Office of Inspector General

U.S. Department of Housing and Urban Development

Semiannual Report to Congress

October 1, 2005, through March 31, 2006

Profile of Performance

For the Period, October 1, 2005, through March 31, 2006

Audit and Investigation Results	Audit	Investigation	Hotline	Combined
Recommendations That Funds Be Put to Better Use	$589,887,746		$2,352,885	$592,240,631
Management Decisions on Audits with Recommendations that Funds be Put to Better Use	$549,804,443			$549,804,443
Questioned Costs	$52,223,731			$52,223,731
Management Decisions on Audits with Questioned Costs	$58,627,445			$58,627,445
Indictments/Informations		747		747
Convictions/Pleas/Pretrial Diversions		443		443
Civil Actions		33		33
Investigative Recoveries/Receivables		$165,353,197	$82,697	$165,435,894
Funds Put to Better Use		$67,475,744		$67,475,744
Collections from Audits	$28,210,875			$28,210,875
Administrative Actions	13	1174		1187
Personnel Actions		24		24
Arrests		1,536		1,536
Search Warrants		58		58
Weapons Seized		3		3
Subpoenas Issued	4	448		452

Inspector General's Message

It is with great pride that I present the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) Semiannual Report to the Congress for the first half of fiscal year 2006. In the time since our last report, HUD OIG employees – auditors, agents, attorneys and support staff – have been hard at work on their assigned tasks. Whether it is Hurricane disaster relief, single-family housing fraud, Section 8 rental subsidy fraud, or any fraud against HUD programs or operations, the HUD OIG is engaged and garnering results, for which we are justly proud.

During the reporting period, we had $304,049,725 in Funds Put to Better Use, Questioned Costs of $52,223,731 and $165,435,894 in Recoveries and Receivables. This is exceptional work by our staff that has resulted in significant positive impact on fraud and misuse of taxpayer dollars. I am grateful to the auditors, agents, and evaluators who worked so hard this year to achieve this milestone.

I direct your attention to our high profile audits and investigations. HUD OIG staff increased and improved their cooperation and collaboration with the Department, and as a result, developed and implemented better and more effective audit recommendations. The HUD OIG Office of Investigation agents also enhanced their cooperation with the Department as a new source or indicator for new investigative avenues.

Our emphasis on the Section 8 Housing Choice Voucher program continues to be a high priority. Congress was clear that it wanted answers as to why the Section 8 program was prone to fraud and waste. Our audit plan this year selected 15 programs at public housing authorities. Although our audits found significant administrative non-compliance and improper payments, the living conditions of the residents was a greater concern. We inspected 254 units at three authorities (San Juan, PR; Miami-Dade, FL; and Winston-Salem, NC.) We found 91 percent did not meet minimum housing quality standards, and 39 percent of the failed units had serious deficiencies. Tenants lived in units that were not decent, safe, nor sanitary. The Department shared our concern about these conditions and agreed that housing assistance payments for units that did not meet standards had to stop.

All of this led us to a more efficient and effective HUD OIG, better at recovering taxpayer funds and bringing people to justice who perpetrate crimes.

It is with obvious and justifiable pride that I thank the staff of the HUD OIG for their tireless work in their struggle against waste, fraud, and abuse on the Nation's housing and urban development programs.

Kenneth M. Donohue
Inspector General

Strategic Plan

Vision

We are a trusted and respected resource for HUD, Congress, and the American public in ensuring the integrity, efficiency, and effectiveness of HUD programs and operations. We are committed to working jointly with HUD management to achieve their goals.

Mission

- Promote the integrity, efficiency, and effectiveness of HUD programs and operations to assist the Department in meeting its mission.
- Detect and prevent waste, fraud, and abuse.
- Seek administrative sanctions, civil recoveries and/or criminal prosecution of those responsible for waste, fraud, and abuse in HUD programs and operations.

Goal 1 Effectiveness

Help HUD resolve its "Major Management Challenges" by being a relevant and problem-solving advisor to HUD and our Stakeholders.

Goal 2 Efficiency

Maximize results and provide responsive audit and investigative work for mandated, requested, or self-initiated efforts.

Goal 3 Our Employees

Become the "Employer of Choice" among Offices of Inspectors General.

Objectives

Goal 1 Effectiveness

- Contribute to Improving the Integrity in Single Family Insurance Programs.
- Contribute to a Reduction in Erroneous Payments in the Rental Assistance Programs.
- Contribute to Improving HUD's Execution and Accountability of Fiscal Responsibilities.
- Contribute to resolving significant issues raised or confronted by HUD and our Stakeholders.

Goal 2 Efficiency

- Achieve a highest Return on Investment (ROI) with available resources.
- Provide quality results to customers in a timely manner.

Goal 3 Our Employees

- Invest in people.
- Invest in the organization.

Strategic Goals

Goal 1 – Effectiveness

Objectives:

- Contribute to improving the integrity of single-family insurance programs.
- Contribute to a reduction in erroneous payments in the rental assistance programs.
- Contribute to improving HUD's fiscal accountability.
- Contribute to resolving other significant issues raised or confronted by HUD and our stakeholders.

Target	As of March 31, 2006	Key Measurements
75%	✓	75% of the recommendations reach management decisions within 120 days.
85%	✓	85% of the dollars associated with recommendations are sustained.
80%	✓	80% of all audits conducted are targeted at areas of significant interest to either HUD or OIG stakeholders.
80%	✓	80% of stakeholders rate OIG products and services good or better.
66%	✓	66% investigations referred for criminal, civil, or administrative action will focus on FHA single-family mortgage fraud and Section 8 rental assistance overpayment.

Goal 2 – Efficiency

Objectives:

- Maintain a high return on investment (ROI).
- Provide timely and quality results to customers.

Target	As of March 31, 2006	Key Measurements
8:1	✓	Sustain a return on investment (ROI) of 8:1.
70%	✓	70% of external audits completed within 2000 hours.
4/6 Actions per FTE	✓	Regional investigative performance for regions without forensic auditors will average 4 actions per FTE per year. Regions with forensic auditors will average 6 actions per FTE per year..

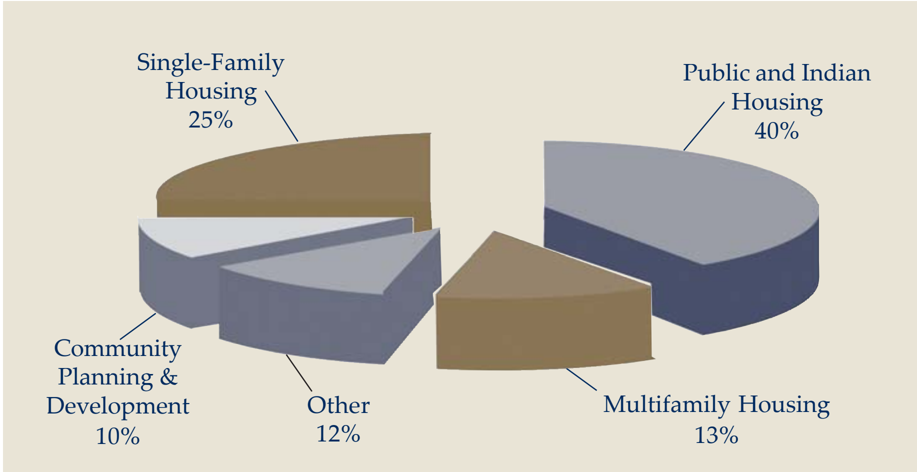
Goal 3– Employer of Choice

Objectives:

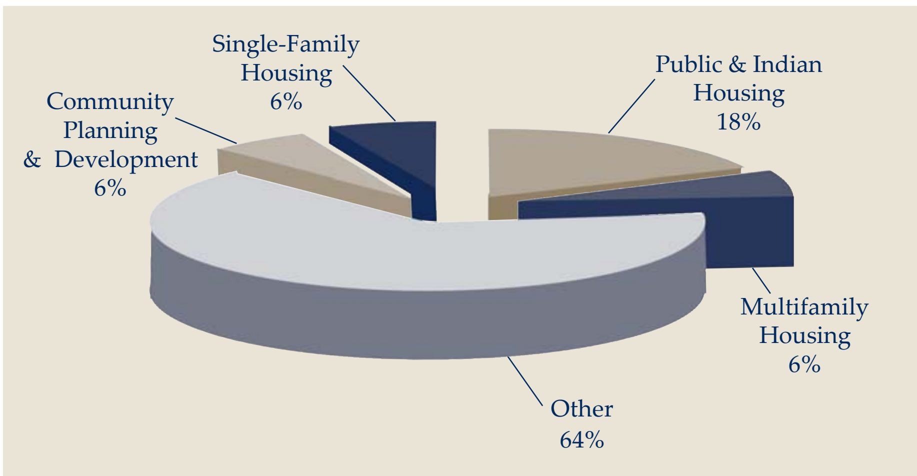
- Invest in people.
- Invest in the organization.

Target	As of March 31, 2006	Key Measurements
Nov 06	✓	Implement a leadership development program for succession planning.
80%	NEW	80% of employees rate organization good or better.

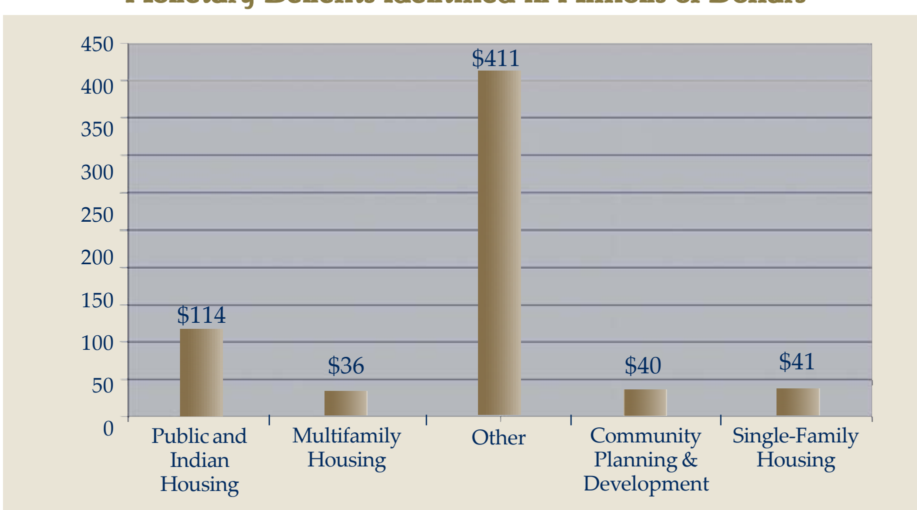
Audit Reports Issued by Program



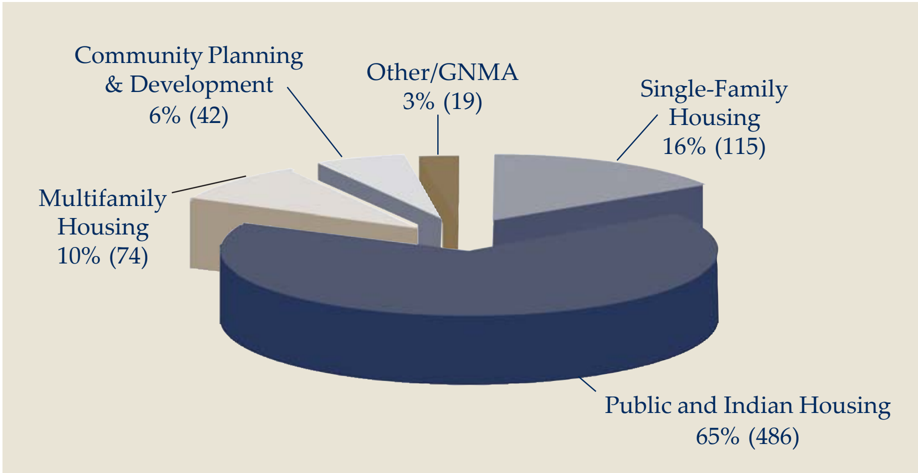
Monetary Benefits Identified by Program



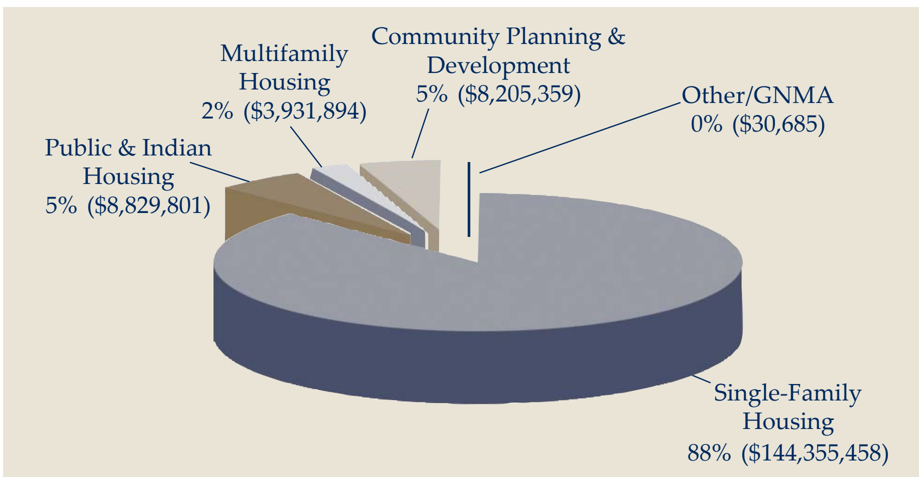
Monetary Benefits Identified in Millions of Dollars



Investigation Cases Opened by Program (Total: 736)



Investigation Recoveries by Program (Total: 165,353,197)



Acronyms List

AIGA	Assistant Inspector General for Audit
AIGI	Assistant Inspector General for Investigations
ARIGA	Assistant Regional Inspector General for Audit
ASAC	Assistant Special Agent in Charge
ATF	Bureau of Alcohol Tobacco and Firearms
CDBG	Community Development Block Grants
CID	Criminal Investigation Division
CPD	Community Planning and Development
DAIGA	Deputy Assistant Inspector General for Audit
DAIGI	Deputy Assistant Inspector General for Investigation
DEA	Drug Enforcement Administration
DOJ	U.S. Department of Justice
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FFMIA	Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHASL	Federal Housing Administration Subsidiary Ledger
FINCEN	Financial Crimes Enforcement Network
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
HKFTF	Hurricane Katrina Fraud Task Force
HOME	Home Investment Partnership Program
HOPWA	Housing Opportunities for Persons with AIDS
HRRC	Hurricane Recovery and Response Center
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General

IRS	Internal Revenue Service
JTTF	Joint Terrorism Task Force
LAS	Loan Accounting System
MAHRA	Multifamily Assisted Housing Reform Act
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
PDDA	Presidentially-Declared Disaster Areas
PFCRA	Program Fraud Civil Remedies Act
PHA	Public Housing Authorities
PHSI	Public Housing Safety Initiatives
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda
REAC	Real Estate Assessment Center
REAP	Resource Estimation and Allocation Process
REO	Real Estate Owned
RESPA	Real Estate Settlement and Procedures Act
RHIIP	Rental Housing Integrity Improvement Project
RIGA	Regional Inspector General for Audit
SA	Special Agent
SAC	Special Agent in Charge
SSA	Social Security Administration
SSN	Social Security Number
TEAM	Total Estimation and Allocation Mechanism
TND	Teacher Next Door
USAO	U.S. Attorney's Office
USDA	U.S. Department of Agriculture
USMS	U.S. Marshals Service
USPS	U.S. Postal Service
VA	U.S. Department of Veterans Affairs
VOE	Verifications of Employment

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Reporting Requirements

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

Source/Requirement	Pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	*107-114*
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	*1-97, 107-122*
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	*9-97*
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report on which corrective action has not been completed.	*Appendix 2, Table B*
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	*9-97*
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.	*9-97*
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.	*119-121*
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	*121*

Chapter 1
HUD's Management and Performance Challenges

The HUD Office of Inspector General

The U.S. Department of Housing and Urban Development (HUD) Inspector General is one of the original 12 Inspectors General authorized under the Inspector General Act of 1978. Over the years, 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. OIG is committed to its statutory mission of detecting and preventing fraud, waste, and abuse and promoting the effectiveness and efficiency of government operations. While organizationally located within the Department, OIG operates independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. 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 fiscal year (FY) 2006 enacted budget is about $48 billion, including about $12 billion in emergency supplemental appropriations to address the impact of the hurricanes that devastated the Gulf of Mexico coastal areas during 2005. 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 FY 2005, FHA's outstanding mortgage insurance portfolio was about $416 billion. The Government National Mortgage Association (GNMA), also known as 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 December 2005, HUD's PMA scoring status was "green" for three of the nine initiatives applicable to HUD. The status of the six remaining initiatives are four with a "yellow," and two with a "red" score. 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 most notable accomplishment during this semiannual reporting period was to achieve a "green" score for the E-Government initiative. HUD's baseline score for improved financial performance remains at "red" because of one repeat and one new material weakness reported in our audit of HUD's FY 2005 financial statements. Also, the Office of Management and Budget (OMB) established a new initiative for HUD in the area of "credit program management," and assigned a status score of "red."

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 our 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.

***Financial Management Systems*.** 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 have 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 have not been completed and are ongoing.

The weaknesses noted in our FY 2005 Consolidated Financial Audit relate to the need to

- Incorporate better risk factors and monitoring tools into FHA's single family insured mortgage program risk analysis and liability estimation process and

- Continue to improve its review over the FHA credit reform estimation process.

In prior years, OIG reported on weaknesses in HUD's compliance with Federal Financial Management System requirements, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress in implementing a new financial system at FHA and addressing most of the weaknesses that OIG identified, including initiating a vision statement for a departmentwide fully integrated financial system. These improvements enabled OIG to conclude that the weakness in financial management system requirements should be reclassified from a material weakness to a reportable condition.

***Departmentwide Organizational Changes and 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. To ensure HUD maintains progress toward accomplishing the goals outlined in its 5-year strategy, HUD tracks progress against the interim milestones biweekly. 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 has most recently embarked on an "optimal organization study" to ensure HUD is positioned to provide maximum service to its constituents. The focus of the study is to develop a vision for the future by assessing what HUD's work will be, how HUD should be organized to carry out the work, and the required skills in relation to full-time employees (FTE) and training efforts. The final product for this effort is scheduled during the third quarter of the fiscal year.

HUD continued to implement its Five-Year Strategic Human Capital Management Plan, with results that are enabling it to recruit, develop, manage, and retain a high-performance workforce that is capable of effectively supporting HUD'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 the 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 2006 gives priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. OIG's audits target lenders with high default rates. The 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 $159.7 million, loss reimbursements of more than $10.2 million, and appropriate civil remedies. During the current semiannual reporting period, OIG completed 31 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 115 investigative cases and closed 261 cases in the single-family housing program area, resulting in 255 indictments, 288 arrests, and 111 convictions/pleas/pretrial conversions.

OIG's audit of FHA's FY 2005 financial statements also reported a need to

- Incorporate better risk factors and monitoring tools into its single-family insured mortgage program risk analysis and loan liability estimation process,
- Continue improvement in the review over the credit reform estimation process, and

- Continue enhancement of management controls over the portfolio of integrated insurance and financial systems.

OIG has tailored its audit and investigation techniques to complement this need, to support HUD management improvements, and to provide an added deterrence to mortgage fraud. OIG developed a comprehensive training course for its staffs on auditing single-family lenders and conducting single-family fraud investigations. To date, 154 auditors and 150 investigators have completed the single-family training courses.

Public and Assisted Housing Program Administration. HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (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.

HUD's ability to effectively monitor housing agencies and assisted multifamily projects continues to present challenges in achieving the intended statutory purposes of the housing assistance funds. These weaknesses have been reported for a number of years in OIG's annual audits of HUD's financial statements. However, HUD has demonstrated significant progress in addressing weaknesses impacting the accuracy of payments made under these programs. Most notably, HUD was the first agency to receive a "green" baseline goal score on the PMA "eliminating improper payments" initiative and has maintained this score.

The estimate of erroneous payments that HUD reports in its Performance and Accountability Report relates to HUD's inability to ensure or verify the accuracy of subsidy payments being determined and paid to assisted households. HUD has surpassed interim goals for reducing the FY 2000 estimated $2 billion in net annual rental housing assistance overpayments. HUD's interim goals were for a 15 percent reduction in FY 2003, 30 percent reduction in FY 2004, and 50 percent reduction in FY 2005. These goals were established based on the FY 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based.

Although 60 percent of all subsidy determinations were found to be in error in 2000, that number declined to 41 percent in FY 2003 and 34 Percent in FY 2004. The baseline estimate of gross annual improper payments has been reduced from $3.2 billion in 2000 to $1.6 billion in 2003 and $1.2 billion in 2004.

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 21 external audits of the Section 8 Housing Choice Voucher program during the current semiannual reporting period. These external audits addressed whether 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 $5 million and identified more than $63 million that could be put to better use.

Administering Programs Directed Toward Victims of Hurricanes Katrina, Rita, and Wilma

In the aftermath of Hurricanes Katrina, Rita, and Wilma, the operations of HUD have been thoroughly tested in the Gulf Coast area and have created extraordinary challenges for the residents, HUD employees, and the business community. The potential losses to HUD and its housing and community development programs are significant.

