing Authority of the City of Charleston, SC	11/15/2004	12/15/2004	11/15/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-FO-0002	Federal Housing Administration's Financial Statements for Fiscal Years 2003 and 2004	11/15/2004	11/15/2004	12/31/2006
2005-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Year 2004 Financial Statements	11/15/2004	03/15/2005	12/31/2005
2005-LA-1001	Housing Authority of the County of San Joaquin, Stockton, CA	11/18/2004	05/06/2005	06/30/2008
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-FW-1002	Domicile Property Management, Inc., Multifamily Management Agent, San Antonio, TX	11/19/2004	01/18/2005	01/18/2006
2005-CH-1003	Royal Oak Township Housing Commission, Public Housing Program, Ferndale, MI	11/29/2004	03/29/2005	03/29/2006
2005-PH-1002	The Huntington, WV, Housing Authority	12/02/2004	03/30/2005	04/30/2006
2005-PH-1003	The Town of Clifton, VA, Single Family Property Disposition Discount Sales Program	12/21/2004	04/19/2005	04/17/2006
2005-PH-1004	Corrective Action Verification Review of the Housing Authority of Baltimore, MD, Section 8 Certificate and Voucher Programs, Audit Report No. 2001-PH-1003	12/21/2004	04/20/2005	04/30/2007
2005-CH-1004	Lakewood Care Center, Multifamily Equity Skimming, Milwaukee, WI	12/22/2004	01/26/2005	Note 3
2005-CH-1801	RVA Properties Inc., Multifamily Equity Skimming, Farmington Hills, MI	12/22/2004	12/26/2004	06/30/2006
2005-LA-1804	Canoga Care Center, Canoga Park, CA	01/03/2005	09/26/2005	12/30/2005
2005-CH-1005	Wood Hills Assisted Living Facility, Multifamily Equity Skimming, Kalamazoo, MI	01/12/2005	02/16/2005	Note 3

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-LA-1805	Housing Authority of the City of Los Angeles, CA	01/21/2005	04/05/2005	12/31/2005
2005-NY-1802	Arlington Arms, Jersey City, NJ	01/21/2005	04/11/2005	11/04/2005
2005-KC-1003	Leader Mortgage Company, Lenexa, KS	01/25/2005	04/08/2005	03/31/2006
2005-AT-1005	Pan American Financial Corporation, Nonsupervised Direct Endorsement Lender, Guaynabo, PR	01/27/2005	05/17/2005	05/31/2006
2005-FW-1004	American Property Financial, Nonsupervised Loan Correspondent, San Antonio, TX	01/28/2005	05/27/2005	05/31/2006
2005-SE-1003	Oregon Housing and Community Services, Salem, OR	02/09/2005	05/27/2005	05/01/2006
2005-PH-1006	Mortgagee Review of the Peoples National Bank Branch Office, Towson, MD	02/16/2005	06/28/2005	07/31/2006
2005-AT-1006	The Jefferson County Housing Authority, Birmingham, AL	02/24/2005	05/31/2005	04/23/2006
2005-FW-1005	New Orleans, LA, African-American Museum	02/25/2005	05/12/2005	04/15/2006
2005-DE-1002	Boulder County, CO, Housing Authority	03/09/2005	06/29/2005	12/31/2010
2005-PH-1007	Lehigh County Housing Authority, Emmaus, PA	03/09/2005	05/02/2005	04/30/2006
2005-LA-1002	Housing Authority of Maricopa County, Mixed Finance Development Activities, Phoenix, AZ	03/14/2005	07/11/2005	08/31/2007
2005-AT-1007	Interstate Financial Mortgage Group Corporation, Non-supervised Direct Endorsement Lender, Miami, FL	03/15/2005	08/04/2005	07/31/2006
2005-NY-1003	Lower Manhattan Development Corporation, Community Development Block Grant Disaster Assistance Funds, New York, NY	03/23/2005	07/19/2005	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-PH-1008	The Housing Authority of the City of Pittsburgh, PA, Moving to Work Demonstration Program	03/24/2005	07/13/2005	12/31/2006
2005-SE-1004	Wells Fargo Bank, NA, Fife, WA, Branch, Supervised Mortgagee, Loan Underwriting	03/24/2005	08/22/2005	05/31/2006
2005-AT-1008	Trust America Mortgage, Inc., Nonsupervised Direct Endorsement Lender, Cape Coral, FL	03/25/2005	07/25/2005	04/30/2006
2005-FW-1006	Housing Authority of the City of Houston's Contractor, Section 8 Housing Assistance Payments, Houston, TX	03/25/2005	05/25/2005	02/28/2006
2005-CH-1007	RBC Mortgage Company, Nonsupervised Mortgagee, Houston, TX	03/29/2005	05/25/2005	02/28/2006
2005-PH-1001	Criteria Governing Local Government Participation in HUD's Single Family Property Disposition Discount Sales Program	03/29/2005	07/27/2005	02/28/2006

AUDITS EXCLUDED:

27 audits under repayment plans

30 audits under formal judicial review, investigation, or legislative solution

NOTES:

1 Management did not meet the target date. Target date is over 1 year old.

2 Management did not meet the target date. Target date is under 1 year old.

3 No Management decision.

Table C
Inspector General Issued Report with Questioned and Unsupported Costs as of September 30, 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	22	28,204	19,184
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	16	20,700	8,794
A3	For which additional costs were added to reports in beginning inventory	-	601	190
A4	For which costs were added to noncost reports	2	260	0
B1	Which were issued during the reporting period	55	75,235	25,328
B2	Which were reopened during the reporting period	0	0	0
	Subtotals (A + B)	95	125,000	53,496
C	For which a management decision was made during the reporting period	44[1]	53,463	28,491
	(1) Dollar value of disallowed costs			
	Due HUD	25[2]	15,101	10,143
	Due program participants	25	37,676	17,933
	(2) Dollar value of costs not disallowed	9[3]	686	415
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	18,568	8,135
E	For which no management decision had been made by the end of the reporting period	41 <88>[4]	52,969 <52,560>[4]	16,870 <16,867>[4]

[1] 26 audit reports also contain recommendations with funds to be put to better use.
[2] 7 audit reports also contain recommendations with funds due program participants.
[3] 8 audit reports also contain recommendations with funds agreed to by management.
[4] The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

Table D
Inspector General Issued Report with Recommendations That Funds Be Put to Better Use as of September 30, 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	20	198,412
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	7	17,438
A3	For which additional costs were added to reports in beginning inventory	-	838
A4	For which costs were added to noncost reports	1	4,200
B1	Which were issued during the reporting period	57	227,894
B2	Which were reopened during the reporting period	0	0
	Subtotals (A + B)	85	448,782
C	For which a management decision was made during the reporting period	39[1]	249,185
	(1) Dollar value of recommendations that were agreed to by management		
	Due HUD	22[2]	98,506
	Due program participants	18	147,705
	(2) Dollar value of recommendations that were not agreed to by management	9[3]	2,974
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	5	15,102
E	For which no management decision had been made by the end of the reporting period	41 <45>[4]	184,495 <182,223>[4]

[1] *26 audit reports also contain recommendations with questioned costs.*
[2] *2 audit reports also contain recommendations with funds due program participants.*
[3] *8 audit reports also contain recommendations with funds agreed to by management.*
[4] *The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.*

Explanations of Tables C and D

The Inspector General Act Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not recognize their efforts.

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

HUD OIG Operations Telephone Listing

Office of Audit

Headquarters Office of Audit, Washington, DC	202-708-0364
Region 1, Boston, MA	617-994-8380
Hartford, CT	860-240-4800
Region 2, New York, NY	212-264-4174
Albany, NY	518-464-4200
Buffalo, NY	716-551-5755
Newark, NJ	973-622-7900
Region 3, Philadelphia, PA	215-656-3401
Baltimore, MD	410-962-2520
Pittsburgh, PA	412-644-6372
Richmond, VA	804-771-2100
Region 4, Atlanta, GA	404-331-3369
Birmingham, AL	205-731-2630
Miami, FL	305-536-5387
Greensboro, NC	336-547-4001
Jacksonville, FL	904-232-1226
Knoxville, TN	865-545-4369
San Juan, PR	787-765-5202
Region 5, Chicago, IL	312-353-6236
Columbus, OH	614-469-5737
Detroit, MI	313-226-6190
Region 6, Fort Worth, TX	817-978-9309
Houston, TX	713-718-3199
New Orleans, LA	504-589-7267
Oklahoma City, OK	405-609-8606
San Antonio, TX	210-475-6895
Region 7, Kansas City, KS	913-551-5870
St. Louis, MO	314-539-6339
Denver, CO	303-672-5452
Region 8, Los Angeles, CA	213-894-8016
Phoenix, AZ	602-379-7250
San Francisco, CA	415-489-6400
Region 9, Seattle, WA	206-220-5360

Office of Investigation

Headquarters Office of Investigation, Washington, DC	202-708-0390
Region 1, Boston, MA	617-994-8450
Manchester, NH	603-666-7988
Meriden, CT	203-639-2810
Region 2, New York, NY	212-264-8062
Buffalo, NY	716-551-5755
Newark, NJ	973-622-7900
Region 3, Philadelphia, PA	215-656-3410
Baltimore, MD	410-962-4502
Pittsburgh, PA	412-644-6598
Richmond, VA	804-771-2100
Region 4, Atlanta, GA	404-331-3359
Miami, FL	305-536-3087
Greensboro, NC	336-547-4000
Jacksonville, FL	904-232-1226
Memphis, TN	901-544-0644
Nashville, TN	615-736-7000
San Juan, PR	787-766-5868
Tampa, FL	813-228-2026
Region 5, Chicago, IL	312-353-4196
Cleveland, OH	216-522-4421
Columbus, OH	614-469-6677
Detroit, MI	313-226-6280
Indianapolis, IN	317-226-5427
Minneapolis-St. Paul, MN	612-370-3106
Region 6, Arlington, TX	817-652-6980
Houston, TX	713-718-3197
Little Rock, AR	501-324-5409
New Orleans, LA	504-589-6847
Oklahoma City, OK	405-609-8601
San Antonio, TX	210-475-6894
Region 7, Kansas City, KS	913-551-5866
St. Louis, MO	314-539-6559
Denver, CO	303-672-5350
Billings, MT	406-247-4080
Salt Lake City, UT	801-524-6090

Region 9, Los Angeles, CA	213-894-0219
San Francisco, CA	415-489-6683
Phoenix, AZ	602-379-7255
Sacramento, CA	916-498-5220
Las Vegas, NV	702-366-2144
Seattle, WA	206-220-5380

Report fraud, waste, and mismanagement in HUD programs and operations by:

Calling the OIG Hotline: 1-800-347-3735

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
April 1, 2005 through September 30, 2005

www.hud.gov/offices/oig

No. 54 HUD-2005-15-OIG

OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

EQUAL HOUSING OPPORTUNITY

Office of Inspector General