Congress estimates that damage to residential structures will range from $17 to $33 billion. In the Presidentially Declared Disaster Areas (PDDA), HUD's FHA single-family insurance fund insured more than 328,000 mortgages having an unpaid principal balance of $23 billion. The hurricanes affected 79 Ginnie Mae issuers, causing GNMA to assess a $500 million risk of loss to its investment portfolio. FHA's multifamily program in the PDDA insured 859 properties with an amortized principal balance of $3 billion. Assets of HUD's public housing authorities (PHA) program suffered tremendous damage, affecting both property structures and housing of almost 102,000 families. The Housing Authority of New Orleans (HANO) received a $21.8 million grant from the public housing capital fund reserve for the cost and repair of its public housing inventory before a full assessment could be performed. HUD's Office of Community Development (CPD) plans to reprogram existing funds of $380 million for the disaster areas. To expedite the process, CPD issued numerous waivers to streamline its grant programs including Home Investment Partnership program (HOME), Emergency Shelter Grants, and CDBG.

HUD's response to Hurricanes Katrina and Rita falls into three separate categories: (1) use of existing appropriations on the ground just before hurricane impact, (2) new appropriations for hurricane relief, and (3) Federal Emergency Management Agency (FEMA) funds administered by HUD in support of mission-critical assignments. HUD was provided $1.525 million to provide personnel to assist FEMA as part of the housing task force in Baton Rouge. HUD is administering the Katrina Disaster Housing Assistance Program (KDHAP), which was previously funded to a level of $79 million and has received new appropriations of $390 million in housing vouchers for families displaced by Rita and Katrina, and HUD has received new appropriations of $11.5 billion in emergency CDBG funds for recovery expenses associated with Hurricanes Rita and Katrina. HUD is preparing to administer the new funds, which will be grants made directly to the five Gulf States impacted by the hurricanes. The Governors of Louisiana, Mississippi, Alabama, Florida, and Texas, respectively, have identified the appropriate State agency to receive the funds and are submitting plans to HUD detailing how the block grant funds will be used.

See Chapter 6 of this Semiannual Report for further information on the challenges HUD faces in responding to these disasters along with HUD OIG's efforts to prevent and detect fraud and provide audit coverage for the billions of dollars HUD is administering to aid in the recovery.

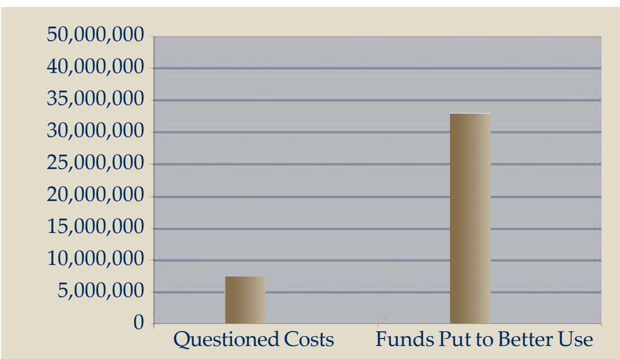
Chapter 2
HUD's Single-Family Housing Programs

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, rehabilitate, and construct a home.

Audits

During this reporting period, the Office of Inspector General (OIG) issued 19 external audit reports in the single-family housing program area. These reports disclosed more than $7 million in questioned costs and more than $33 million in recommendations that funds be put to better use. OIG reviewed 19 FHA single-family mortgage lenders.

Chart 2.1: Single-Family Housing Dollars



Mortgagees, Loan Correspondents, and Direct Endorsement Lenders

The U.S. Department of Housing and Urban Development (HUD) OIG audited America's Mortgage Resource, Inc., of **Metairie, LA**, a lender approved to originate loans under HUD's single-family mortgage insurance program. OIG selected America's Mortgage because of its high default rate. The objectives were to determine whether America's Mortgage followed HUD origination requirements and implemented a quality control plan in accordance with HUD requirements.

The America's Mortgage's LaPlace branch manager formed an identity-of-interest company, Imagine Foundation and provided prohibited gifts to borrowers. Imagine Foundation provided $400,000 in gift funds to 73 America's Mortgage borrowers. The Internal Revenue Service (IRS) denied Imagine Foundation's application for nonprofit status because it did not meet nonprofit requirements. According to the IRS, America's Mortgage's owner served on the board of Imagine Foundation. Under HUD requirements, the gifts should be considered as inducements to purchase, requiring the sales price to be reduced dollar for dollar in determining the maximum mortgage amount. Therefore, HUD overinsured 73 FHA loans totaling more than $7.6 million.

Additionally, America's Mortgage did not originate and process loans in accordance with HUD's regulations, nor did its quality control plan meet HUD's regulations, further putting FHA-insured loans at risk.

OIG recommended that HUD require America's Mortgage to write down the loans for the $400,000 in inappropriate gifts by Imagine Foundation, indemnify 73 loans totaling $6.9 million, and reimburse HUD $300,000 for claims paid on four loans. Further, HUD should take administrative action as appropriate, including debarment and civil monetary penalties, against the president and board of Imagine Foundation. America's Mortgage should develop and implement a quality control plan that complies with HUD's requirements before it is allowed to underwrite additional loans. (Audit Report: **2006-FW-1006**)

HUD OIG audited BSM Financial LP because of an unusually high ratio of defaults in HUD's **San Antonio, TX**, jurisdiction. The objective was to determine whether BSM followed HUD loan origination requirements for the 51 loans selected for review.

Forty-seven percent of BSM's defaults involved one seller, who owned 50 percent of the lender. OIG reviewed 51 of the defaulted loans that involved this seller. The lender approved mortgages on overvalued properties because the lender allowed an identity-of-interest seller to add ineligible and unsupported costs to the home construction costs and inadequately reviewed the appraisals. Also, the lender did not adequately document analyses of borrowers' credit. Further, the lender's processing had technical deficiencies. Consequently, HUD and the borrowers unnecessarily incurred increased risks through higher insurance exposure and higher mortgage payments as evidenced by the borrowers defaulting on their mortgages.

OIG recommended that HUD require the lender to reimburse the insurance fund almost $2 million for foreclosure losses incurred on 19 loans, buy down 28 loans by $320,000 for the amounts added to the loans, and after the buydown, reamortize and indemnify HUD for the more than $2.7 million remaining balance on these 28 loans. In addition, OIG recommended that HUD ensure the lender implements adequate procedures to originate loans in accordance with HUD requirements. (Audit Report: **2006-FW-1007**)

HUD OIG audited Major Mortgage of **Cheyenne, WY,** a lender. OIG selected Major Mortgage because of its high rate of late requests for endorsement. The objective of the audit was to determine whether Major Mortgage complied with HUD requirements when submitting late requests for endorsement.

Of the 1,814 late requests for endorsement, 51 loans did not comply with HUD requirements and, therefore, should not have been endorsed. These loans increased the risk to the FHA insurance fund by $5.6 million and caused HUD to incur related claims and losses.

OIG recommended that HUD take appropriate administrative action against Major Mortgage for not following HUD requirements and placing the insurance fund at unnecessary risk. At a minimum, the actions taken should include requiring Major Mortgage to indemnify improperly submitted loans currently insured and reimburse HUD for known and future losses on foreclosed properties. (Audit Report: **2006-KC-1004**)

HUD OIG audited Ryland Mortgage Company's loan origination activities for its **Tempe, AZ**, branch office. OIG selected the Ryland branch in response to a request from HUD's Santa Ana Homeownership Center Quality Assurance Division. The objectives were to determine whether Ryland acted in a prudent manner and complied with HUD regulations, procedures, and instructions in its approval of FHA-insured mortgages and whether it adequately implemented its quality control plan.

Ryland did not comply with HUD requirements and regulations in originating 23 of the 24 loans we reviewed. The 23 loans totaling more than $3 million had multiple origination deficiencies that should have precluded their approval. In addition, Ryland did not adequately implement its quality control plan. As a result, HUD remains at a risk of loss on 20 of the loans, valued at $2.7 million, and incurred other actual losses of more than $85,000.

OIG recommended that HUD take appropriate administrative action against Ryland by seeking recovery for 14 of the loans totaling more than $85,000 in partial claims, loan modification, special forbearance, and inflated sales prices; seeking indemnification of more than $2.7 million against future losses on 20 loans; and requiring Ryland to reimburse a borrower for $4,000 in unallowable fees. (Audit Report: **2006-LA-1001**)

HUD OIG audited United Mortgage Corporation, **Hauppauge, NY,** a lender approved under HUD's single-family direct endorsement program. The objectives of the audit were to determine whether United Mortgage complied with HUD regulations in the origination of FHA loans and developed and implemented a quality control plan that complied with HUD requirements.

United Mortgage did not follow HUD requirements in the approval of 13 loans valued at more than $1.7 million, resulting in an unnecessary risk to the FHA insurance fund. It also did not follow HUD requirements when evaluating borrowers related to an additional seven loans reviewed. As a result, mortgages amounting to more than $1 million were approved for unqualified borrowers, causing HUD to assume an unnecessary insurance risk.

OIG recommended that HUD require United Mortgage to reimburse HUD for the loss incurred from claims and fees paid on one loan amounting to approximately $155,000 and indemnify HUD for more than $1.6 million against future losses on the 12 loans currently insured with material underwriting deficiencies. OIG further recommended that HUD require United Mortgage to indemnify the seven active loans valued at approximately $1 million if HUD determines the loans should not have been approved. (Audit Report: **2006-NY-1001**)

HUD OIG reviewed 65 FHA loans sponsored by the **St. Louis, MO**, branch of Matrix Financial Services Corporation to determine whether Matrix properly underwrote and closed the loans for endorsement. OIG selected Matrix because more than 18 percent of the loans closed in 2003 defaulted within 2 years.

OIG found that Matrix did not properly underwrite 32 loans with original mortgage amounts totaling nearly $3.3 million. In addition, Matrix charged excessive, unsupported, and/or unallowable closing fees totaling almost $8,000 on 13 loans.

OIG recommended that HUD require Matrix to reimburse losses for properties that have defaulted and indemnify those not defaulted on all improperly underwritten loans. Also, HUD should require Matrix to buy down the principal balance of the 13 loans not properly closed. (Audit Report: **2006-KC-1005**)

HUD OIG audited US Bank NA of **Minneapolis, MN**, a lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program. OIG selected US Bank for audit because of its high late endorsement rate. The objectives were to determine whether US Bank complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and in the underwriting of FHA loans.

US Bank did not always comply with HUD's requirements regarding late requests for insurance endorsement. It improperly submitted 67 (1.52 percent) late requests for endorsement out of 4,406 loans tested. The loans were either delinquent or otherwise did not meet HUD's then requirement of six monthly consecutive timely payments after delinquency but before submission to HUD. US Bank also incorrectly certified that both the mortgage and escrow accounts for six loans and the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums for 14 loans were current.

Further, US Bank inappropriately underwrote 13 loans out of 28 loans reviewed that went to claim. Deficiencies included unallowable amounts when determining the debt for six streamline refinanced loans; missing, outdated, or inadequate documentation required to support borrower income for seven purchase loans; and understatement of the borrowers' expenses for three loans. For the 13 loans reviewed, US Bank incorrectly certified the integrity of the data supplied by other lenders used to determine the quality and insurance eligibility of one loan and incorrectly certified that due diligence was used in underwriting the remaining 12 loans. These improperly submitted and inappropriately underwritten loans increased the risk to HUD's FHA insurance fund.

OIG recommended that HUD require US Bank to indemnify HUD for any future losses on 14 loans with a total mortgage value of more than $1.5 million, reimburse HUD nearly $455,000 for the actual losses it incurred on 14 loans, and indemnify HUD for any future losses from more than $129,000 in claims paid on three loans once the properties are sold. OIG further recommended that HUD implement adequate procedures and controls to address the deficiencies cited in this report. OIG also recommended that HUD take appropriate action against US Bank for violating the requirements in effect at the time when it submitted 18 loans with a mortgage value of more than $2 million without the proper 6-month payment histories. In addition, OIG recommended that HUD determine legal sufficiency to pursue remedies under the Program Fraud Civil Remedies Act against US Bank and/or its principals for the incorrect certifications cited in this audit report. (Audit Report: **2006-CH-1008**)

HUD OIG reviewed 45 FHA loans underwritten by the **Overland Park, KS**, branch office of First Magnus Financial Corporation to determine whether First Magnus followed HUD regulations in underwriting the loans.

Of the 45 loans reviewed, 23 contained material deficiencies that affected the insurability of the loans. Material deficiencies included unsupported income and assets, questionable gift funds, underreported liabilities, and questionable employment and credit histories. As a result, HUD's insurance fund is at increased risk in connection with loans totaling more than $2.2 million.

OIG recommended that HUD take appropriate administrative action against First Magnus for not following HUD requirements, including requiring First Magnus to indemnify 21 loans with original mortgage amounts of more than $2 million and to indemnify HUD for future losses on two properties not yet sold, for which HUD paid claims totaling more than $221,000. (Audit Report: **2006-KC-1002**)

HUD OIG audited Huntington National Bank of **Columbus, OH**, a lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program. OIG selected Huntington for audit because of its high late endorsement rate. The objectives were to determine whether Huntington complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and underwriting of FHA loans.

Huntington generally complied with HUD's requirements on late requests for insurance endorsement; however, it improperly submitted 20 late requests for endorsement out of 761 loans tested. The loans were either delinquent or otherwise did not meet HUD's then requirement of six monthly consecutive timely payments after delinquency but before submission to HUD. Huntington also incorrectly certified that all payments due were made by the borrowers before or within the month due for 12 loans.

Further, Huntington generally complied with HUD's underwriting requirements. However, it underwrote two FHA loans that later defaulted due to overstated income, understated liabilities, and a lack of valid compensating factors to approve the two loans. Huntington also charged excessive and/or unallowable fees on five loans and incorrectly certified that due diligence was used in underwriting 5 of the 32 loans reviewed.

OIG recommended that HUD require Huntington to indemnify HUD for any future losses on 14 loans improperly submitted for endorsement with a total mortgage value of more than $1.4 million and take appropriate action against Huntington for violating the requirements on two loans with a mortgage value of nearly $178,000. OIG also recommended that HUD require Huntington to indemnify HUD for any future losses on two defaulted loans with a total mortgage value of more than $228,000 that were inappropriately underwritten, require Huntington to reimburse the borrowers or HUD as appropriate more than $1,300 in excessive and/or unallowable fees charged on five loans, and implement adequate procedures and controls to address the deficiencies cited. In addition, OIG recommended that HUD pursue sanctions under the Program Fraud Civil Remedies Act. (Audit Report: **2006-CH-1007**)

HUD OIG audited Certified Home Loans of Florida, Inc., in **Miami, FL,** a lender approved by HUD to originate and underwrite loans under HUD's single-family mortgage insurance program. OIG selected Certified for review because of risk factors associated with defaulted loans. The audit objectives were to determine whether Certified complied with HUD regulations, procedures, and instructions in the origination and underwriting of FHA-insured single-family mortgages and implemented its quality control plan as required.

Certified did not follow HUD requirements when underwriting 14 loans totaling more than $1.8 million. It approved the loans based on inaccurate employment, income, and gift information and other deficient and/or unverified documentation. In addition, it did not fully implement its quality control plan and did not conduct the required number of quality control reviews. Its quality control plan did not include all required elements as prescribed by HUD.

OIG recommended that HUD require Certified to indemnify HUD against future losses on four loans totaling more than $660,000 and to reimburse HUD for a loss of more than $728,000 for claims paid for five loans. OIG further recommended that HUD take appropriate measures to ensure that Certified conducts required quality control reviews and its written quality control plan complies with HUD requirements. Finally, OIG recommended that HUD take administrative action, as appropriate, up to and including civil monetary penalties. (Audit Report: **2006-AT-1003**)

HUD OIG audited American Mortgage, Inc., of **Cherry Hill, NJ**, a lender approved to originate FHA single-family mortgage loans, on the recommendation of HUD officials because it had a high default rate. The objectives were to determine whether American complied with HUD regulations, procedures, and instructions in the origination of FHA loans and whether American's quality control plan, as implemented, met HUD requirements.

For 15 of the 23 loans reviewed, American did not exercise due diligence in its review of assets and liabilities or resolve inconsistencies in calculations, signatures, and Social Security numbers. Further, American could not locate three case files and charged ineligible fees of more than $4,500 on nine loans. In addition, American's quality control plan and the corresponding contractor agreement for quality control reviews did not contain requirements to identify patterns of early defaults and commonalities among loan origination participants, and the contractor did not perform required on-site branch reviews.

OIG recommended that HUD consider administrative action against American, including indemnification on 15 loans valued at more than $1.6 million; require that American refund ineligible fees; and require

American to develop written internal loan origination procedures to more closely monitor its loan origination process. OIG also recommended that HUD require American to revise its quality control plan to include reviews for patterns and commonalities among the loan origination participants and ensure the contractor performs on-site branch reviews. (Audit Report: **2006-PH-1007**)

HUD OIG audited the **Plano, TX**, branch office of K Hovnanian American Mortgage Company, LLC, because of its high defaults, specifically defaults involving loans with one specific underwriter and one specific appraiser. The audit objectives were to determine whether K Hovnanian followed HUD origination requirements, complied with HUD branch requirements in its Plano office, and implemented a quality control plan according to HUD requirements.

K Hovnanian violated HUD underwriting, branch, and quality control requirements. As a result, it increased the risk to the insurance fund for five improperly underwritten loans with an original loan amount of more than $1.3 million and overcharged borrowers more than $31,000.

OIG recommended that HUD require K Hovnanian to indemnify the five loans, reimburse losses on the four loans that had significant underwriting deficiencies, and reimburse borrowers for unallowable closing costs. OIG also recommended that HUD require K Hovnanian to comply with HUD's quality control and branch requirements. (Audit Report: **2006-FW-1004**)

HUD OIG audited the FHA loan origination process of American Lending Group in **St. Peters, MO**, because if its high default rate. The objectives of the audit were to determine whether American Lending Group properly originated FHA loans, properly submitted late requests for endorsement, and implemented adequate quality control procedures.

American Lending Group did not properly originate eight loans, improperly submitted one loan for late insurance endorsement, and did not implement adequate quality control procedures.

OIG recommended that HUD require American Lending Group to indemnify HUD for current and future losses due to improperly originated and late endorsed loans and implement changes to its quality control procedures. (Audit Report: **2006-KC-1007)**

HUD OIG audited Allied Mortgage Group of **Bala Cynwyd, PA**, a lender approved to originate loans insured under HUD's single-family mortgage program, because its default rate was above the national average. The audit objective was to determine whether Allied complied with HUD regulations, procedures, and instructions in the origination of loans.

Of the 28 loans reviewed, Allied did not fully comply with HUD requirements for 10 loans valued at $799,571. It did not exercise due diligence in the review of assets and liabilities, ensure all borrowers met the minimum investment requirement, and verify rental history. In addition, Allied charged more than $1,200 for ineligible commitment fees and overcharges for credit reports on 11 loans. Further, Allied did not establish and implement a quality control plan in accordance with HUD regulations, and the reviews performed by the contractor hired by Allied did not address all HUD-required elements.

OIG recommended that HUD require Allied to indemnify seven loans totaling almost $600,000 and reimburse HUD more than $200,000 on three loans that went into default, require Allied to develop internal procedures to more closely monitor its underwriting procedures, require Allied to reimburse borrowers the balance of approximately $1,000 that it erroneously charged them, and require Allied to revise and implement its quality control plan to comply with HUD requirements. (Audit Report: **2006-PH-1006**)

HUD OIG audited the **Allentown, PA**, branch of Homestead Funding Corporation, a lender approved to originate mortgage loans under HUD's single-family direct endorsement program. OIG selected Homestead because of its high default rate, and it was recommended by HUD. The objective was to determine whether Homestead complied with HUD's regulations, procedures, and instructions in the origination of loans.

Of the 11 loans OIG selected for review, Homestead did not fully comply with requirements for four of the loans valued at more than $270,000. Homestead did not exercise due diligence in the review of assets and accepted faxed documents from realtors. These deficiencies contributed to an increased risk for HUD's insurance fund. In addition, Homestead did not complete its quality control reviews in a timely manner.

OIG recommended that HUD require Homestead to indemnify HUD on two loans it issued contrary to HUD's loan origination procedures and on two loans that went into default, causing HUD to pay a claim. Further, OIG recommended that Homestead develop internal procedures to more closely monitor its underwriting procedures and ensure that required quality control reviews are completed within HUD's required timeframe. (Audit Report: **2006-PH-1004**)

HUD OIG audited the **York, PA, and Greenbelt, MD**, branch offices of 1st Preference Mortgage Corporation, a lender approved to originate single-family mortgage loans. OIG selected these branch offices because their average default rates were above the States' average default rates. The audit objective was to determine whether 1st Preference acted in a prudent manner and complied with HUD regulations, procedures, and instructions in the origination of loans.

Of the loans selected for review, 1st Preference's York, PA, and Greenbelt, MD, branch offices did not originate 38 percent of them in accordance with HUD's loan origination requirements. The branch offices did not fully comply with HUD requirements for six loans valued at $561,506. 1st Preference did not exercise due diligence in the review of assets and gifts obtained during the loan closing process. These deficiencies contributed to an increased risk to the FHA insurance fund. In addition, 1st Preference did not complete quality control reviews or site reviews of its branch offices in a timely manner or document the review of loans that went into early default. As a result, 1st Preference did not identify or correct problems with accuracy, validity, and completeness of its loan origination in a timely manner.

OIG recommended that HUD require 1st Preference to indemnify HUD for the loans that defaulted. OIG also recommended that HUD require 1st Preference to develop internal procedures to more closely monitor its origination and underwriting procedures and strengthen its internal control procedures to ensure reviews are completed in a timely manner and reviews of the branch offices and defaulted loans are documented. (Audit Report: **2006-PH-1008**)

HUD OIG reviewed 51 FHA loans underwritten by First Magnus Financial Corporation's **Denver, CO**, branch office. OIG selected First Magnus for audit because of its high default rate. The objective was to determine whether First Magnus followed HUD requirements in underwriting the loans.

Of the 51 loans reviewed, 32 required full underwriting and 19 were streamline refinances. Twelve of the fully underwritten loans contained significant underwriting deficiencies. OIG also found 21 files had overinsured mortgages and unallowable fees. As a result, First Magnus placed HUD's insurance fund at risk for more than $1.6 million by not properly underwriting 12 loans, overinsured mortgages in the amount of approximately $10,000, and charged unallowable fees totaling $1,611.

OIG recommended that HUD require First Magnus to indemnify and/or reimburse HUD for the potential and actual losses on 11 remaining loans with significant deficiencies, reimburse the appropriate parties for the overinsured and unallowable charges, and develop policies and procedures to ensure adequate supervision over its underwriting process. (Audit Report: **2006-DE-1001**)

Contractor Activities

In response to a request from the Denver Homeownership Center's Real Estate Owned Division, HUD OIG audited American Title Services, a contractor closing sales of HUD homes in **Denver, CO**. The objective was to determine whether American Title complied with contract terms for closing sales of HUD homes.

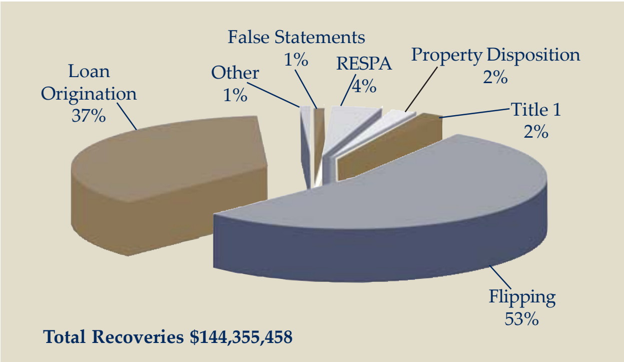
American Title did not disburse funds on time or in correct amounts, improperly commingled HUD funds with retail funds, earned interest on closing funds, and did not reimburse HUD for bank charges. American Title's improper handling of closing funds increased HUD's and homebuyers' risk of not meeting financial obligations and homebuyers' risk of not receiving funds to which they were entitled. However, American Title's performance has improved since HUD cut back its number of closings in August 2005.

OIG recommended that HUD require that American Title correct the problems, improve controls, complete all disbursements, and pay HUD more than $4,000 in interest. (Audit Report: **2006-DE-1002**)

Investigations

During this reporting period, OIG opened 115 investigation cases and closed 261 cases in the single-family housing program area. Judicial action taken on these cases during the period included $144,355,458 in investigative recoveries, 255 indictments/informations, 111 convictions/pleas/pretrial diversions, 288 arrests, 18 civil actions, 1 personnel action, and 85 administrative actions.

Chart 2.2: Single-Family Recoveries



Single-family fraud is an investigative priority for the Office of Investigation. OIG continues mortgage fraud initiatives nationwide that will help reduce fraud in the FHA single-family mortgage program. 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.

Loan Origination Fraud

Gary Konstantin, former branch manager and loan officer, Brucha Mortgage Bank, was found guilty in a civil proceeding in U.S. District Court, **Brooklyn, NY,** in a forfeiture hearing seeking an $11.6 million monetary judgment against him. On September 29, 2005, Konstantin was found guilty on 61 counts of conspiracy, wire fraud, mail fraud, money laundering, and insurance fraud. Coconspirator Donald Fazio pled guilty to one count of conspiracy and 11 counts of money laundering and agreed to a forfeiture and money judgment of $2,594,169 on September 19, 2005. Konstantin and Fazio, both mortgage brokers and branch managers at the now defunct Brucha Mortgage Bank, conspired with nonprofit entities in securing FHA-insured mortgages for unqualified borrowers by submitting false loan documentation. As a result of their scheme, HUD realized losses of $11.6 million.

Neeraj Mody, a loan officer with Challenge Mortgage, was sentenced in U.S. District Court, Northern District of Illinois, **Chicago, IL**, to 9 months in prison and 2 years supervised release and ordered to pay $756,150 in restitution following his guilty plea to mail fraud. Mody and codefendant Theresa Holt, assistant director at North East Austin, a nonprofit organization approved by HUD to acquire HUD-owned properties at a 30 percent discount and resell the properties under HUD'S Direct Sales Program, personally acquired then resold HUD's discounted properties and provided false North East Austin employment information to qualify for mortgages. Approximately 100 properties valued at $5.7 million were involved.

Leticia Martinez, a real estate agent at Portillo Realty, and Teresa Romero, a loan officer at PacWest Financial, were each indicted in U.S. District Court, Central District of California, **Riverside, CA**, on three counts of conspiracy, false statements, and aiding and abetting. Martinez and Romero, along with other coconspirators, allegedly defrauded HUD and commercial lenders by ordering, purchasing, and using fraudulent employment documents and Federal income tax returns to originate and approve FHA-insured mortgage loans for unqualified buyers. To date, HUD has realized losses of approximating $120,000 involving 10 properties.

William Mendez, a former managing realtor for William E. Mendez Team, Inc., RE/MAX 100, Inc., pled guilty in U.S. District Court, **Denver, CO**, to one count of wire fraud and one count of money laundering. Jose Alfredo Ramirez, a realtor with William E. Mendez Team, pled guilty to one count of wire fraud. Ramirez was previously indicted on September 29, 2005. Nicholas Lopez, a fraudulent document vendor at William E. Mendez Team, was sentenced to 5 years probation and ordered to pay HUD $40,984 in restitution. Lopez was previously indicted on April 6, 2005. Benedicta Gomez, owner of 1Service, an income tax and bookkeeping company, was arrested after her September 13, 2005, indictment charging her with five counts of wire fraud and aiding and abetting and one count of criminal forfeiture. Mendez and the above coconspirators assisted unqualified homebuyers in obtaining FHA-insured mortgages by providing false Social Security numbers (SSN), income information, and Federal income tax returns. HUD realized losses approximating $2.35 million on more than 300 FHA-insured properties.

George Rivas, a loan officer with Guild Mortgage Company, pled guilty in U.S. District Court, Central District of California, **Los Angeles, CA**, to two counts of mail fraud. Rivas, along with coconspirators, created straw-buyers, provided downpayment funds, and prepared and used fraudulent income, identity, and other documents to originate and approve FHA-insured mortgage loans for unqualified buyers. To date, HUD has realized losses estimated at $1.8 million involving 46 FHA-insured properties.

Manuel Molina, also known as Manny Molina, an unlicensed real estate agent and loan officer, was sentenced in U.S District Court, Central District of California, **Los Angeles, CA**, to 6 months incarceration and 36 months probation and ordered to pay HUD $380,823 in restitution. On October 4, 2004, Molina pled guilty to two counts of wire fraud and one count of aiding and abetting. On November 7, 2005, Nelly Rubiano, a former Notary Public, was sentenced to 3 years probation and ordered to pay total restitution of $655,920 ($406,692 to HUD and $249,228 to Dynamic Investments, Inc.) pursuant to her guilty plea to wire fraud and aiding and abetting. Molina, Rubiano, and others caused the completion and submission of FHA-insured mortgage applications containing false employment, income, and credit information for unqualified buyers. The defendants generated approximately $1.6 million in fraudulent FHA-insured mortgages in Los Angeles County, and HUD losses are estimated at $406,174.

Francine Sweet, a loan processor with American International Mortgage Bankers (AIMB), and Matthew Francis, a loan officer with AIMB, were sentenced in U.S. District Court, Eastern District of New York, **Lake Success, NY**, following their previous guilty pleas to false statements and conspiracy. Sweet was sentenced to 1 year and 1 day imprisonment and 3 years supervised release and ordered to pay $878,760 in restitution. Sweet, Francis, and AIMB facilitated the approval of FHA-insured mortgages for unqualified borrowers in metropolitan New York and Nassau and Suffolk Counties. More than 90 percent of FHA-insured mortgages originating from AIMB contained one or more altered documents. HUD's losses are estimated at $239,235 as a result of foreclosures. .

Devon Bowie, president of Neighborhood Mortgage Bankers, and Barry Fauntleroy, president of EON, a real estate investment company, were sentenced in U.S. District Court, District of New Jersey, **Newark, NJ**, following their earlier guilty pleas to one count of conspiracy to commit false statements. Bowie was sentenced to 2 years probation and ordered to pay HUD $500,000 in restitution within 90 days of sentencing. Fauntleroy was sentenced to 21 months incarceration and 3 years probation and ordered to pay HUD $524,000 in restitution. In addition to Bowie and Fauntleroy, coconspirators Stacie Morrero, an underwriter at Neighborhood Mortgage Bankers, and Sean Mason, a closing attorney at EON, each pled guilty to a one-count information charging them with falsification of documents submitted to HUD. Peter Port, owner of Port Abstract, was sentenced to 5 months incarceration and one year probation, fined $10,000, and ordered to pay HUD $500,000 in restitution. Keith Miles, a real estate contractor and owner of Mid-South Atlantic Asset Holding Company, was sentenced to 2 years probation and ordered to pay HUD $26,000 in restitution. In addition, Norm Murphy, president of Garden State Searches, was arrested and pled guilty in State court to engaging in the unauthorized practice of law for falsifying a real estate deed. Bowie, Fauntleroy, and the above coconspirators assisted unqualified borrowers with obtaining FHA-insured mortgages by submitting false loan documentation and appraisals, purchased properties using borrower funds, failed to complete promised renovations, and overcharged borrowers excessive origination and discount fees. As a result, HUD realized losses in excess of $1.2 million on 33 FHA-insured loans.

Idalmis Preval Zayas, a real estate agent, pled guilty in U.S. District Court, Eastern District of Virginia, **Norfolk, VA**, to false statements. Zayas created false income tax returns and credit letters for unqualified buyers securing FHA-insured mortgages on properties used in the transportation and housing of illegal aliens. To date, five additional defendants pled guilty to charges of using false information to purchase homes with FHA-insured mortgages and transporting and harboring illegal aliens for personal gain.

Carlos Gatmitan, a real estate broker and owner of Investors Plus, a mortgage brokerage entity, was indicted in U.S. District Court, Central District of California, **Los Angeles, CA**, on one count each of conspiracy, wire fraud, mail fraud, and aiding and abetting. Gatmitan and an unnamed coconspirator allegedly used the same loan applicant for three distinct FHA-insured mortgages from three different lenders to facilitate closing all mortgage loans on the same day, thus hiding from lenders the simultaneous approval of the three loans on the same day for the same applicant. To date, HUD has realized losses estimated at $720,000.

Michael Sedor, an attorney/closing agent with Penn State Abstract Agency, and Louis Fierro, a loan officer with FT Mortgage Company, MNC Mortgage, and First Horizon Home Loan Corporation, were sentenced in U.S. District Court, Middle District of Pennsylvania, **Dover, PA**, following their May 2003 guilty pleas to conspiracy to defraud the U.S. Government. Sedor was sentenced to 7 months incarceration, 7 months home confinement, and 2 years supervised release. Fierro was sentenced to 15 months incarceration, followed by 2 years of supervised release. Sedor, Fierro, and coconspirators created fraudulent gift letters and other documents, provided downpayment funds, and paid creditors for unqualified buyers, obtaining more than $16.6 million in FHA-insured mortgages on more than 150 properties. To date, HUD losses are estimated at $192,000.

Patrick Singletary, Robert Singletary, Peter Russo, and Clifford Shaw were charged in a superseding indictment in U.S. District Court, Middle District of Florida, **Jacksonville, FL**, with conspiracy, false statements to HUD, wire fraud, and bank fraud violations. In addition, a forfeiture order for $17 million in assets, including six residential properties, three businesses, and ten vehicles was issued. The defendants allegedly conspired in a property-flipping scheme involving inflated appraisals and straw-purchasers channeled through Tropical Mortgage, Sunshine Mortgage, Universal Title, and CAL and Eagle Investments, entities they owned and operated. To date, HUD has realized losses of $7.3 million.

Lorena Marquez, an escrow officer at South Coast Title Company, was indicted in U.S. District Court, Central District of California, **Los Angeles, CA**, on one count of mail fraud. On November 22, 2005, Mario Izquierdo, an assistant loan officer with Capital Mortgage, was indicted on four counts of wire fraud. Marquez and Izquierdo allegedly supplied downpayment funds and/or purchased false identity documentation to secure FHA-insured mortgages for unqualified borrowers. To date, $1,483,167 in FHA-insured loans has resulted in HUD losses of $441,556.

Howard Thaler, a disbarred attorney working as a mortgage broker and speculator, was convicted in U.S. District Court, Southern District of New York, **Yonkers, NY**, on two counts of making false statements, two counts of making false statements to HUD, four counts of mail fraud, one count of wire fraud, and one count of conspiracy. Thaler was sentenced to 7-years incarceration and 3 years supervised release, and ordered to pay $522,496 in restitution. Thaler was involved in fraudulent real estate transactions, to include preparing false documents to assist nonqualified homebuyers in securing FHA-insured mortgages and selling property owned by an estate and retaining the sale proceeds.

Matthew Nagy pled guilty in U.S. District Court, Western District of Texas, **Austin, TX**, to one count of wire fraud. Nagy purchased residential property using false documents and misrepresented his intent to occupy the property as his primary residence. Nagy and 19 codefendants were previously indicted for conspiracy, mail fraud, wire fraud, bank fraud, money laundering, and aiding and abetting for allegedly defrauding federally insured financial institutions and mortgage lenders of more than $15 million.

Chris Liano, a certified HUD appraiser and owner of CLA, Inc., and Robert Dosch, a certified HUD appraiser employed at CLA, were each sentenced in U.S. District Court, Eastern District of New York, **Long Island, NY**. Liano was sentenced to 3 years probation and ordered to pay HUD $63,037,314 in restitution following his April 6, 2001, guilty plea to false statements to institutions insured by the Federal Deposit Insurance Corporation (FDIC). In addition, Liano forfeited $125,000. Dosch was sentenced to 3 years probation and ordered to pay HUD $8,427,610 in restitution following his November 13, 2000, guilty plea to false statements. Dosch also forfeited $75,000. Liano and Dosch overvalued appraisals on more than 300 FHA-insured properties originated and issued from the now defunct Mortgage Lending of America, Ryan's Express Equities, and Smithhaven Mortgage, mortgage companies formerly located in Long Island, NY. As a result, 448 FHA-insured properties defaulted, and HUD realized losses of more than $94.5 million.

Morgan Haines and Theodore Antonucci, Jr., both investors, pled guilty in U.S. District Court, Western District of New York, **Rochester, NY**. Haines pled guilty to one count of false statements to HUD, and Antonucci pled guilty to one count of conspiracy to commit bank fraud. In addition, on December 12, 2005, coconspirator William O'Keefe was sentenced to 2 years incarceration and 5 years supervised release and ordered to pay the U.S. Department of Justice (DOJ) $281,616 in restitution. Haines, Antonucci, and O'Keefe purchased homes in the Rochester, NY, area, flipped the properties to each other at inflated values, provided false documentation to secure FHA or conventional financing on the properties, and defaulted on mortgage loans in excess of $1 million shortly afterward. To date, HUD has paid claims on two FHA-insured properties and realized losses of $186,475.

Humberto Maravi, a loan officer with Ark Mortgage, was sentenced in U.S. District Court, District of New Jersey, **Newark, NJ**, to 3 years probation and ordered to pay HUD $561,775 in restitution following his previous guilty plea to conspiracy and false statements. Maravi recruited and assisted nonqualified borrowers in obtaining FHA-insured mortgages by completing fraudulent mortgage applications and submitting fraudulent employment, financial, and other loan documentation. HUD realized losses of more than $1.8 million when 37 properties defaulted.

Kristin Bilynsky, a former real estate agent, was sentenced in U.S. District Court, Eastern District of Pennsylvania, **Philadelphia, PA**, to 5 years probation and fined $13,000. Bilynsky pled guilty on July 15, 2004, to making false statements to HUD and aiding and abetting. Bilynsky provided false employment documentation, enabling her sister to obtain an FHA-insured mortgage.

Michael Fedynich, owner of Westgate Realty, agreed to an $802,035 civil judgment with the DOJ under the False Claims Act. Fedynich previously pled guilty in U.S. District Court, Northern District of Illinois, **Chicago, IL**, to providing downpayment funds and false closing certifications in the origination and sale of 10 FHA-insured properties resulting in HUD losses of $516,429.

Chad J. Nicks, Dale Nelson, and Tasha Barnes, also known as Tasha Thompson, each pled guilty in U.S. District Court, Northern District of Illinois, **Rockford, IL**, to one count of false statements to HUD. Nicks, Nelson, and Barnes were previously indicted in June 2005. Nicks, who owned and operated Planet Wireless, a cellular telephone store in Freeport, IL, prepared false verification of credit letters for potential FHA borrowers. Nelson, who owned and operated AMD Sales and Services, a computer sales and service business in Freeport, IL, prepared false verification of employment and credit letters for potential FHA borrowers. Barnes, who provided false employment, landlord, and gift letters, purchased and resold three properties with FHA-insured mortgages to unqualified buyers. Nicks, Nelson, and Barnes admitted to causing more than $100,000 in HUD losses as a result of foreclosures.

In U.S. District Court, Eastern District of Michigan, **Detroit, MI**, a $41 million settlement agreement under the False Claims Act and the Program Fraud Civil Remedies Act (PFCRA) was reached between ABN AMRO Mortgage Group, Inc., DOJ Civil Division, and HUD FHA. The settlement terms include a $16 million plus lump sum payment, and ABN AMRO Mortgage Group, Inc., waiving more than $24 million in FHA claims, resulting from 783 defaulted FHA-insured mortgages containing false FHA underwriting certifications. The settlement further eliminates potential future litigation on approximately 28,000 FHA-insured loans also containing false FHA underwriting certifications.

Michael Dronet, a developer doing business as Homebuyer's, was sentenced in U.S. District Court, **Baltimore, MD,** to 1 year and 1 day in prison and 3 years supervised release and ordered to pay HUD $756,268 in restitution following his previous guilty plea to conspiracy to make false statements. In or about 1998, Dronet purchased low-priced homes, performed minor repairs, and resold the properties at inflated prices. Dronet introduced potential buyers to codefendant Bart Arconti, a former loan officer with Capital Mortgage Bankers, who prepared false documents for nonqualified borrowers who obtained FHA-insured mortgages. HUD realized losses greater than $750,000 when 18 FHA-insured loans defaulted.

Sharon Blake pled guilty in U.S. District Court, Middle District of Pennsylvania,

Harrisburg, PA, to processing and originating FHA-insured loans containing fraudulent information. Blake, a former loan processor with Sunset Mortgage Company, was previously convicted for her participation in an FHA mortgage-flipping scheme. From 1998 to 2001, Blake and an unnamed coconspirator originated 85 FHA-insured home loans containing fraudulent information. Forty of the loans, valued at more than $1.2 million, contained fictitious information, resulting in HUD losses of $740,559. Blake also conspired with property speculators Earl Ginter, Jr., David Walsh, and Ronald Fruth to provide borrowers with downpayment funds and fabricated gift fund letters. Ginter, Walsh, and Fruth were previously convicted.

Palmida Casanova, also known as Palmira Sosa, Ruth Lizarraga, and Palmira Martinez, were indicted in U.S. District Court, Central District of Utah, **Salt Lake City, UT**, on five counts of FHA violations, four counts of misuse of a SSN, two counts of possession of false identification, and five counts of aiding and abetting. Cassanova and coconspirators allegedly recruited and assisted unqualified illegal alien homebuyers in obtaining FHA-insured mortgages without valid SSNs, legal status, or accurate employment history. To date, HUD has foreclosed 87 FHA-insured properties and realized losses approximating $3,224,417.

Wilfred Changasie pled guilty in U.S. District Court, District of Massachusetts, **Springfield, MA**, to three counts of wire fraud and conspiracy to launder money. On January 13, 2006, Paul Starnes, David McCoy, and Marc Brown, real estate brokers, pled guilty to two counts of wire fraud and one count of conspiracy to commit money laundering and are subject to forfeitures up to $15 million. Changasie, Starnes, McCoy, and Brown are 4 of 13 defendants indicted on September 9, 2005, for wire fraud and conspiracy to launder money in a property-flipping scheme; the remaining nine defendants await trial. The defendants acquired more than 70 single-family properties in the Springfield area, including several through HUD's Real Estate Owned (REO) program, inflated the values as much as 200 percent, and falsified documents to facilitate property flips. Approximately $5.9 million in FHA-insured mortgages is at risk.

Jeff Smith, a realtor with Green Castle Realty, was sentenced in U.S. District Court, District of New Jersey, **Newark, NJ**, to 5 months home imprisonment, 3 years probation, and ordered to pay HUD $115,593 in restitution. On January 18, 2006, Christopher Santarsiero was sentenced to 6 months home imprisonment and 5 years

1 pleads guilty in land-flip case

While 1 defendant pleaded guilty, 8 others entered innocent pleas yesterday in U.S. District Court.

By STEPHANIE BARRY
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SPRINGFIELD – One of 13 defendants in a federal real estate fraud case pleaded guilty yesterday while the rest answered new charges in the alleged scam involving more than 100 homes in Greater Springfield.

Wilfred Changesie, 50, a native of Guyana and former city resident, pleaded guilty to two counts of fraud and one count of money-laundering conspiracy under a plea deal.

A prosecutor said Changesie was a "runner" who identified inner city properties and recruited prospective buyers for real estate brokers who duped buyers into purchasing run-down homes for inflated prices. He later invested in homes and once gave a mortgage broker a used Jaguar worth $10,000 to push a phony loan application through, according to Assistant U.S. Attorney William M. Welch II.

Changesie later learned the going rate for paying off mortgage brokers was only around $1,000, Welch said during the defendant's change of plea hearing yesterday.

Changesie was one of 10 charged last year in a sweeping land-flip case that spanned seven years and netted millions from quick-turnaround home sales built on inflated appraisals, bogus mortgage applications and false promises, according to a 69-count indictment. Three additional defendants were charged last week.

Eight pleaded innocent to multiple counts of fraud and money-laundering in U.S. District Court yesterday afternoon. They were: disbarred real estate lawyer Albert V. Innarelli, 47, of Agawam; real estate developer Michael Bergdoll, 40, of Wilbraham; property broker Anthony Matos, 33, of Ludlow; business owner Pasquale Romeo, 66, of Springfield; mortgage broker Theodore C. Jarrett Jr., 48, of Springfield; mortgage broker Mark L. McCarthy, 41, of Wilbraham; appraiser Joseph Sullivan, 28, of Wilbraham; and appraiser Jonathan Frederick, 43, of Agawam.

Former mortgage broker and city resident James E. Smith, 27, now lives in Maryland and waived his appearance. He pleaded innocent through his lawyer.

Also charged Sept. 21 in an expanded indictment: Affordable Mortgage Co. president Lawrence V. Lynch, 53, of Wilbraham; used car salesman Edgar Corona, 27, of Springfield; and one-time mortgage broker Kathryn Zepka, 57, of Springfield. They entered innocent pleas.

The group worked in tandem to buy and sell decrepit homes to poor, first-time buyers, invent assets and down payments to push mortgage applications through and present homes to banks at wildly inflated prices, according to the indictment.

Welch said yesterday during Changesie's court hearing that mortgage brokers, appraisers, lawyers and others routinely took payoffs. The home-buyers would ultimately default on the mortgages.

With a prior criminal record, Changesie faces a minimum of nine years in prison under federal guidelines and deportation back to Guyana. Welch said he will recommend a lesser sentence if Changesie testifies at trial.

He is scheduled for sentencing Jan. 19.

probation and also ordered to pay HUD $115,593 in restitution. Both Smith and Santarsiero previously pled guilty to one count of conspiracy to commit false statements. Smith and Santarsiero conspired with loan officer David Cobianchi, U.S. Mortgage, to create and submit fraudulent documents allowing unqualified borrowers to obtain FHA-insured mortgages. As a result of their scheme, about 20 FHA-insured mortgages defaulted, resulting in HUD losses approximating $320,000. Cobianchi pled guilty in May 2005 and awaits sentencing.

Sean Teelucksingh, a former loan officer with Maxwell Mortgage, who pled guilty on April 6, 2005, to one count of conspiracy to commit wire fraud and false statements to HUD, was sentenced in U.S. District Court, Middle District of Florida, **Tampa, FL,** to 18 months incarceration and 3 years supervised release and was ordered to pay $199,900 in restitution ($65,505 jointly and severally), in addition to a $100,000 monetary judgment. Teelucksingh was further ordered to attend substance abuse, anger management, interpersonal relationship, and respect for authority counseling and prohibited from incurring new credit charges, opening additional lines of credit, acquiring/obligating himself for major purchases without probation officer approval, or engaging in any employment that provides him access to personal and/or financial information of others. Teelucksingh used false identities, false income information, and straw-buyers to obtain conventional and FHA-insured loans for his personal benefit.

Brothers Paul and William Peterson, doing business as Peterson Land and Development, were each found guilty of one count of conspiracy and one count of false statements in U.S. District Court, Central District of California, **Los Angeles, CA**. The Petersons knowingly conspired and made false, fictitious, and fraudulent statements to HUD when purchasing properties with FHA-insured mortgages. HUD realized losses approximating $1,123,030.

Ifiok Equere, loan broker and real estate investor operating as Omega and Paradigm Mortgage, pled guilty in U.S. District Court, Eastern District of Missouri, **St. Louis, MO**, to false statements to HUD and felony possession of a firearm. Equere, previously indicted on October 13, 2005, admitted using false documents to flip properties and broker FHA-insured mortgages, causing HUD losses of $105,000. Equere, who has a prior felony conviction for conspiracy to import heroin, also admitted to illegally possessing a firearm.

Bryon Fitchpatrick, Shatanya Douglas, also known as Shatanya Fitchpatrick, Kathleen Fitchpatrick, Manjur Alam, Phillip Fish, Deverell Jones, and Demond Reed were charged in a 13-count superseding indictment in U.S. District Court, District of Kansas, **Wichita, KS**, alleging conspiracy to defraud HUD, wire fraud, and aiding and abetting. Bryon Fitchpatrick and Shatanya Fitchpatrick, husband and wife real estate investors and owners of ABS Rentals and Investments, allegedly used straw-buyers Kathleen Fitchpatrick, Jones, and Reed to purchase HUD-owned properties as owners/occupants. Alam, a realtor with ReMax Preferred Properties, and Fish, a realtor with Prudential Dunning, allegedly knew HUD-owned properties were purchased for investment purposes but processed the property sales as owner/occupant, thus preventing true owner/occupants and nonprofit entities any opportunity to acquire the properties. In addition, Alam allegedly knew Byron Fitchpatrick stored illegal drugs in and used drug proceeds to purchase HUD-owned properties. Byron Fitchpatrick is also charged with unlawful possessing of a firearm in furtherance of drug trafficking and unlawful possession of illegal drugs with the intent to distribute.

Kenneth Jenkins and coconspirators Sabena Ingalls, Walter Jenkins, Ronald Rogers, Rita Jackson-Paulk, and Thomas

Harper were ordered in a U.S. District Court, **Camden, NJ**, restitution hearing, to pay HUD $134,774, National City Mortgage $142,155, and $10,240 to five individual borrowers who suffered financial hardship. The court further ordered the restitution to commence upon release from incarceration. Kenneth Jenkins and the above coconspirators were indicted, convicted, and sentenced on numerous counts involving wire fraud, conspiracy, possession and/or distribution of controlled substances, and money laundering. Kenneth Jenkins, a drug wholesaler, organized and operated a $1 million scheme using crack cocaine profits to buy abandoned and dilapidated residential properties in Camden, perform cosmetic repairs, and flip the properties at inflated values to unqualified buyers, securing fraudulent FHA-insured loans.

Gordon Nelson, a real estate developer with Jae Horn-Gerber, and Linda Martz were sentenced in U.S. District Court, Northern District of Illinois, **Chicago, IL**, for their previous guilty pleas to a real-estate gift fund scheme. Nelson was sentenced to 1 year home confinement and 3 years probation; Horn-Gerber was sentenced to 2 years probation and ordered to perform 120 hours of community service; Martz was sentenced to 1 year probation and ordered to perform 100 hours of community service. The defendants were ordered to pay HUD $650,000 in restitution, jointly and severally with other co-defendants. Nelson, Horn-Gerber, Martz, and other codefendants provided unqualified buyers downpayment funds to obtain FHA-insured mortgages. HUD losses exceed $650,000 and involve more than 40 FHA-insured properties.

Laura Barlow, a former underwriter with Main Street Mortgage Service and Ark Mortgage, pled guilty in U.S. District Court, District of New Jersey, **Trenton, NJ**, to a one-count Information charging her with false statements and conspiracy. On February 24, 2006, Barlow was sentenced to 3 years probation, ordered to refrain from any employment as an underwriter/loan originator, and instructed to pay HUD $76,123 in restitution. Coconspirator Axel Bonilla, a former loan officer at Main Street Mortgage and Ark Mortgage, pled guilty to two counts of mail fraud on February 10, 2006. Bonilla assisted unqualified borrowers in obtaining FHA-insured mortgages by providing false documents and paying Barlow $500 to $1,500 for each fraudulent FHA-insured loan she approved. Bonilla further embezzled and converted more than $1.2 million in investor funds by creating false documents, reporting fictitious investment earnings, and using investor funds to purchase residential properties. To date, HUD has realized losses of $76,123 when six FHA-insured mortgages defaulted.

Kings Mortgage Services, Inc., entered into a settlement agreement with the United States Attorney's Office, Eastern District of California, **Fresno, CA**, and HUD. Kings Mortgage Services' former agent, Carol Mercer, was convicted on January 13, 2003, of making a false statement to HUD for preparing or causing to be prepared false documentation for four FHA-insured mortgages. Kings Mortgage Services, Inc., agreed to pay HUD $147,936.

Patricia Mays pled guilty in U.S. District Court, Northern District of Illinois, **Chicago, IL**, to multiple counts of mail fraud and wire fraud. Mays admitted she participated in a real estate fraud scheme and submitted false loan documents for unqualified borrowers obtaining FHA-insured mortgages on properties located in south Chicago. HUD realized more than $3 million in losses involving more than 30 properties.

Violet Duarte, an office assistant with Platinum Capital Mortgage Company, was sentenced in U.S. District Court, Central District of California, **Los Angeles, CA**, to 3 years probation and ordered to pay HUD $1,013,966 in restitution following her May 26, 2004, guilty plea on two counts of wire fraud. Duarte purchased and used fraudulent documents to assist nonqualifying borrowers in securing FHA-insured mortgages. As a result, HUD realized losses of more than $1 million when 13 FHA-insured properties foreclosed.

Katrina Soukkaseum, a manager with Freedom Financial Mortgage Company (FFMC), was sentenced in U.S. District Court, Eastern District of Arkansas, **Little Rock, AR**, to 3 years probation and ordered to pay five financial institutions $15,735 in restitution following her May 19, 2005, guilty plea to one count of conspiracy. From January 2000 to March 2002, Soukkaseum and coconspirators employed with FFMC and Absolute Abstract and Title (AAT) failed to disclose inflated fees, provided false and misleading information, and falsified loan origination and title history documents relating to at least 84 loans valued at more than $3.5 million. In addition, Soukkaseum and codefendants conspired to commit Real Estate Settlement and Procedures Act (RESPA) violations by charging borrowers tremendous document preparation fees payable to Jefferson Doc Prep (JDP); accepting higher yield spread premiums from funding lenders; and failing to disclose the relationship among FFMC, AAT, and JDP.

Mark Young, former owner and branch manager of the now defunct Nevada First Residential Mortgage Company (NFRMC), was sentenced in U.S. District Court, District of Nevada, **Las Vegas, NV**, to 78 months incarceration and 3 years supervised release and ordered to pay HUD $457,740 in restitution. On September 1, 2005, Young was found guilty of 32 counts of submitting false information to HUD and one count of conspiracy. From May 2000 to June 2002, Young conspired with NFRMC employees and employees of General Realty to manufacture and submit false employment and income documentation for nonqualifying borrowers, mostly illegal immigrants from Mexico, and directed loan officers and processors to originate 233 fraudulent FHA-insured loans valued at more than $25 million. HUD realized losses greater than $1.9 million when 58 FHA-insured loans defaulted.

Nancy Rios, a loan officer with Colorado Bank and Trust, pled guilty in Colorado State District Court, Jefferson County, **Denver, CO**, to one count of theft of $15,000 or more. Rios fraudulently originated 30 FHA-insured mortgages by assisting with the creation of fraudulent documentation for nonqualified borrowers. As a result, HUD realized losses of $194,617.

Donald W. Gupton, president of Donald W. Gupton, Inc., doing business as Dynasty Homes of Henderson, Superior Housing Center, Creative Real Estate, Manufacturing Housing Sales Center, CRE Properties LLC, and M&G Properties, Inc. (The Companies), and Richard Meador, a sales manager for Gupton, pled guilty in U.S. District Court, Eastern District of North Carolina, **Raleigh, NC**. Gupton pled guilty to one count of conspiracy and one count of money laundering; Meador pled guilty to one count of conspiracy to commit money laundering. Gupton further agreed to forfeit his or The Companies' real property, a Harley Davidson motorcycle, a Lexus automobile, and more than $11 million in cash or other assets. The Companies were indicted on one count of conspiracy and one count of money laundering on March 8, 2006. In addition to Gupton, Meador, and The Companies, Donald Scott Carroll, a former salesperson at Creative Real Estate and Manufacturing Housing Sales Center, was charged with false statements, mail fraud, wire fraud, and bank fraud in an information filed on December 22, 2005. Between 1999 and 2002, Gupton, Meador, and others, using The Companies, bought and sold more than 150 manufactured and mobile homes, some including land, and assisted unqualified borrowers in obtaining FHA-insured mortgages valued at more than $18 million by using fictitious trade-ins, providing cash and fabricated gift letters, and falsely inflating values and/or certifying land ownership. To date, HUD realized losses of $5,818,681, and Gupton agreed to pay HUD $4,668,586 in restitution.

Steven Winter, a realtor with Kent Amlin Realty, pled guilty in U.S. District Court, Southern District of Ohio, **Columbus, OH**, following the filing of an information charging him with four counts of filing false Federal income tax returns, and six counts of false statements. Winter admitted to falsifying credit, employment, and rental history documents to qualify 70 borrowers for FHA-insured mortgages on properties he was personally selling and failing to report the property sales proceeds to the IRS. HUD realized losses of $170,000 as a result of foreclosure action on seven properties.

Mario Mendoza, a real estate broker with Weichart Realtors; Kenneth DiPrenda, a former loan officer with AMS Mortgage; and Myriam Vaca, a check casher for Mendoza, pled guilty in U.S. District Court, New Jersey, **Newark, NJ**, to an information charging them with conspiracy to submit false statements to HUD. In addition, Linda Serrano, a closing attorney, pled guilty to making false statements to HUD. Mendoza, DiPrenda, Vaca, and Serrano recruited and assisted unqualified borrowers with obtaining FHA-insured mortgages by submitting fraudulent gift letters and employment, identity, and other loan documentation. HUD realized losses in excess of $349,000 when 12 FHA-insured properties defaulted. Mendoza was arrested on December 2, 2005.

Stefan Crosby pled guilty in U.S. District Court, District of Nevada, **Las Vegas, NV**, to one count of false statements to HUD and one count of conspiracy. Crosby was indicted on September 13, 2005, for conspiring with Lionel Crosby, his brother, and providing fraudulent employment, income, identification, and other documentation to unqualified straw-buyers obtaining FHA-insured loans. In addition, both Stefan and Crosby applied for FHA-insured loans using bogus documents. As a result, HUD realized losses of $302,365 when 11 FHA-insured loans defaulted.

Identity Fraud/False Social Security Numbers

Steven Anthony Watt, also known as Jayru Watt, was indicted and pled guilty in U.S. District Court, Northern District of Ohio, **Cleveland, OH**, to four counts of conspiracy and false oaths in bankruptcy. Watt was sentenced to 4 months incarceration and 2 years probation for acquiring and using a SSN under a fictitious name to obtain credit, secure an FHA-insured mortgage, and file bankruptcy.

Jesus Bernal-Hernandez pled guilty in U.S. District Court, District of Utah, **Salt Lake City, UT**, to one count of false statements and one count of false bankruptcy documents. Bernal-Hernandez was indicted on April 27, 2005, and arrested on August 15, 2005, for assuming another's identity and using false identity documents to secure an FHA-insured mortgage and file bankruptcy. HUD's loss is estimated at $123,026.

Florentino Ipina was sentenced in U.S. District Court, Northern District of Texas, **Dallas, TX**, to 1 year and 1 day incarceration and 2 years supervised release and ordered to pay HUD $17,877 in restitution. Ipina, an undocumented alien, pled guilty in July 2005 to one count of misuse of an SSN. Ipina used a false SSN to obtain and later default on an FHA-insured loan, causing a $17,877 loss to HUD. Ipina will be deported upon completion of his prison term.

Jorge Acevedo-Velzquez was indicted in U.S. District Court, Middle District of Georgia, **Macon, GA,** for false statements and use of false identification. Acevedo-Velzquez allegedly provided false identification documents to obtain and later default on an FHA-insured mortgage, causing a $47,053 loss to HUD.

Enrique O. Montanez, an undocumented alien homebuyer, was sentenced in 3rd District Court, County of Salt Lake, **Salt Lake City, UT**, to 3 years probation and ordered to pay HUD $50,817 restitution and report to Immigration and Customs Enforcement (ICE) for deportation. Montanez pled guilty to one count of forgery and one count of communications fraud on August 8, 2005, for using a false SSN to obtain and later default on an FHA-insured mortgage.

Maria Brito, Mario Morales Alvarez, and Adriana Osorio Mendoza, undocumented alien homebuyers, were arrested pursuant their November 2005 indictment in 17th Judicial District, Adams County, **Brighton, CO**, for offering a false instrument for recording, criminal impersonation to gain a benefit, and forged instrument possession. Brito, Alvarez, and Mendoza allegedly purchased properties and obtained FHA-insured mortgages using fraudulent immigration cards and SSNs. To date, HUD has not sustained a loss.

Michael Hatton was indicted in U.S. District Court, Eastern District of Virginia, **Norfolk, VA**, for false statements and using a false SSN. Hatton allegedly used a false SSN and concealed prior bankruptcies when applying for an FHA-insured mortgage on property in Portsmouth, VA.

Odie Webster, a former realtor with Metro Brokers, pled guilty in U.S. District Court, District of Colorado, **Denver, CO**, to two counts of false statements and possession of false papers. Webster was previously indicted on April 20, 2005, and arrested on April 27, 2005. Webster and coconspirators assisted unqualified homebuyers in obtaining FHA-insured mortgages using false SSNs and income information. Daryl Collins, indicted on April 20, 2005, for Social Security fraud, was sentenced to 10 months incarceration and ordered to pay HUD $47,711 in restitution. Collins, one of several subject homebuyers who participated in a real estate scheme, used a false SSN and false income information to obtain an FHA-insured mortgage. Sheila Lockett and Tracey Lockhart, also known as Tracey Richardson, were sentenced for using false SSNs and income information to obtain FHA-insured mortgages. Lockett was sentenced to 2 years probation following her October 3, 2005, guilty plea to making false statements. Lockhart was sentenced to 15 months incarceration and ordered to pay HUD $57,244 in restitution following her November 1, 2005, guilty plea to making false statements and aiding and abetting.

Sonia Ramirez and Albertico Galindo, previously indicted for false statements and possession of false paper, were each sentenced in U.S. District Court, District of Colorado, **Denver, CO**, to 3 years probation. The court further ordered Ramirez to pay HUD $10,192 in restitution. Ramirez and Galindo, two of several subject homebuyers who participated in a real estate scheme, used false SSNs and income information to obtain an FHA-insured mortgage. To date, HUD has realized losses of $2,310,030 involving approximately 90 homes with an estimated FHA-insured loan value of $13.5 million.

Tonya Hill, a mortgage broker and real estate investor with Sunset Mortgage, was sentenced in U.S District Court, Eastern District of Missouri, **St. Louis, MO**, to 6 months home confinement and ordered to pay $401,914 in restitution to HUD and other lenders. Hill pled guilty to bank fraud, bankruptcy fraud, false statements to HUD, and misuse of an SSN on November 1, 2005. Hill flipped properties using false documents to secure FHA-insured and conventional mortgages. Hill also purchased her personal residence using a false SSN to hide her assets from U.S.

Bankruptcy Court. As a result, HUD realized a $30,163 loss.

In **Kansas City, KS,** and **Kansas City, MO,** 33 undocumented aliens were arrested on State of Kansas felony charges issued by the Johnson County, KS, District Attorney's Office involving identify theft and false statements to FHA for their roles in a mortgage fraud scheme. Between February 2002 and September 2004, an unidentified loan officer and two real estate agents allegedly originated approximately $5 million in FHA-insured mortgage loans for illegal aliens using false SSNs.

Maria Carmen Garcia, a loan officer at Summit Mortgage, was sentenced in U.S. District Court, District of Arizona, **Phoenix, AZ**, to 5 years probation and ordered to pay HUD $105,201 in restitution, jointly and severally with codefendant Leonel Estrella. Garcia pled guilty to one count of false statements to HUD on July 25, 2005. On February 27, 2006, Leonel Estrella, a real estate agent, was sentenced to 5 years probation and ordered to pay HUD $105,201 in restitution, jointly and severally with codefendant Maria Carmen Garcia, and $12,363 to Washington Mutual Bank FA. From May 2000 through August 2002, Garcia used false documents and SSNs prepared by her brother, Leonel Estrella, to qualify mutual clients for FHA-insured and conventional home loans. HUD realized losses of $140,310 when five FHA-insured loans defaulted.

Edward Futch, also known as Edward Daniels, pled guilty in U.S. District Court, Eastern District of Virginia, **Norfolk, VA**, to an information charging him with one count of making false statements to HUD. Futch admitted he purchased property and secured an FHA-insured mortgage using a false SSN, fraudulent identity, and other false documents.

Bankruptcy Fraud

Milton G. Goddard, doing business as West Coast Land Group (WCLG), was sentenced in U.S. District Court, Eastern District of Michigan, **Detroit, MI**, to 18 months incarceration and 2 years supervised release and ordered to pay $31,000 in restitution to numerous victims. Goddard previously pled guilty to one count of wire fraud for his role in a bankruptcy scheme. Goddard and codefendants accepted mortgage payments from distressed homeowners attempting to avoid foreclosure and deposited their funds into a WCLG bank account but failed to pay mortgage loans as promised. To date, 120 FHA-insured mortgages were identified.

Donald Kingston, owner of DBK Properties, pled guilty in U.S. District Court, District of Utah, **Salt Lake City, UT**, to one count of bankruptcy fraud. Kingston perpetrated an equity-skimming scheme throughout the State of Utah by obtaining quit-claim deeds from property owners in financial distress, failed to pay mortgage payments while collecting rents, and filed bankruptcy to stall foreclosure proceedings. To date, HUD losses exceed $150,000 involving six properties.

Barbara Kessinger, also known as Sheila Murphy, pled guilty in U.S. District Court, Northern District of Illinois, **Chicago, IL**, to one count of bankruptcy fraud. Kessinger acquired one FHA-insured and two U.S. Department of Veterans Affairs (VA) loan-guaranteed properties using a bogus name and SSN, failed to make mortgage payments, and filed multiple sham bankruptcies to hinder foreclosure proceedings. As a result of her actions, HUD and VA realized losses of $74,000 and $36,000, respectively.

Mark Neusch and Michael Davis, real estate investors and managing members of M&M Properties LLC and Reliable Properties LLC, were each indicted in the U.S. District Court, District of Utah, **Salt Lake City, UT**, on one count of equity skimming and three counts of bankruptcy fraud. Neusch and Davis obtained quit-claim deeds through misrepresentations to property owners, failed to make mortgage payments while collecting rents, and filed bankruptcy to forestall foreclosure proceedings. HUD realized losses of $470,000 when 17 FHA-insured properties foreclosed.

Other Fraud/Crimes

Kathleen Johnson, a HUD-approved real estate broker at RE/MAX Realty, was sentenced in U.S. District Court, **Rochester, NY**, to 5 years probation and 6 months home confinement and ordered to pay HUD $22,800 in restitution. In April 2005, Johnson pled guilty to one count of mail fraud for collecting earnest deposits from potential buyers, failing to deposit their funds in an earnest deposit account, and keeping approximately $26,000 for personal use. In addition, Johnson prepared and mailed false prequalification letters from mortgage companies and banks to First Preston Management Company, certifying prospective buyers for financing.

Donald Lee Liverman, a developer doing business as 1st Homes, pled guilty in U.S. District Court, Eastern District of Virginia, **Richmond, VA**, to one count of Federal tax evasion. Liverman, previously indicted on numerous charges including FHA fraud, purchased distressed properties; flipped the properties to first-time homebuyers; failed to disclose significant structural problems, termites, and/or water damage; and hid the property defects by generating fake repair completion letters from contractors. HUD losses are yet to be determined.

Norvel Brown, president of Mississippi Valley Title, was indicted in U.S. District Court, Eastern District of Missouri, **Herculaneum, MO**, on two counts of wire fraud. From 2000 to 2005, Brown, a HUD single-family property disposition closing agent, allegedly diverted and retained closing funds in lieu of wiring closing proceeds to HUD. As a result of his scheme, HUD losses are estimated at $2.8 million.

Todd Stall and Daniel Curtin, former partners in the law firm of Hankin, Hanig, Stall, Caplicki, Redl, and Curtin, each pled guilty in U.S. District Court, Southern District of New York, **Poughkeepsie, NY**, to one count of violating RESPA. From January 2001 through December 2004, Stall and Curtin provided no professional services but accepted $106,300 from Crystal Clear Abstract Title when they sold title insurance and supplied settlement services.

In **Rochester, NY**, Rita Zambito, a real estate agent/broker for Realty USA, and Kevin Parker, a private investor, entered into PFCRA settlements agreeing to pay HUD $9,000 and $5,500, respectively. Parker purchased two HUD REO properties as an owner/occupant through Zambito and sold or rented the properties immediately after the properties closed.

Edward Carrillo, owner of Sahara Investments, pled guilty in Superior Court, Maricopa County, **Phoenix, AZ**, to two counts of fraudulent schemes. Carrillo was previously indicted on nine counts of fraudulent schemes, six counts of theft, and one count of unlicensed real estate activity. Carrillo accepted $989,800 in investor funds to teach HUD's preforeclosure business procedures and purchase investment properties. Carrillo failed to acquire investment properties as promised or return investor funds.

In **Newark, NJ**, Denise Jones, a Northern New Jersey State Prison payroll clerk, entered into a false claims civil settlement agreement, consenting to pay the U.S. Government $61,200. Jones purchased two HUD Officer Next Door (OND) properties within 6 months and falsely certified each OND property as her sole residence.

Carl A. Clayton was sentenced in U.S. District Court, **Baltimore, MD,** to 2 years supervised probation and ordered to pay restitution of $18,000 following his September 2005 guilty plea to making false occupancy statements to HUD. In May 2000, Clayton purchased property from HUD through HUD's OND program, failed to occupy the property for the required 3-year period, and rented the property to a tenant approximately 30 days after closing. After purchasing and renting the OND property, Clayton entered into a law enforcement officer's lease with the Housing Authority of Baltimore City and resided in a HUD-assisted building paying $150 in monthly rent. Clayton later relocated to New York, NY, where he resided for the remainder of the OND-required 3-year occupancy period.

John Henry Davis, correctional officer, Ironwood State Prison, Blythe, CA, was indicted in U.S District Court, **Los Angeles, CA**, on one count of false statements. Davis allegedly purchased a house through HUD's OND/Teacher Next Door (TND) program, rented the property for 34 months, and falsely certified he resided at the property and the property was his sole residence. As a result, HUD losses approximate $60,000.

Realtor Rohan A. Johnson, also known as Ato Ra Ajah El, and real estate consultant Donovan Gilpin, doing business as Pre Amble Properties, were indicted in U.S. District Court, **Central Islip, NY,** on one count of conspiring to defraud HUD and VA in a multimillion dollar HUD- and VA-owned property fraud scheme. Johnson and Gilpin allegedly filed fraudulent deeds on one VA- and 14 HUD-owned properties, preventing banks from deeding foreclosed properties to HUD or HUD and VA from selling the properties to legitimate buyers. Johnson and Gilpin were arrested on December 9, 2005.

Murray Beitman was sentenced in Cumberland County Common Plea Court, **Carlisle, PA,** to 2 years incarceration and ordered to pay $30,685 in restitution to the victim for his role in a counterfeit Government National Mortgage Association (GNMA) mortgage-backed certificate scheme. Beitman swindled the savings of an elderly woman when he sold her a counterfeit GNMA certificate, claiming it to be worth $1.2 million on maturity in 30 years.

Jamal Zafar, a real estate investor, pled guilty in Nassau County Criminal Court, **Mineola, NY**, to one count of attempted criminal possession of a forged instrument. Zafar swindled two victims into investing $165,000 for the purchase of property with Section 8 subsidies, promising the victims Section 8 rent monies and proceeds from the future property sale. With the victims' money, Zafar purchased the property, collected Section 8 rents, sold the property to another buyer, and realized $100,000 in sale proceeds. Zafar, released on his own recognizance on the condition he returns $55,000 to the victims and $5,000 to the court, faces an 18-month to 3-year jail sentence if he fails to comply.

James Anthony Street, a police officer with United States Postal Inspection Service (USPIS), was indicted in U.S. District Court, **Los Angeles, CA,** on two counts of making false statements to HUD. Street, a participant in HUD'S OND program, allegedly owned property in Bloomington, CA, at the same time he submitted written certifications claiming his OND property in Long Beach, CA, was his sole property and residence. Street, who purchased the OND property for $48,500, recently sold the property for $335,000.

Steven Marquez, a loan officer at Primera Mortgage Company, was indicted on two counts of theft in Cook County Circuit Court, **Chicago, IL**. Marquez allegedly deceived property owners and acquired rights to their property, sold the property, and collected the sale proceeds. The property owners, believing they were refinancing their $250,000 FHA-insured mortgage, mistakenly signed "power of attorney" papers assigning their homeownership rights to Marquez. The FHA-insured mortgage is in foreclosure.

In **Newark, NJ**, Toni Cruz, a New Jersey transit police officer, entered into a false claims civil settlement agreement for $62,000 with DOJ. Cruz, who owned a principal residence, purchased a property through HUD's OND program and falsely certified the OND property was her sole residence.

Dwayne Jones was indicted in U.S. District Court, Eastern District of New York, **Brooklyn, NY**, on one count of wire fraud and one count of conspiracy to defraud HUD and Countrywide Home Loans. Jones allegedly submitted false documents to HUD and Countrywide Home Loans when he flipped his FHA-insured property to his cousin, Rohan Vickers, who obtained an FHA-insured mortgage on the property from First Funding Mortgage Bankers. Jones received proceeds in excess of $51,000, as well as a short payoff on his original FHA-insured mortgage serviced by Countrywide Home Loans. Countrywide Home Loans, unaware the property for which it approved a short payoff was later flipped to straw-buyer Vickers for $75,000 more than the approved purchase price, submitted an insurance claim to HUD in excess of $85,000. Jones was arrested on March 16, 2006, and Vickers was arrested on March 21, 2006.

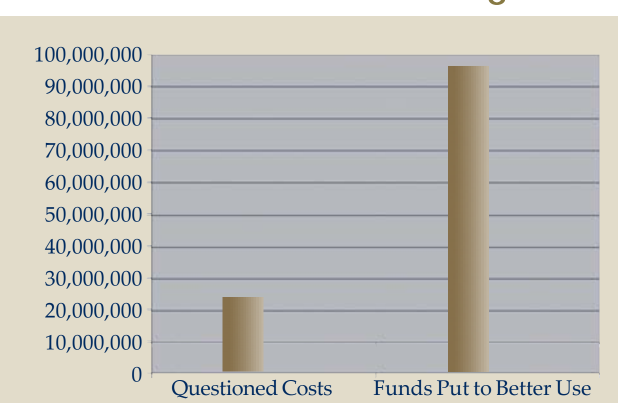
Chapter 3
HUD's Public and Indian Housing Programs

The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to more than 4,100 public housing authorities (PHA) nationwide. More than 3,100 PHAs manage public housing units, and almost 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 31 reports: one internal audit and 30 external audits in the Public and Indian Housing (PIH) program area. These reports disclosed more than $23 million in questioned costs and about $100 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 Dollars



Section 8 Housing Choice Voucher Program Activities

HUD OIG audited the Miami Dade Housing Agency's, **Miami, FL,** Section 8 Housing Choice Voucher program as part of OIG's strategic plan. The objective was to determine whether Section 8-assisted units met housing quality standards in accordance with HUD requirements.

Of the 120 Section 8 units inspected, 117 did not meet minimum housing quality standards. Thirty-eight units had significant housing quality violations. Projecting the results of the statistical sample to the population indicates at least 12,387 of the Agency's 13,200 units did not meet minimum housing quality standards. Further, 3,265 units had significant housing quality standards violations. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet standards.

OIG recommended that HUD require the Agency to inspect all of the 117 Section 8 housing choice voucher-assisted units to verify that corrective actions were taken by the landlord, and if not, to abate the rents or terminate the tenants' vouchers. The Agency should also develop and implement an internal control plan to ensure units meet housing quality standards and inspections meet HUD requirements to prevent an estimated $25.9 million from being spent on units with significant violations. Further, HUD should reduce or offset $7,300 of the Agency's administrative fees for the 38 units with significant housing quality standards violations. (Audit Report: **2006-AT-1001**)

HUD OIG audited the Housing Authority of the City of Prichard's, **Prichard, AL**, Housing Choice Voucher program as part of its strategic plan. The objectives of the audit were to determine whether the Authority only paid housing assistance payments for units that were decent, safe, and sanitary; properly determined tenant eligibility and subsidy amounts; and made housing assistance payments only to eligible landlords.

The Authority failed to ensure that its units receiving housing assistance payments met housing quality standards. Of the 65 units reviewed, 97 percent, or 63, did not meet housing quality standards. Of the 63 units, 45 were in material noncompliance with housing quality standards. In addition, the Authority paid more than $63,000 for ineligible units, including more than $8,000 for failed units requiring housing assistance payment abatements and approximately $55,000 for units that lacked annual inspections. It also earned more than $6,000 in administrative fees for ineligible units. OIG estimates that HUD paid more than $14 million in housing assistance payments on units that may not have met housing quality standards. In addition, the Authority's internal controls over processing tenant files were not complete. Finally, the Authority violated Federal and local conflict-of-interest provisions by allowing an Authority employee and board member to rent to a housing choice voucher holder, resulting in more than $22,000 paid to this ineligible landlord.

OIG recommended that HUD terminate the Authority's Section 8 Housing Choice Voucher program and transfer it to another Alabama housing authority, require the Authority to immediately abate the Section 8 housing assistance payments or terminate tenant vouchers on the 63 units that do not meet housing quality standards if deficiencies are not corrected, and repay more than $69,000 for housing assistance payments it paid and administrative fees it earned for ineligible units. Also, since the Authority had inadequate internal controls over processing tenant files, HUD should reduce the Authority's administrative fees by 10 percent for fiscal years (FY) 2003 and 2004, approximately $233,000. Finally, HUD should require the Authority to repay ineligible costs of more than $22,000 for the conflict-of-interest violation. (Audit Report: **2006-AT-1004**)

HUD OIG audited the Housing Authority of the City of Winston-Salem's, **Salem, NC,** Housing Choice Voucher program as part of the OIG strategic plan. The objective was to determine whether units met housing quality standards.

Of the 67 units OIG inspected, 51 did not meet minimum housing quality standards. Of the 51 units, 26 were in material noncompliance with housing quality standards. As a result, HUD made housing assistance payments for units that did not meet standards. OIG estimates that over the next year, HUD will pay housing assistance payments of more than $6.4 million for units in material noncompliance with housing quality standards.

OIG recommended that HUD require the Authority to inspect the 51 units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions. If appropriate actions were not taken, HUD should abate the rents or terminate the tenants' vouchers. OIG also recommended that HUD require the Authority to implement an internal control plan to ensure its Section 8 units meet housing quality standards and inspections meet HUD requirements to prevent an estimated $6.4 million from being spent on units that are in material noncompliance with standards. (Audit Report: **2006-AT-1005**)

HUD OIG audited the Municipality of San Juan Housing Authority's, **San Juan, PR**, Section 8 Housing Choice Voucher program to determine whether units met housing quality standards in accordance with HUD requirements.

Of the 67 units OIG inspected, 63 did not meet minimum housing quality standards. Of the 63 units, 25 were in material noncompliance with housing quality standards. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet standards. OIG estimates HUD will pay housing assistance payments more than $5.8 million for units in material noncompliance with housing quality standards over the next year.

OIG recommended that HUD require the Authority to inspect all units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the Authority should abate the rents or terminate the tenants' vouchers. HUD should also require the Authority to implement an internal control plan and incorporate it into the Authority's Section 8 administrative plan to ensure units meet housing quality standards and inspections meet HUD requirements. (Audit Report: **2006-AT-1006**)

As part of its FY 2005 annual audit plan, HUD OIG reviewed the Section 8 Housing Choice Voucher program of the Hartford Housing Authority in **Hartford, CT**. The objective was to determine whether the Authority properly administered the program in accordance with its annual contributions contracts and HUD requirements.

The Authority 1) inaccurately reported leasing and cost data to HUD and incorrectly received more than $841,000 in funding; 2) improperly charged more than $714,000 in administrative costs to the program; 3) approved unreasonable rents, resulting in ineligible and prospective ineligible costs totaling more than $595,000; 4) paid housing assistance payments for substandard housing; and 5) did not account for and failed to collect its portable voucher receivables. As a result, OIG identified questioned costs and opportunities for funds to be put to better use totaling more than $2.6 million.

OIG recommended that HUD require the Authority to 1) implement procedures to properly track and report housing assistance payments and administrative fees and repay HUD more than $841,000; 2) repay the program more than $714,000 and properly allocate administrative costs; 3) repay the program more than $159,000 for unreasonable rents and inspection costs; 4) develop and implement an effective quality control process to ensure reliable inspections, correction of substandard housing, and abatement of payments for housing that does not meet HUD standards; and 5) establish procedures to reconcile all portability receivables, reimburse authorities for any overpayments, and follow up on past-due accounts. (Audit Report: **2006-BO-1005**)

HUD OIG audited the Mount Vernon Urban Renewal Agency's, **Mt. Vernon, NY**, administration of its Section 8 Housing Choice Voucher program. The objectives were to determine whether the Agency (1) correctly billed HUD for housing choice vouchers used; (2) complied with HUD program requirements for tenant admission, rental subsidy calculations, and housing quality standards; and (3) implemented financial management controls to ensure that Housing Choice Voucher program funds were adequately safeguarded.

The Agency over-requisitioned housing assistance payments and administrative fees from HUD, resulting in more than $1.7 million in overpayments. The Agency also did not properly use or maintain its waiting list, conduct recertifications in a timely manner, or document that all units met housing quality standards. Further, the Agency made duplicate and ineligible housing assistance payments, inadequately supported expenditures, and used Housing Choice Voucher program funds for other programs.

OIG recommended that HUD recoup through offset against future payments the overpaid housing assistance payments and administrative fees received, instruct the auditee to implement controls and procedures to properly maintain its waiting list, and ensure the auditee develops and implements financial controls to adequately support expenditures and use Housing Choice Voucher program funds only for that program. (Audit Report: **2006-NY-1004**)

HUD OIG audited the Section 8 Housing Choice Voucher program of the Ft. Worth Housing Authority in **Ft. Worth, TX**, to determine whether the Authority properly applied the subsidy size standards in its administrative plan.

The Authority had sound policies regarding assignments of tenant subsidy size; however, it did not follow its policy when it neglected to change voucher sizes for as many as 382 tenants. This resulted in more than $180,000 in ineligible and unsupported payments and potential overpayments of approximately $521,000 over the next 3.7 years. Further, the Authority enacted policy changes without approval from its board of commissioners.

OIG recommended that HUD require the Authority to (1) repay ineligible housing assistance overpayments of more than $5,000, (2) repay or support questioned costs of more than $175,000, (3) develop and implement procedures to ensure it assigns the correct subsidy size for all tenants to better use approximately $521,000 in Section 8 funding, and (4) institute controls to ensure that the board of commissioners approves any program changes before they are implemented. (Audit Report: **2006-FW-1001**)

HUD OIG reviewed the Columbia Housing Authority's, **Columbia, MO**, Housing Choice Voucher program to identify savings the Authority will realize by ensuring tenants are in appropriate-size units.

The Authority unnecessarily paid more than $216,000 in program funds for 99 tenants with units larger than necessary. By enhancing its procedures to ensure that program tenants receive the proper voucher size and subsidy payments, the Authority could avoid future losses of approximately $300,000 and be able to provide vouchers to additional tenants.

OIG recommended that HUD require the Authority to correct vouchers for units larger than allowed by the Authority's administrative plan, repay more than $216,000 for excess housing assistance payments, and develop and implement procedures to ensure that tenants receive correct-size vouchers. (Audit Report: **2006-KC-1001**)

HUD OIG audited the Housing Choice Voucher program of Northeast Washington Housing Solutions in **Spokane, WA**, to determine whether it complied with HUD requirements.

The Authority made housing assistance payments of almost $450,000 through the use of vouchers for 154 families whose eligibility was unknown. HUD paid the Authority more than $58,000 to administer these vouchers. In addition, the Authority did not correctly report its fiscal year 2005 Section 8 Management Assessment Program score and did not have an adequate plan for allocating indirect salary costs.

OIG recommended that HUD require the Authority to determine the eligibility of the 154 families and return any ineligible housing assistance payments, recoup the appropriate amount of administrative fees, perform an on-site verification of the Authority's 2006 Section 8 Management Assistance Program score, and require the Authority to submit a plan for allocating indirect salaries. (Audit Report: **2006-SE-1002**)

At the request of the executive director of the Housing Authority of the City of Los Angeles, **Los Angeles, CA**, HUD OIG conducted a review of the Authority's Section 8 rent reasonableness determinations for the Housing Choice Voucher program.

The Authority did not adequately document rent reasonableness determinations to ensure Section 8 rents were reasonable before entering into housing assistance payment contracts.

OIG recommended that the Authority support or reimburse HUD more than $186,000 in unsupported Section 8 housing assistance payments and follow the established policies and procedures for rent reasonableness determinations. (Audit Report: **2006-LA-1002**)

HUD OIG reviewed the Section 8 Housing Choice Voucher program of the Housing Authority of Kansas City, **Kansas City, MO**, to determine whether the Authority paid excess subsidies for tenant units that were larger than necessary.

The Authority unnecessarily paid nearly $31,000 in program funds for 50 tenants in units that were larger than necessary or allowed by the Authority's administrative plan. The Authority could avoid future losses of more than $73,000 by enhancing its controls, thereby allowing it to provide vouchers to additional tenants.

OIG recommended that HUD require the Authority to immediately correct tenants' vouchers, repay the unnecessary costs incurred, and develop and implement procedures that improve controls over assigning voucher sizes. (Audit Report: **2006-KC-1006**)

HUD OIG reviewed the Section 8 Housing Choice Voucher program of the St. Joseph Housing Authority in **St. Joseph, MO**, to determine whether the Authority paid excess subsidies for units that are larger than the needs of the tenant.

The Authority overhoused 16 tenants when it subsidized an additional bedroom for medical purposes without proper justification, resulting in overpayments of more than $20,000 from 2002 through January 2006. By correcting its weak controls, the Authority can avoid future overpayments totaling more than $54,000.

OIG recommended that HUD (1) ensure that the Authority immediately correct overhoused tenants' vouchers and repay the overpayments and (2) verify that the Authority implements procedures to ensure that each tenant receives the proper voucher size to avoid additional overpayments. (Audit Report: **2006-KC-1008**)

HUD OIG audited Inglewood Housing Authority's, **Inglewood, CA**, administration of its Section 8 Housing Choice Voucher program to determine whether the Authority administered its program in compliance with pertinent HUD requirements and its annual contributions contract and operated its program in an effective and efficient manner.

The Authority did not comply with program requirements relating to portability procedures and responsibilities, tenant certification, housing quality standards requirements, housing assistance payment register maintenance, and salary allocation and procurement procedures. In addition, the Authority's organizational structure and management responsibilities were not clearly defined, and its financial reporting function was ineffective and inefficient. Finally, the Authority did not request additional funds from HUD when needed to alleviate its cash deficit problems.

OIG recommended that HUD require the City of Inglewood's mayor and board of commissioners to replace the current executive director and housing manager, establish a separate housing authority commission, and require the City of Inglewood to designate sufficient finance department personnel dedicated to work solely on Authority-related financial reporting activities. (Audit Report: **2006-LA-1004**)

HUD OIG audited the Franklin Redevelopment and Housing Authority's, **Franklin, VA**, Section 8 Housing Choice Voucher program to determine whether the Authority adequately administered its Section 8 program according to HUD requirements.

The Authority often made incorrect housing assistance payments and did not perform required quality control reviews of its Section 8 tenant files. Additionally, it did not verify rent reasonableness and allowed an apparent conflict-of-interest situation to exist.

OIG recommended that HUD require the Authority to repay more than $9,000 in housing assistance overpayments and reimburse tenants more than $1,500 in housing assistance underpayments. OIG also recommended that the Authority strengthen its internal controls to ensure it adequately administers its Section 8 program and prevent future apparent conflict-of-interest situations. (Audit Report: **2006-PH-1003**)

HUD OIG audited the Housing Authority of the City of Los Angeles, **Los Angeles, CA**, in response to a request from its executive director regarding his concern over the management of the Authority's waiting list. The objective was to determine whether the Authority complied with applicable laws and regulations when placing registrants on the waiting list and selecting applicants in the proper order to receive housing vouchers.

The Authority did not adequately administer and maintain its waiting list in accordance with program requirements and, thus, may not have selected applicants in the proper order.

OIG recommended that HUD require the Authority to engage a dedicated team to analyze, purge, and update its waiting list to ensure that it is accurate and complete; evaluate and implement any needed changes to its administrative plan; and provide training to employees on the revised waiting list procedures and policies. (Audit Report: **2006-LA-1008**)

HUD OIG audited the Section 8 Housing Choice Voucher program of the Housing Authority of the City of Annapolis, **Annapolis, MD**, as part of its FY 2006 annual audit plan. The objective was to determine whether the Authority adequately administered the program according to HUD requirements.

The Authority generally administered the program according to HUD requirements but did not adequately administer its waiting list. It did not follow controls in its Section 8 administrative plan requiring it to update and purge its waiting list annually or maintain its Section 8 applications in a permanent file in the order in which the applicants applied for assistance. These controls were needed to ensure that families received assistance as quickly and efficiently as possible and to provide assurance that the Authority provided fair and consistent treatment of families.

OIG recommended that HUD require the Authority to provide adequate management oversight to ensure its Section 8 waiting list is updated and purged annually and its Section 8 applications are maintained in a permanent file in order of date and time of the application. (Audit Report: **2006-PH-1009**)

Public Housing Authority Management of Assets

HUD OIG audited Baytown Housing Authority in **Baytown, TX**, due to concerns expressed by the Houston Office of Public Housing. The objectives were to determine whether the Authority used resources subject to the annual contributions contract only for expenses of that program.

The Authority inappropriately used public housing funds to support its nonprofit and related entities. For some of the transfers, the Authority's executive director altered transfer documentation. As of March 31, 2005, the Authority owed the low-rent and Section 8 programs more than $792,300, and it could not support approximately $134,800 in transfers and encumbrances. Further, the Authority could not demonstrate that it equitably distributed salary costs between its HUD and non-HUD activities because it did not support salary payments with required activity reports or equivalent documentation. As a result, the Authority cannot support $1.1 million in salary costs allocated to its HUD programs.

OIG recommended that HUD require the Authority to repay its HUD programs at least $792,300; provide support for or repay $1.2 million in unsupported transfers, encumbrances, and salary costs; and implement procedures and controls to correct the weaknesses identified. Proper procedures and controls should help ensure that the Authority will properly use and support the $5.9 million in HUD funding it will receive next year. (Audit Report: **2006-FW-1002**)

HUD OIG reviewed the Housing Choice Voucher and Public Housing Operating Fund programs at the Worcester Housing Authority in **Worcester, MA,** as part of its FY 2005 annual audit plan. The objectives were to determine whether the

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BHA audit finds discrepancies, violations

BY KEN FOUNTAIN
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Exec director Eiland, board contesting 'allegations'

The Houston office of the federal Department of Housing and Urban Development is seeking the removal of Baytown Housing Authority executive director Bill Eiland following an audit that found numerous violations of HUD policies in recordkeeping and use of federal funds.

Among the audit's main findings are that Eiland "knowingly altered" documentation relating to transfers of HUD funds to pay for non-HUD expenses, and that the authority could not provide sufficient documentation to support $1.1 million in salary costs paid from its HUD funds from April 2002 to March 2005. The authority owes $927,191 to federal programs, according to the report.

EILAND

But Eiland and BHA board chairman Lawrence Wallace disagree with the findings of the audit performed last year by the Office of the Inspector General of the regional HUD office in Fort Worth. They say they are working with BHA's accountants and an independent auditor to prepare a comprehensive response that will refute the findings.

Dan Rodriguez Jr., director of public housing for HUD's Houston office which oversees BHA, said his office requested the audit in early 2005 when it received reports from BHA employees that HUD funds and resources were being used for BHA's nonprofit entities unrelated to its federal programs.

Specifically, Rodriguez said, his office received reports that BHA maintenance employees were being paid with HUD funds for work they performed at BHA's non-HUD low-income housing developments.

While he is seeking Eiland's "debarment," making him unable to

SEE AUDIT • PAGE 12A

Authority improperly used Federal funds for expenses of its State program and properly allocated salary and other expenses to its Housing Choice Voucher and Public Housing Operating Fund programs.

The Authority did not use its Federal funds in compliance with its annual contributions contracts. It used its public housing operating funds to pay expenditures for State-subsidized housing programs and other Federal programs. As a result, the Authority did not have more than $1.9 million available for its Public Housing Operating Fund program. Additionally, the Authority could not support the salary and benefits expenses charged to its Housing Choice Voucher and Public Housing Operating Fund programs.

OIG recommended that HUD require the Authority to monthly reimburse its revolving fund the amounts owed by its programs and cease the practice of using public housing operating funds to pay for nonprogram costs. In addition, the Authority should conduct a time study to determine the appropriate allocation of salary and benefits for its Federal programs and develop and implement a HUD-approved cost allocation plan for salaries and employee benefits. The FY 2006 accounting records should be adjusted accordingly. (Audit Report: **2006-BO-1002**)

HUD OIG audited the Alexandria Redevelopment and Housing Authority in **Alexandria, VA**, to determine whether it improperly used Section 8 funds to support its other programs.

Contrary to its consolidated annual contributions contracts, the Authority did not track its Section 8 administrative and housing assistance funds during the year or monitor and periodically settle the Section 8 programs' due-to/due-from account to and prevent it from using Section 8 funds to support its other programs. As a result, it improperly used more than $462,000 in Section 8 funds.

OIG recommended that the Authority repay its Section 8 programs the more than $462,000, which it improperly used to support its other programs. The Authority took action to repay that amount during the audit. OIG further recommended that HUD require the Authority to create and implement internal controls to track its Section 8 administrative and housing assistance funds during the year, reconcile and settle its Section 8 due-to/due-from account monthly, and stop improperly using Section 8 funds to support its other programs, thereby ensuring $462,000 will be used for the appropriate program over the next year. (Audit Report: **2006-PH-1001**)

HUD OIG audited the Housing Authority of the County of Butler, **Butler, PA**, as part of its FY 2005 audit plan. The audit objective was to determine whether the Authority properly used HUD funds to develop and support its affiliated nonfederal entities.

The Authority improperly used HUD assets as collateral to obtain two lines of credit totaling $1.1 million. As of August 2005, it owed more than $888,000 on the lines of credit, placing significant HUD assets at risk. It also did not properly record these loans in its financial records. In addition, the Authority failed to properly allocate all applicable salary costs and improperly paid salaries estimated at more than $205,000 from Federal funds for work its employees performed for its nonfederal entities.

OIG recommended that HUD require the Authority to modify its financial instruments to release the funds as collateral and allow the more than $888,000 to remain available for HUD-intended purposes. OIG also recommended that HUD require the Authority to properly record its lines of credit in its financial records. Finally, OIG

BUTLER COUNTY

Housing Authority official disputes audit findings of HUD

By Karen Kane
Pittsburgh Post-Gazette

The director of the Butler County Housing Authority said a federal audit that criticized his agency for improperly apportioning employees' wages is wrong.

"You could say we're kind of having a family fight," said authority Executive Director Perry O'Malley of the final audit released Jan. 13 by the U.S. Department of Housing and Urban Development. "They're just trying to fatten their wallets."

During a routine audit, HUD inspectors determined two problems:

- The Housing Authority had used its Butler offices as collateral for two lines of credit totaling $1.1 million. The balance on the credit lines stood at $888,792 as of August.
- That the Housing Authority had improperly apportioned the salaries of its employees. The inspectors contended that between January 2002 and May 2004, the authority paid from federal funds employee salaries totaling $205,875 that should have been paid from funds for nonfederal projects with which the authority is involved.

Mr. O'Malley said the first issue already has been dealt with. He said the offices have been removed as collateral for the lines of credit. But, he said his agency felt on solid ground initially because the offices had been purchased with a combination of federal and nonfederal dollars so, in a sense, the buildings were only partially federal assets.

"I understand their thinking, though. I guess you can't repossess only a portion of a building, so they felt we were technically putting their assets at risk. In any case, we've taken care of it," he said.

The second issue is stickier.

As the county Housing Authority, the agency acts on behalf of HUD by owning and operating 466 public housing units for which it received $20.3 million between fiscal years 2002 and 2004.

In addition to the federal programs, for which the authority received the federal subsidies, the authority runs several programs that deal with affordable housing for the needy. Such projects include the Rolling Road senior citizens complex in Cranberry, another senior citizens apartment complex in Chicora, and the home ownership counseling program the authority operates. In all, the Housing Authority manages 13 units that are outside of the HUD funding stream.

HUD inspectors contend that the authority improperly paid a portion of employees' salaries from federal funds for non-HUD work. They say the portion amounted to $205,875.

Mr. O'Malley said federal inspectors used a flawed formula to come up with that number. He said the authority already had budgeted $96,290 in 2002 and 2003 to cover non-HUD work by authority employees and that figure was "generous." He said it's very difficult to apportion work hours exactly because of the 60-plus programs that are administered by the agency. Total salaries paid to employees involved in the multiple programs was $1,313,761 between January 2002 and May 2004, according to HUD.

Mr. O'Malley argued in his response to the audit findings that the inspectors' formula used to determine the ineligible wages is wrong but that, even using the formula, the $205,000 figure is "way too high. In a worst case scenario, we'd owe $49,129," he said.

John Buck, regional inspector general for audit with the Philadelphia office, which covers Butler County, said he stands by the report he authored. While he wouldn't elaborate on its contents, he said "We already evaluated [Mr. O'Malley's] comments. We've evaluated each one." Despite Mr. O'Malley's arguments, Mr. Buck issued the final audit report he issued.

He said both sides will be weighed and decided by the director of public housing for the Pittsburgh field office of HUD.

Mike Zerega, spokesman for the HUD office of inspector general in Washington, D.C., characterized the Butler audit as "not unusual. We like to think of our audits as helpful. We know we're going to find some sort of problems no matter where we look. This is just the beginning of a process. The [Pittsburgh field office] may look at these findings and say 'This is not the way we want to go.'"

Mr. O'Malley said he hopes to have a final determination from the Pittsburgh HUD office within a few months.

He said it will be no problem reallocating the employees' salaries, regardless of what figure is settled on. "We have the money. It's just a matter of shifting from one account to another," he said.

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recommended that HUD require the Authority to recover approximately $205,000 from nonfederal entities for improperly allocated employee expenses and develop a reasonable method for allocating future salaries and expenses. (Audit Report: **2006-PH-1005**)

HUD OIG reviewed the Palacios Housing Authority's, **Palacios, TX**, low-rent and Section 8 Housing Choice Voucher programs to determine whether the Authority operated the programs in accordance with HUD requirements.

The Authority could not provide support for funds transferred between its Section 8 and low-rent housing programs. The Authority also made minor errors in its tenant files and did not always ensure units were decent, safe, and sanitary. OIG determined the Authority's lack of compliance did not materially affect its housing programs and it can easily correct the deficiencies identified.

OIG recommended that HUD require the Authority to implement a budget-based approach in its operations, including using an approved documented cost allocation plan, which will result in the Authority maintaining support for an estimated $44,600 in future fund transfers. Further, HUD should require the Authority to implement a quality control plan to review all new tenant rent calculations, obtain additional inspection training, and include an exterior conditions assessment when it conducts unit inspections. (Audit Report: **2006-FW-1003**)

HUD OIG audited the operations of the Suffolk Redevelopment and Housing Authority in **Suffolk, VA,** as part of its FY 2005 annual audit plan. The audit objective was to determine whether the Authority carried out its operations in accordance with applicable HUD requirements.

For the most part, the Authority carried out its operations in accordance with applicable HUD criteria. It properly inspected its Section 8 units, followed proper contracting procedures, and properly supported its drawdown of HUD funds. However, it did not always properly calculate Section 8 tenant income and utility allowances, resulting in net overpayments of more than $5,000. Additionally, for one of its public housing developments, the Authority sometimes did not perform required annual inspections or properly recertify the tenants.

OIG recommended that HUD reduce the Authority's housing assistance payments by the amount of the net overpayments on its next Section 8 year-end settlement statement. Additionally, OIG recommended that HUD require the Authority to follow its Section 8 administrative plan and to prepare periodic reports showing the results of file reviews and any actions taken. OIG further recommended that HUD require the Authority to perform the necessary reviews to ensure recertifications and inspections are done when required. (Audit Report: **2006-PH-1002**)

Public Housing Authority Activity with Nonprofit Entities

HUD OIG audited the Housing Authority of the City of Prichard's, **Prichard, AL**, administration of its nonprofit activities and homeownership programs at the request of HUD. HUD expressed concerns regarding the nonprofit's ventures into areas other than housing, such as the purchase of a shopping center and the Authority's use of the proceeds from the sale of its public housing units. The objectives were to determine the validity of these two concerns.

Although the Authority only used low-income housing funds to pay for authorized nonprofit-entity activities, its programs to make affordable homes available to low- and moderate-income persons were inadequate. As of June 1, 2005, the Authority had a waiting list of more than 250 potential homebuyers, while 139 homes were available for sale. Although the Authority was not selling the homes in its inventory, it planned to seek approval to use approximately $3.8 million in HUD grant funds to build additional homes. In addition, it did not include sales proceeds and estimated proceeds of more than $11.6 million from its homeownership programs in its 5-year public housing authority plan. The funds have remained idle since 2002. Finally, the Authority inappropriately advanced more than $806,000 in public housing funds to pay for other programs' expenses.

OIG recommended that HUD require the Authority to aggressively market its Section 5(h) and Housing Opportunities for People Everywhere (HOPE 1) homes as affordable housing to ensure that HUD funds provided for the construction of these homes are used as intended and the homes are not allowed to deteriorate. OIG also recommended that HUD require the Authority to demonstrate it has the capability to sell its remaining units before requesting more than $3.8 in HUD grant funds to build additional homes. Further, OIG recommended that HUD require the Authority to include in its 5-year plan more than $11.6 million in proceeds and its plans for using the funds. (Audit Report: **2006-AT-1002**)

HUD OIG audited the Housing Authority of the City of Newark in **Newark, NJ**. The objectives were to determine whether the Authority's (1) Housing Finance Corporation conducted its operations in accordance with HUD regulations, (2) payments made to the City of Newark in addition to the payments in lieu of taxes for municipal services were allowable, (3) costs for legal settlements were properly authorized, and (4) self-insurance program was cost effective.

The Authority (1) may not be conducting its bond financing activities in accordance with HUD requirements; (2) could not substantiate that the $6.9 million paid to the City of Newark was for necessary, reasonable, and additional services provided to the Authority; (3) settled general liability claims without obtaining prior written HUD approval; and (4) could not assure that more than $1.2 million in legal settlements paid under the self-insurance program were processed in a cost-effective manner.

OIG recommended that HUD obtain a legal opinion as to the disposition of $3.7 million in funds being retained by the Authority and its Housing Finance Corporation, review the documentation provided to determine whether city services were provided in accordance with the cooperation agreement and seek reimbursement for any amounts not supported, and require the Authority to seek HUD approval for general liability settlements and ensure that contract services are provided as required. (Audit Report: **2006-NY-1003**)

HUD OIG audited the Fairfield Metropolitan Housing Authority's, **Lancaster, OH**, activities with its related nonprofit organization. The Authority was selected for audit because it was identified as having high-risk indicators of nonprofit development activity. The objective was to determine whether the Authority improperly diverted or pledged resources for the benefit of non-HUD developments.

The Authority improperly transferred more than $520,000 of its HOPE 1 and 5(h) Homeownership Plan sales proceeds to its nonprofit, the Lancaster Community Housing Corporation. The Authority received more than $337,000 from 10 HOPE 1 properties sold in 1995 and $78,000 from two 5(h) Homeownership Plan properties sold in 1996. The sales proceeds were pooled and invested in certificates of deposit, accumulating interest until 2004, when the Authority transferred the proceeds to the Corporation. The transfer occurred without HUD approval and did not follow Federal requirements regarding the use of the proceeds. The Authority also transferred ownership of three properties that were rehabilitated using HUD's McKinney grant funds to the Corporation without HUD approval. The Corporation sold one property in 2004. The Authority and/or the Corporation did not reimburse HUD for more than $23,000 used to rehabilitate the property.

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HUD cites Fairfield housing authority 'deficiencies'

By Mary Beth Lane
THE COLUMBUS DISPATCH

An audit concluded that the housing authority improperly transferred money and failed to pay overtime.

LANCASTER, Ohio — The Fairfield Metropolitan Housing Authority, already accused of misspending money, faces more problems.

The countywide public-housing authority violated a federal rule against conflict of interest by hiring the executive director's brother, and also failed to pay workers proper overtime, a U.S. Department of Housing and Urban Development official wrote in an audit memorandum.

The "deficiencies" cited in the Dec. 21 memo, which the local housing authority provided yesterday, accompanied an audit released last month that found problems with the housing authority.

HUD recommended that the authority implement steps to ensure it complies with federal and state rules against conflict of interest, and that it reimburse workers for unpaid overtime.

In response, the authority has drafted an anti-nepotism policy for HUD review, but argues that overtime was paid properly.

The audit covering 2003 and 2004 concluded that the housing authority improperly transferred $520,169 to buy a new building and tried to deceive federal housing officials. HUD wants the money reimbursed, along with an additional $23,314 from a separate transaction that the audit deemed improper.

Authority Executive Director Mary Bozman referred a call for comment yesterday to the authority's governing board.

John Kelley, chairman of the authority's board of commissioners, provided a copy of the authority's response to HUD, but declined to comment.

Bozman's brother, Tom Cook, performed "some handiwork, construction and ordering of supplies," Kelley said.

Cook was paid $2,275 in 2004 under a personal-services contract he signed with the authority, the audit memo said.

Authority employees working overtime were paid at one-half their hourly wages although they were entitled to time-and-a-half. The underpayment amounted to $1,422 in 2004, the memo said.

Kelley defended the authority and said he was confident that matters would be resolved with HUD.

"Our only objective is to assist families of Fairfield County," he said. "We always tried to do business the right way."

At issue in the audit was the housing authority's decision to transfer money to its private, nonprofit arm, the Lancaster Community Housing Corp., to buy a building in downtown Lancaster to house both agencies.

The audit concluded that the transfer was not approved by HUD and failed to meet federal requirements for use of the funds.

"As a result, fewer funds were available to serve the authority's low-income residents," the audit said.

The $520,169 in transferred funds included $415,191 that the housing authority had left over from the sale of houses that it built and sold to families enrolled in two homeownership programs in 1995 and 1996, plus accumulated interest.

The audit said the authority was required to use the money for homeownership programs only.

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OIG recommended that HUD require the Authority to (1) reimburse its HOPE 1 and 5(h) Homeownership Plan programs more than $520,000 from nonfederal funds for the improper transfer of the sales proceeds to its nonprofit; (2) reimburse HUD more than $23,000 from nonfederal funds for the McKinney grant funds used to rehabilitate the one property; and (3) implement procedures and controls to correct the weaknesses identified. (Audit Report: **2006-CH-1005**)

Low-Rent Housing Program

HUD OIG audited the Housing Authority of the City of Winston-Salem, **Winston-Salem, NC,** to determine whether the Authority used funds subject to its low-income housing annual contributions contract for the benefit of other programs or entities without HUD approval.

In violation of its contract with HUD, the Authority used more than $4.9 million in operating subsidies to pay expenses of other Federal and nonfederal programs. Further, the Authority violated its contract by encumbering assets when it executed a guarantee of payment agreement for a $475,000 loan for an affiliated entity. As a result, the funds were not available for operation or modernization of public housing units, and assets are at risk.

OIG recommended that HUD require the Authority to repay ineligible costs of more than $4.9 million to its public housing fund, establish a procedure that requires the executive director to provide monthly financial documents to the board before meetings to assist the board in providing oversight, and obtain a release of encumbered assets in the amount of $475,000 for use as originally intended. OIG also recommended that HUD determine whether the Authority substantially defaulted on its contract. (Audit Report: **2006-AT-1007**)

HUD OIG audited the low-rent housing program of the Utica Municipal Housing Authority in **Utica, NY**, to determine whether it complied with the provisions of its annual contributions contract.

The Authority improperly disbursed more than $511,000 in operating funds for health benefits of retired employees. It did not ensure that all procurements allowed for full and open competition, procured legal services without executing a contract, made contract payments without adequate supporting documentation, and failed to enforce contract provisions for elevator construction services. The Authority incurred questionable costs of more than $140,000 and did not completely earn the administrative fees it was paid as a contract administrator for the Section 8 program since it failed to conduct required management reviews and meet its monitoring responsibilities.

OIG recommended that HUD require the Authority to establish controls and procedures to ensure compliance with all applicable board, procurement, and contract administration policies and procedures; submit documentation to justify all unsupported costs; and reimburse the program from nonfederal funds all amounts found to be ineligible. In addition, the Authority should enforce the damage clause of its elevator contract and collect all penalty income for program use. (Audit Report: **2006-NY-1005**)

HUD's Real Estate Assessment Center's (REAC) Housing Inspections

HUD OIG reviewed HUD's Real Estate Assessment Center's (REAC) housing inspections and oversight and controls over its housing inspection process. OIG initiated the review as part of its strategic plan to help HUD improve the execution of its fiscal responsibilities. The objective was to determine whether REAC had adequate controls to safeguard the integrity of its housing inspection data.

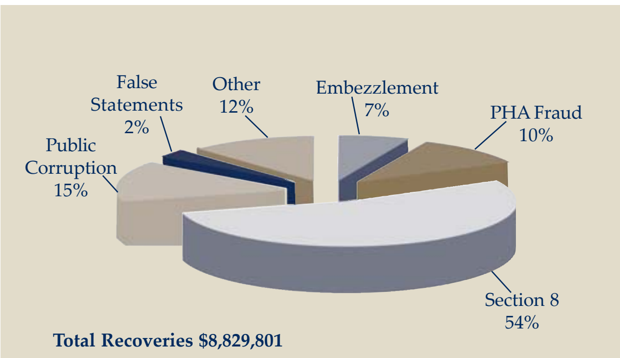
Without REAC's knowledge, confidential information maintained in its system was accessed and used inappropriately by unauthorized persons. The unauthorized persons drew a sample of housing authority units before the inspector's scheduled inspection. REAC's controls and procedures for securing its housing information after a download and before the upload of inspection data were not in place to assure that only authorized users had access to HUD's confidential information. OIG informed the REAC's Deputy Assistant Secretary of other minor deficiencies in a memorandum, dated November 22, 2005.

OIG recommended that HUD implement procedures and controls over the physical assessment subsystem to correct the deficiencies addressed. (Audit Report: **2006-CH-0001**)

Investigations

During this reporting period, OIG opened 486 investigation cases and closed 393 cases in the PIH program area. Judicial action taken on these cases during the period included $8,829,801 in investigative recoveries, 386 indictments/informations, 287 convictions/pleas/pretrial diversions, 1,093 arrests, 12 civil actions, 19 personnel actions, and 991 administrative actions.

Chart 3.2: Public and Indian Housing Recoveries



Public housing rental assistance fraud is an investigative priority for the Office of Investigation. OIG runs rental assistance fraud initiatives nationwide to reduce fraud in HUD rental assistance programs and support the HUD Rental Housing Integrity Improvement Project (RHIIP). 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.

Rental Assistance Fraud

Linton White, a Topeka Housing Authority (THA) public housing tenant, pled guilty in **Topeka, KS,** State court to an information charging him with theft. White falsified his housing assistance application by failing to report his Missouri sexual predator classification to authorities in the State of Kansas and THA. White received $6,493 in housing assistance payments to which he was not entitled.

Robert Askew III, former Section 8 tenant, Oakland Housing Authority (OHA), was indicted in U.S. District Court, Northern District of California, **Oakland, CA**, on nine counts of mail fraud and one count of false statements. The indictment also included criminal forfeiture provisions. From 1999 through 2002, Askew allegedly reported he was disabled, unemployed, and had no assets on OHA and Social Security Administration (SSA) disability certifications, when Askew was self-employed, actively operating a home renovation/improvement business known as Askew & Company; owned four cars, a motorcycle, residential property in Oakland, CA, and rental property in Sacramento, CA; and made bank account deposits of $87,058 in 1999, $52,365 in 2000, $211,014 in 2001, and $407,606 in 2002. Askew was arrested on October 19, 2005. HUD losses are estimated at $35,500.

Debra Utley pled guilty in U.S. District Court, Middle District of Tennessee, **Nashville, TN**, to one count of theft of public money and agreed to pay Nashville Metro Development Housing Agency $10,983 in restitution. Utley failed to report her August 2000 employment at Vanderbilt University Medical Center.

Alisa Covington, a Lakeland Housing Authority (LHA) public housing resident, was arrested in **Lakeland, FL**, on a State of Louisiana arrest warrant for probation violations. Covington's probation stemmed from a Louisiana conviction for possession with intent to sell 11 pounds of marijuana. LHA was notified of Covington's arrest and began terminating Covington from their housing assistance program. Covington was extradited by the Lakeland Police Department.

Ernest Stevenson, a Section 8 landlord, and Paula Petruk, also known as Paula Stevenson, a Duluth Housing Redevelopment Authority (DRHA) Section 8 tenant, each pled guilty in U.S. District

Court, District of Minnesota, **Duluth, MN**, to one count of conspiracy. Stevenson and Petruk, who received housing assistance from DHRA, failed to disclose joint accounts and co-ownership of real estate located in Duluth. HUD's loss is estimated at $54,000.

Jacinda Stokes and Sherrell Lanier, former Lakeland Housing Authority (LHA) Section 8 tenants, were arrested after complaints were filed in State court, **Lakeland, FL**, charging them with public assistance fraud. Stokes and Lanier allegedly failed to disclose earned income on their annual Section 8 recertification forms submitted to LHA. HUD's loss is estimated at $19,261.

Carresha Skiffer, a former Inglewood Housing Authority (IHA) Section 8 recipient, was charged in Superior Court, County of Los Angeles, **Inglewood, CA**, with one count of theft and one count of obtaining money under false pretenses. Skiffer allegedly filed false annual housing certifications by failing to claim income she earned from operating an adult-sexually-oriented business out of her subsidized apartment or rents she collected from subleasing her unit for extended periods. IHA removed Skiffer from the rental assistance program.

Maverick E. Jackson, a Section 8 landlord, Aiken Housing Authority (AHA), was indicted in U.S. District Court, District of South Carolina, **Aiken, SC**, on two counts of submitting false documents to AHA. Jackson allegedly lived in a subsidized unit and falsely certified that he had no relationship to a tenant in his unit, who was his half brother and an AHA Section 8 applicant. HUD's loss is estimated at $6,100.

Kelly Turnage, a former Inglewood Housing Authority (IHA) Section 8 recipient, was charged in Superior Court, County of Los Angeles, **Inglewood, CA**, with one count of theft and one count of obtaining money under false pretenses. Turnage allegedly filed false annual housing certifications by failing to report her prior criminal convictions for prostitution, auto theft, forgery, and narcotics; her current probation status; or her use of numerous aliases. IHA removed Turnage from the rental assistance program.

Rocky Stubbs, a Section 8 landlord with Coshocton Metropolitan Housing Authority (CMHA), was sentenced in Coshocton County Court, **Coshocton, OH,** to 3 years probation and ordered to pay CMHA $27,000 in restitution. Stubbs, leasing his property to CMHA, resided at his property with a CMHA Section 8 recipient and concealed their living arrangement from CMHA.

Tyrone Mock, a Cuyahoga Metropolitan Housing Authority (CMHA) Section 8 landlord, was sentenced in U.S. District Court, Northern District of Ohio, **Cleveland, OH**, to 46 months incarceration and 3 years supervised release and ordered to pay CMHA $37,438 in restitution. Mock previously pled guilty to providing fraudulent information to obtain multiple properties, leasing the properties to CMHA tenants, residing in one leased property with a CMHA Section 8 recipient, failing to pay mortgages associated with the properties, and filing bankruptcies to stop foreclosure proceedings and continued to receive CMHA housing assistance payments.

Carol Tharpe, a former Seattle Housing Authority (SHA) Section 8 tenant, was sentenced in U.S. District Court, Western District of Washington, **Seattle, WA**, to 5 years probation and ordered to pay SHA $37,500 in restitution for her previous guilty plea to one count of theft. From 1997 through 2004, Tharpe understated her income on annual SHA certifications.

Sherrell A. Lanier, a Lakeland Housing Authority (LHA) Section 8 tenant, was charged in an information filed in the 10th Judicial Circuit, State of Florida, **Lakeland, FL**, with one count of public assistance fraud. From January 2001 through February 2004, Lanier allegedly failed to report employment income and received $8,114 in LHA housing benefits to which she was not entitled.

Xavier Williams, New York City Housing Authority (NYCHA) public housing tenant and member of a violent Bronx-based gang called Sex, Money and Murder Crew, was sentenced in U.S. District Court, Southern District of New York, **New York, NY**, to life imprisonment without parole. Williams was convicted on July 8, 2005, after a 7-week trial involving public housing fraud, narcotics and firearms trafficking, money laundering, racketeering, and attempted murder violations. Williams operated a narcotics and money-laundering enterprise from his public housing unit at NYCHA'S Bronx River Houses and provided false statements on his annual public housing recertifications.

Jacinda Stokes, a Lakeland Housing Authority (LHA) Section 8 tenant, was charged in an information filed in 10th Judicial Circuit, State of Florida, **Lakeland, FL**, with one count of public assistance fraud. From April 2001 through July 2005, Stokes allegedly failed to report employment income and received $11,147 in LHA housing benefits to which she was not entitled.

Geno Wilson, a former Inglewood Housing Authority (IHA) Section 8 recipient, was charged in Superior Court, County of Los Angeles, **Inglewood, CA**, with four counts of filing a false document with a public office, one count of obtaining money under false pretenses, and one count of grand theft. Wilson allegedly failed to disclose his 1991 sexual offender conviction on his initial IHA Section 8 application or on IHA annual certifications. Since February 2002, Wilson has received an estimated $50,000 in Section 8 housing assistance payments to which he was not entitled.

Tony Jones, former St. Petersburg Housing Authority (SPHA) landlord, was sentenced in U.S. District Court, Middle District of Florida, **Tampa, FL**, to 4 months incarceration and 3 years supervised release with 4 months home detention and ordered to pay HUD $31,606 in restitution, jointly and severally with codefendant Natalie Jones, and $26,000 to the U.S. Government solely. On June 8, 2005, Jones was convicted of conspiracy to defraud HUD. Tony Jones leased his residence to SPHA and SPHA Section 8 tenant Natalie Jones, his wife, but failed to report to SPHA that he resided with his wife at his residence. As a result of his actions, Jones received $31,606 in housing assistance to which he was not entitled.

Angelina Lyles, former DuPage Housing Authority (DHA) Section 8 tenant, was found guilty in U.S. District Court, Northern District of Illinois, **Chicago, IL**, of three counts of false statements. Lyles failed to report her income, the presence and full-time income of her husband, her criminal record, and bank accounts to the DHA. HUD loss is estimated at $15,000.

Paul and Kristen West, former King County Housing Authority (KCHA) Section 8 recipients, were each charged in King County Superior Court, **Seattle, WA,** with one count of theft. The Wests allegedly failed to report their employment or income earned on their initial KCHA Section 8 application or annual recertifications. Since April 2002, Paul and Kristen West have received more than $28,000 in housing assistance payments to which they were not entitled.

Dannette Thomas, an Inglewood Housing Authority (IHA) Section-8 recipient, was charged in Superior Court, County of Los Angeles, **Inglewood, CA**, with one count of grand theft, one count of obtaining money under false pretenses, and one count of filing a false document with a public office. Thomas allegedly failed to report the 6-month residency and income of her brother Billy Thomas, a convicted sex offender, to IHA on her housing certification. Dannette Thomas was arrested on an outstanding warrant, and Billy Thomas was arrested on parole violations and possession of crack cocaine at Thomas's IHA subsidized unit.

Toria Woods, an Inglewood Housing Authority (IHA) Section-8 recipient, was charged in Superior Court, County of Los Angeles, **Inglewood, CA**, with one count of grand theft, one count of obtaining money under false pretenses, and one count of filing a false document with a public office. Woods allegedly failed to claim unauthorized tenants residing in her unit, income she gained from an identity theft scheme, use of aliases, or her prior criminal history on IHA annual housing certifications. As a result, she received approximately $20,375 in housing assistance payments to which she was not entitled. IHA has removed Woods from its rental assistance program.

Kamilah Rainey and Iris Riley were arrested pursuant criminal complaints filed in the 10th Judicial Circuit, State of Florida, **Lakeland, FL**, on Section 8 fraud charges. Rainey and Riley are current Lakeland Housing Authority (LHA) Section 8 tenants who allegedly underreported their incomes during annual recertifications submitted to LHA. HUD's loss is approximately $21,435.

Sharon Dixon, a Miami-Dade Housing Authority (MDHA) Section 8 tenant, was indicted in U.S. District Court, Southern District of Florida, **Miami, FL**, on false statements to HUD and theft of government funds. Dixon was arrested after her indictment. From January 2001 through December 2004, Dixon allegedly submitted false applications to MDHA for HUD Section 8 subsidies by failing to disclose her Miami-Dade County Transit Authority employment. HUD's loss is estimated at $49,500.

Barbara Singleton, a Rochester Housing Authority (RHA) Section 8 tenant, and Larry Pradia, RHA landlord, were each charged in U.S. District Court, Western District of New York, **Rochester, NY**, with one count of conspiracy, false statements, and theft of government funds. From 1998 through 2004, Singleton and Pradia allegedly conspired to collect more than $70,000 in RHA Section 8 housing assistance payments when Singleton certified that Pradia was her landlord residing elsewhere on annual recertification and other RHA documents.

Brooks Rice was sentenced in U.S. District Court, Eastern District of Tennessee, **Chattanooga, TN**, to 21 months confinement and 26 months supervised release and ordered to pay HUD $16,565 in restitution. On September 15, 2005, Rice pled guilty to one count of use of a false Social Security number (SSN). Rice used a fraudulent SSN to obtain Section 8 benefits she was not entitled to receive.

Celestine Gallegos, San Francisco Housing Authority (SFHA) and Housing Authority of the County of San Mateo (HACSM) housing assistance recipient, was charged with one count of false statements in an information filed in U.S. District Court, Northern District of California, **San Francisco, CA**. On December 16, 2005, Gallegos pled guilty to receiving housing assistance payments simultaneously from SFHA and HACSM, receiving $13,285 to which she was not entitled.

Benzalda Delarosa was indicted on two felony counts of theft in Washington Superior Court for Grays Harbor County, **Aberdeen, WA**. Delarosa allegedly failed to report all household resident income and received $11,000 in HUD Section 8 funds and $12,000 in Washington Department of Social and Health Services welfare benefits to which she was not entitled.

Evelyn Bessent was charged with theft of government funds in an information filed in U.S. District Court, Southern District of Florida, **West Palm Beach, FL**. Bessent, a participant in the Palm Beach County Housing Authority Section 8 Housing Choice Voucher program, allegedly used her voucher to reside in a home she co-owned with her spouse and concealed ownership of two additional residential properties occupied by Section 8 program participants. Bessent received $21,255 in housing assistance payments to which she was not entitled.

An Essex County Superior Court Grand Jury, **Salem, MA**, indicted Jennifer Stevanovich, a former Andover Section 8 tenant, on two counts of larceny and four counts of criminal perjury. Stevanovich was previously convicted of selling stolen "Victoria's Secret" merchandise from her subsidized housing unit. Between January 2000 and January 2005, Stevanovich allegedly deposited approximately $280,000 cash into eight bank accounts, but failed to report the funds to HUD or the state of MA, and received $59,765 in housing benefits and $57,790 in welfare benefits she was not entitled to receive.

In Bucks County Court of Common Pleas, **Bucks County, PA**, Herbert and Annette Smith entered guilty pleas to felony charges of theft, criminal conspiracy, and false swearing. The Smiths, residents of subsidized housing, Bucks County Housing Authority (BCHA), failed to report Herbert Smith's 30-year criminal history including two sex offender convictions to BCHA. The Smiths were evicted from BCHA housing.

Victoria's Secret thief faces charges of welfare fraud

By Jim Patten
Staff Writer

ANDOVER — Jennifer Stevanovich went to court yesterday to work out a deal to pay Victoria's Secret $71,000 for the hundreds of undergarments she stole and pawned on eBay.

But instead, the 36-year-old mother of three found herself in handcuffs, arrested in the courtroom on new charges of welfare fraud. That bill could cost her $117,555.11, if convicted.

Stevanovich was first arrested Feb. 2, while living in subsidized housing at 700A Brookside Drive. An undercover sting led police to the apartment, and some $75,000 to $100,000 worth of stolen garments from Victoria's Secret, Abercrombie & Fitch and Gap as well as $30,000 cash.

While making her illegal sales,

Please see **WELFARE**, Page 11

JIM PATTEN/Staff photo

Jennifer Stevanovich, 36, the former Andover woman convicted of stealing thousands of dollars worth of underwear from Victoria's Secret stores, stands in Lawrence District Court yesterday with her lawyer, Eric Taitano.

Andrea Henderson was charged with four felony counts of grand theft, filing false documents with a public office, and obtaining money under false pretenses in Superior Court, County of Los Angeles, **Inglewood, CA**. In 2004 and 2005, Henderson allegedly filed false housing certifications with the Inglewood Housing Authority (IHA) by failing to identify her husband, Darryl Kennedy, a convicted sex offender, and two unauthorized individuals as residents in her Section 8 subsidized unit. As a result, Henderson received $14,000 in housing assistance payments to which she was not entitled.

A civil complaint was filed by the U.S. Attorney's Office, District of New Hampshire, **Concord, NH**, against Amy McPherson, John Nionakis, and Delilah Properties Inc. The complaint, filed on behalf of HUD, U.S. Department of Health and Human Services (HHS), U.S. Department of Agriculture (USDA), and SSA, seeks approximately $382,000 and civil penalties against McPherson, Nionakis, and Delilah Properties, Inc., under the False Claims Act. On November 14, 2005, McPherson, a former Section 8 recipient, was sentenced to 6 months in prison and 3 years supervised release and ordered to pay HUD, USDA, and HHS $67,547 in restitution following her previous guilty plea to multiple counts of false statements. McPherson received Section 8 subsidies at a home she owned under the corporate name of Delilah Properties, Inc., in Exeter, NH.

Kelly M. Summerour, Tracy Curry-Culbreath, and Wanda T. Nolan, former Internal Revenue Service (IRS) employees, were each indicted in U.S. District Court, Northern District of Georgia, **Atlanta, GA**, on two counts of false statements. Summerour, Curry-Culbreath, and Nolan allegedly provided false verifications of employment to Atlanta and Decatur/Dekalb Housing Authorities, fraudulently receiving $38,532 in housing assistance payments.

Michael Washington, a former Section 8 landlord, pled guilty to one felony count of grand theft in State of California Superior Court, County of San Mateo, **San Mateo, CA**. Washington was sentenced to 90 days in county jail and 3 years probation and ordered to pay approximately $15,668 in restitution to the Housing Authority of the County of San Mateo (HACSM). From December 2002 to December 2003, Washington received approximately $15,668 in Section 8 housing assistance payments from HACSM for a tenant who had moved from her unit.

Ebony Lucien, a Section 8 recipient, was charged in Superior Court, County of Los Angeles, **Los Angeles, CA**, with one count of perjury, one count of grand theft, one count of unlawfully making a false financial statement, and two counts of filing a false document with a public office. In 2003 and 2004, Lucien allegedly filed false housing certifications with both City of Los Angeles and County of Los Angeles Housing Authorities, receiving $11,721 in housing assistance payments to which she was not entitled.

Jacqueline Watson, a Section 8 tenant, was charged in a complaint filed in Superior Court of California, Solano County, **Vallejo, CA**, with one count of grand theft. Watson allegedly failed to report her incarceration and absence for more than 1 year from her Vallejo Housing Authority Section 8 unit. The loss to HUD is estimated at $40,625.

Barbara Mack, former Section 8 tenant, Tampa Housing Authority (THA), was indicted in U.S. District Court, Middle District of Florida, **Tampa, FL**, on two counts of theft of government funds and one count of bankruptcy fraud. Mack allegedly acquired and used two SSNs to obtain HUD housing assistance and SSA disability benefits while earning employment income, obtaining a Federal Housing Administration (FHA)-insured mortgage, and filing bankruptcy. Mack allegedly failed to report employment income earned to THA or approximately $23,455 in Section 8 and $61,788 SSA disability benefits she received to the bankruptcy court. On February 3, 2006, Mack was arrested in Clearwater, FL.

Sharon Smith, a superior court judicial clerk, Union, NJ, pled guilty to an information filed in U.S. District Court, **Newark, NJ**, charging her with one count of theft of government funds. From January 2002 to September 2005, Smith caused fraudulent verification of employment forms to be submitted to the Elizabeth Housing Authority (EHA), resulting in Smith defrauding EHA of approximately $20,714.

Tyeshia Borela, a former San Francisco Housing Authority (SFHA) Section 8 tenant, was indicted in U. S. District Court, Northern District of California, **San Francisco, CA**, on one count of false statements to HUD. From 2002 to 2005, Borela allegedly claimed a nonexistent daughter, failed to report her actual income, and subleased her SFHA Section 8 subsidized unit. In addition, Borela allegedly provided false income information during her November 2004 bankruptcy filing. As a result, she received approximately $64,000 in Section 8 housing assistance and $36,000 in discharged debts to which she was not entitled.

Billy Nsubuga, a former Section 8 tenant, Malden Massachusetts Housing Authority (MMHA), pled guilty to an Information filed in U.S. District Court, **Boston, MA**, charging six counts of bank fraud, five counts of mail fraud, five counts of identity theft, and one count of identity document fraud. Nsubuga opened bank accounts in Massachusetts, New York, and Connecticut with cash deposits in the names of others using altered passports from Uganda, The Republic of Congo, and South Africa and bogus identification documents from California. Nsubuga received more than $100,000, which was not reported to MMHA, before her scheme was detected by New York and Connecticut banks.

Quiana Adams pled guilty to 35 counts of theft of government funds, four counts of false statements, and one count of conspiracy in U.S. District Court, Southern District of Florida, **Miami, FL**. Adams' spouse, Anthony Boatwright, pled guilty to two counts of false statements and one count of conspiracy. Adams and Boatwright, participants in the Section 8 Housing Choice Voucher program, provided false household composition and income information to the Miami-Dade Housing Agency to qualify for housing assistance. Adams and Boatwright received $37,229 in housing assistance benefits to which they were not entitled. They were arrested on December 8, 2005.

Nasir Javaid and Nancy Kharsa, former San Francisco Housing Authority (SFHA) Section 8 landlord and tenant, each pled guilty in U.S. District Court, Northern District of California, **San Francisco, CA**, to one count of making false statements to HUD. Under the plea agreement, Javaid and Kharsa agreed to pay HUD $51,717 in restitution. From 1998 to 2002, Javaid and Kharsa participated in a scheme to defraud HUD's Section 8 program by using SFHA and/or HUD multifamily housing assistance payments received by Javaid, Kharsa, and Javaid's mother, Jhan Noor, to purchase two properties in El Cerrito and San Francisco, CA. As a result, Javaid and Kharsa received approximately $51,717 in Section 8 housing assistance benefits to which they were not entitled.

Kalsoum Berro, a Michigan State Housing Development Authority (MSHDA) Section 8 tenant, and her husband, Hassan Berro, a MSHDA Section 8 landlord, were each charged in 19th District Court, **Dearborn, MI**, with one count of violating the State Housing Development Authority Act of 1996. Hassan and Kalsoum Berro allegedly had lived together since 1990 and received $94,000 in housing assistance payments to which they were not entitled.

Farid Bayot, real estate broker and owner of Global One Realty, Inc., Aurora, CO, was charged in an information filed in U.S. District Court, District of Colorado, **Denver, CO**, with one count of loan and credit applications generally. Bayot allegedly assisted Littleton Housing Authority (LHA) Section-8 tenant, Hamidullah Sarwary, in purchasing the home in which Sarwary resided and for which Sarwary received LHA housing assistance payments. As a result of his action, HUD realized losses of $3,000.

Jessica Jackson-Elston, former Rock Island Housing Authority (RIHA) Section 8 tenant, along with Fabiola Munoz and Julio Gallegos, former Moline Housing Authority (MHA) public housing tenants, were charged in Rock Island Circuit Court, **Rock Island, IL,** with multiple counts of theft and identity fraud. Jackson-Elston allegedly failed to report her husband's ownership of her RIHA Section 8 subsidized unit, and Munoz and Gallegos allegedly failed to report income and/or used false identities and SSNs on MHA annual recertifications. As a result of their actions, the collective loss to HUD exceeds $35,000. Jackson-Elston was terminated from the RIHA rental assistance program.

Mary Martin, former St. Petersburg Housing Authority (SPHA) Section 8 tenant, pled guilty in U.S. District Court, Middle District of Florida, **Tampa, FL**, to one count of theft of government funds. Martin failed to report income earned by her resident spouse to SPHA and claimed a resident daughter while the daughter received her own Section 8 housing benefits from Pinellas County Housing Authority. As a result, HUD realized an estimated $36,997 loss. Martin was arrested on March 1, 2006.

Ranina Jones, former San Francisco Housing Authority (SFHA) and Housing Authority of the County of San Mateo (HACSM) Section 8 tenant, was sentenced in U.S. District Court, Northern District of California, **San Francisco, CA**, to 2 years probation and ordered to pay HACSM $25,582 in restitution for her previous guilty plea to false statements to HUD. Jones, while living in and receiving public housing assistance from SFHA, applied for and received Section 8 housing assistance payments from HACSM. As a result, Jones received $25,582 in Section 8 housing assistance to which she was not entitled.

PHA Employee Theft/ Embezzlement

Douglas Hamond, former maintenance general foreman, Utica Housing Authority (UHA), was arrested and charged with five counts of petty theft and one count of perjury in Oneida County Court, **Utica, NY**. Hamond allegedly misused UHA'S credit card for personal purchases.

In **Grand Rapids, MI**, Jerome Wisniewski, former executive director, Manistee Housing Commission (MHC), was sentenced to 3 years in prison and 3 years probation and ordered to pay HUD $1,308,522 in restitution after he pled guilty to embezzlement and unlawful monetary transactions. Wisniewski, in a scheme to defraud MHC of more than $1.2 million, funneled MHC'S funds into a fictitious company he created and used the money to purchase a 1989 Rolls Royce Silver Spur, a 1999 Porsche 911, and two residential properties.

Jane A. Burchett, former executive director, Wymore Housing Authority (WHA), was sentenced in U.S. District Court, District of Nebraska, **Omaha, NE**, to 3 years probation and ordered to pay WHA $19,977 in restitution. Burchett, who was convicted of Federal program fraud on August 18, 2005, embezzled approximately $26,683 from WHA by issuing inflated WHA payroll checks to an employee, forging the employee's signature, and cashing the checks.

Wilma A. Nicholson, former executive director of the Housing Authority of the City of Alamo (HACA), was sentenced in U.S. District Court, Southern District of Georgia, **Alamo, GA**, to 10 months incarceration and 3 years supervised release and ordered to pay HACA $46,169 in restitution. Nicholson previously pled guilty to one count of theft of government funds for pilfering cash dwelling receipts from HACA.

Michael Mullins and David Carte, former Cuyahoga Metropolitan Housing Authority (CMHA) employees, each pled guilty in Court of Common Pleas, Cuyahoga County, **Cleveland, OH**, to a one-count information charging them with theft. Mullins and Carte claimed labor hours on CMHA time sheets and received CMHA wage payments while working at other jobs. Mullins and Carte were each sentenced to 2 years probation and ordered to pay CMHA restitution of $8,214 and $8,813 respectively.

Lawrence Bower, former Williamsport Housing Authority (WHA) board member, was indicted in U.S. District Court, Middle District of Pennsylvania, **Williamsport, PA**, for allegedly making false statements to HUD. Bower allegedly failed to apply for or obtain a waiver from HUD to participate in the WHA Section 8 program as required. Bower, in his position as WHA board member, approved monthly WHA housing assistance checks made payable to him, receiving a total of $25,324 over 11 years. The Williamsport City Council dissolved WHA, assigning WHA duties Lycoming County Housing Authorities.

Jaymie Jo Phillips, former Yankton Sioux Housing Authority (YSHA) occupancy specialist, was sentenced in U.S. District Court, District of South Dakota, **Sioux Falls, SD**, to 3 years probation and ordered to pay YSHA $8,389 in restitution following her previous guilty plea to embezzlement and theft from an Indian tribal organization. During 2004, Phillips skimmed $7,000 in cash rental proceeds from YSHA.

Bernard Meyer, former Williamsport Housing Authority (WHA) executive director, was sentenced in U.S. District Court, Middle District of Pennsylvania, **Williamsport, PA**, to 1 year supervised probation and ordered to pay HUD $9,766 in restitution. Meyer was charged with conflict of interest for failing to disclose his financial interest in several properties housing Section 8 tenants through WHA and failing to obtain a waiver from HUD. Meyer received $9,766 in housing assistance checks on behalf of Section 8 tenants over 6 years. Meyer resigned his position when charged, and Williamsport City Council dissolved WHA, assigning WHA duties to Lycoming County Housing Authorities.

Thomas Herrera, former executive director, Pueblo de Cochiti Housing Authority (PCHA), pled guilty in U.S. District Court, District of New Mexico, **Albuquerque, NM**, to one count of theft and one count of embezzlement from an Indian tribal organization. From February to November 2003, Herrera embezzled PCHA funds by issuing unauthorized PCHA checks to himself, forging PCHA board members' signatures, cashing the checks, and using the funds for personal expenses. HUD realized losses of $78,448.

Stan Self, former executive director for Hugo Housing Authority (HHA), Hugo, OK, and Region VI Housing Authority, Roswell, NM, was indicted in U.S. District Court, Eastern District of Oklahoma, **Muskogee, OK**, on one count of mail fraud. Self pled guilty to the charge during a plea hearing on December 29, 2005. Self, as executive director of HHA, embezzled HHA funds by providing HHA consulting services according to his employment contract on 25 occasions, collecting the payments on behalf of HHA, failing to remit the payments to HHA, and using the funds for his personal benefit. Self resigned from HHA after receiving a limited denial of participation (LDP) suspension from HUD. Self was then hired as executive director, Region VI Housing Authority, Roswell, NM, but resigned this position on December 30, 2005. As a result of his actions, HUD realized losses of $6,304.

Loren Goldtooth, former executive director, KI:KI Association, the HUD-funded tribally designated housing entity of the Tohono O'Odham Indian Nation, and certified public accountant doing business as Goldtooth & Company, P.C., was indicted on February 6, 2006, in U.S. District Court, District of Arizona, **Tucson, AZ**, on two counts of embezzlement and theft from an Indian tribal organization, three counts of failing to file Federal individual income tax returns, and two counts of failing to file Federal corporate income tax returns. From February 2000 through August 16, 2002, Goldtooth allegedly embezzled $216,531 of KI:KI Association funds and failed to file Federal individual and/or corporate tax returns for 1999 through 2002. On February 16, 2006, Goldtooth was arrested.

James H. Tate, former executive director, Junction City, KS, Housing Authority (JCHA), was sentenced in U.S. District Court, District of Kansas, **Topeka, KS**, to 5 months prison, 5 months house arrest and 3 years probation and ordered to pay JCHA $102,701 in restitution. On August 23, 2005, Tate pled guilty to theft of government property for stealing $102,701 from JCHA by purchasing personal items on JCHA credit cards. Tate paid his unauthorized JCHA credit card expenses using the electronic signature password of the JCHA board chairman to approve the issuance of checks from JCHA'S computerized accounting program.

John C. Wolfe, Sr., former executive director, Marionville Housing Authority (MHA), was charged in a felony complaint filed in 39th Missouri Judicial Circuit Court, **Marionville, MO**, with two counts of stealing. From April 2003 through August 2004, Wolfe allegedly embezzled $23,267 from MHA by issuing himself payroll checks not reported to or approved by the MHA board of directors.

B2 · ARIZONA DAILY STAR / Friday, February 17, 2006

LAW & ORDER

Man indicted in O'odham fraud case

ARIZONA DAILY STAR

A Scottsdale accountant hired by the Tohono O'odham Nation has been indicted by a federal grand jury on embezzlement and tax evasion charges.

Loren Goldtooth was charged with receiving $34,831 in overtime he wasn't entitled to and unlawfully charging $17,681 to a credit card issued to the KI:KI Association, the nation's tribally designated housing entity.

An indictment, which was unsealed Tuesday in U.S. District Court, says Goldtooth also received $163,839 in unauthorized payments between Feb. 24, 2000, and Jan. 31, 2001.

It also alleges Goldtooth, a certified public accountant, didn't file his personal taxes in 2000, 2001 and 2002 although he grossed $285,982, nor did he file an income tax return on behalf of his company, Goldtooth & Co., in 1999 or 2000.

According to the indictment, Goldtooth was hired in March 1998 to review the financial records of the KI:KI Association and make recommendations on how the agency could improve its accounting and record-keeping procedures.

The association received $14.1 million in federal grants between May 2000 and June 2002, according to the indictment.

Barbara Gilbert, former executive director, Buena Housing Authority (BHA), was sentenced in Atlantic County Court, **Newark, NJ**, to 180 days in prison and 3 years probation and ordered to permanently forfeit public employment and pay HUD restitution in an amount to be determined. Gilbert pled guilty to two counts of theft by deception on December 9, 2005. Gilbert used BHA checks and BHA's Home Depot account to pay for and obtain more than $7,800 in personal purchases.

Serena Parker, a former Greensboro Housing Authority (GHA) intake specialist, along with Teresa Thomas and Vivian Pandora Bailey, fictitious GHA landlords, were each indicted in U.S. District Court, Middle District of North Carolina, **Greensboro, NC**, on seven counts of mail fraud and seven counts of aiding and abetting. Parker allegedly accessed GHA'S computer system, illegally added Thomas and Bailey as GHA landlords, and caused the mailing of 48 fraudulent housing assistance checks totaling more than $70,000 to both Thomas and Bailey.

Contractor admits role in scheme

The contractor could face between 46 and 57 months in prison.

By JACK FLYNN
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SPRINGFIELD – A building contractor pleaded guilty yesterday to shelling out more than $200,000 in bribes to win business at the Springfield Housing Authority, giving prosecutors a key witness in the upcoming trial of former authority director Raymond B. Asselin and his family.

At his arraignment in U.S. District Court, Nicholas M. Katsounakis of Southwick, owner of Manny's Plumbing and Heating Inc., admitted helping one of Asselin's sons buy an insurance agency in South Hadley and installing a $5,000 water heater at former state Rep. Christopher P. Asselin's backyard pool in Springfield.

To secure his spot in the authority's contracting scheme, Katsounakis also was forced to write a $77,200 check for Raymond Asselin and his former top aide, Arthur G. Sotirion, according to Assistant U.S. Attorney William M. Welch II.

"In essence, it was a pay-to-play system," said Welch, adding that contractors often referred to bribes for Asselin as the "A Factor" and for Sotirion as the "S Factor."

Katsounakis, who received more than $6.4 million in business during the past decade, pleaded guilty to three bribery counts. Under federal sentencing guidelines, he could face between 46 and 57 months in prison.

As part of the plea deal, Katsounakis agreed to help prosecutors in the upcoming trial of eight Asselin family members and five others accused of bilking $2.5 million from the authority during the past decade. In return, prosecutors agreed to not bring charges in 22 other instances where Manny's Plumbing and Heating was identified as participating in bribery or other illegal acts in a 122-count indictment.

The housing authority case is part of a larger federal anti-corruption campaign that has targeted more than a dozen taxpayer-financed agencies in Springfield, from the city's Office of Community Development to the Pioneer Valley Transit Authority.

Please see Scheme, Page A8

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PHA Contract Fraud

In the Eastern District of Michigan, **Detroit, MI,** LaToya Cotton, a former contractor for Michigan State Housing Development Authority (MSHDA), entered into a plea agreement with the U. S. Attorney's Office, following the filing of a criminal information charging Cotton with one count of theft/embezzlement and one count of criminal forfeiture against her property valued at $750,780. Cotton, doing business as Washtenaw Payee Services, a former MSHDA contractor who administered the Washtenaw County Section 8 rental assistance program, created false tenant files and inspections and diverted $1,052,701 in housing assistance payments to herself over 10 years.

Nicholas Kastounakis, doing business as Manny's Plumbing & Heating, pled guilty to a six-count information filed in U.S. District Court, District of Massachusetts, **Springfield, MA**, charging him with three counts of bribery and three counts of aiding and abetting. Katsounakis, a contractor for Springfield Housing Authority (SHA), was involved in a kickback scheme with Raymond Asselin, former SHA executive director, and Arthur Sotirion, former SHA deputy director.

William Moorehead, doing business as William Moorehead and Associates (WMA), acknowledged a joint liability of $2.8 million to the U.S. Government in a stipulation for entry of consent judgment filed in U.S. District Court, Northern District of Illinois,

Chicago, IL. Moorehead, a property manager for many housing authorities and privately owned Section 8 developments, created fraudulent records and money transfers to hide missing and misused funds. Moorehead also directed codefendants Patricia Taylor and Brian Townsend, accountants at WMA, to create false bank records and write checks drawn on accounts containing insufficient funds.

Eric Ackerman, a plumbing contractor for Buffalo Municipal Housing Authority (BMHA), pled guilty in U.S. District Court, **Buffalo, NY**, to one count of false statements to HUD. Ackerman falsely certified his qualifications as a minority business enterprise (MBE) and distribution of BMHA work to other MBE companies. As a result, he received approximately $1.75 million in BMHA contracts to which he was not entitled.

Fugitive Felon

Michael Deuso, a Franklin County Housing Authority Section 8 recipient and fugitive, was arrested at his apartment in **Turners Falls, MA,** for probation violations, including smuggling drugs into a New Mexico prison.

Jose Verdejo-Santiago, a public housing tenant, Puerto Rico Housing Authority (PRHA), was arrested at his Covadonga public housing unit in **Trujillo Alto, PR,** on an outstanding fugitive-felon arrest warrant relating to the illegal sale and distribution of firearms and drugs. At the time of his arrest, 259 heroin decks, 340 units of marijuana, and five grams of pure heroin were seized from his apartment.

Joel Moreno, Ithier Rivera, Jose A. Rivera, Luis Melendez, Jose Ortiz, Omar Moreno, Jose G. Rivera, Jose M. Rivera, Ramon Martinez, Carlos Cruz, Lizette Rivera, and Yaritza Franceshi, all Puerto Rico Housing Authority (PRHA) public housing tenants, were arrested at Las Palmas public housing complex in **Coamo, PR,** on outstanding arrest warrants relating to the sale and distribution of firearms and drugs.

Francisco Frias was arrested at his New York City Housing Authority public housing unit in **New York, NY,** on a warrant for making terror threats out of Stamford, CT, by the NY/NJ High Intensity Drug Trafficking Area Regional Fugitive Task Force. A bullet resistant vest, 64 grams of cocaine, a 9mm semiautomatic weapon, drug paraphernalia, and $5,945 in cash were seized during a search of his unit.

Six Chester Housing Authority (CHA) public housing and Section 8 voucher tenants were arrested at CHA public housing units or subsidized residences in **Chester, PA**, on outstanding warrants, including one warrant charging attempted murder.

As a result of an ongoing fugitive felon initiative, 10 individuals were arrested throughout **Windham County, VT**, on outstanding State warrants. Several individuals arrested received Section 8 housing assistance either through the Vermont State Housing Authority or Brattleboro Housing Authority.

Juan Almodovar, an illegal resident of a public housing unit was arrested in **Worcester, MA**, for failure to register as a sex offender. Almodovar, previously convicted of rape in New York, failed to register as a sex offender in either New York or Massachusetts.

Dashonn Graves, a management information specialist, Plainfield Housing Authority and City of Orange Housing Authority, was arrested in **Newark, NJ**, on an outstanding warrant for failing to fulfill requirements of his pretrial intervention (PTI) program. Graves, originally arrested in April 2002 for credit card fraud and larceny, pled guilty to embezzling $37,000 from his previous employer. Graves was sentenced to 1 year pretrial probation and restitution of $25,000. In March 2004, after failing to meet probation requirements, Middlesex County District Attorney's Office, MA, issued an arrest warrant for Graves.

Dion Johnson of **Richmond, VA,** was arrested in North Carolina on charges that he failed to reregister as a sex offender. In April 1991, Johnson was convicted of felony rape and breaking and entering; later convictions include attempted rape, robbery, assault, grand larceny, and failing to register as a violent sexual offender. In March 2005, Johnson registered as a violent sex offender living in a Richmond Redevelopment and Housing Authority (RRHA) unit leased to his mother. Johnson failed to reregister after 90 days as required.

HUD OIG participated in a United States Marshal's Service (USMS) fugitive felon apprehension plan dubbed "Operation City Sweep" from March 6 through March 31, 2006, in the **Washington, DC,** metropolitan area. HUD OIG and other members of the Capital Area Regional Fugitive Task Force (CARTF) arrested fugitives with outstanding warrants on charges ranging from parole violations to homicide. Three hundred-fifteen of Washington, DC's most notorious criminals were arrested by CARTF. Some outstanding warrants included crimes involving sex offenses, homicides, assault, drugs, and burglary and/or robbery. Many of the arrests occurred in and around DC Housing Authority public housing properties and HUD multifamily properties located in Washington, DC. In addition to the 315 fugitives arrested, CARTF seized nine weapons, various types of narcotics, $28,000 cash, and one vehicle. HUD OIG is accessing HUD rental assistance databases to identify and investigate numerous cases of rental assistance fraud. Operation City Sweep accounts for the largest multiagency mass arrest plan of its kind in the District of Columbia during a 3-week period.

Regina Battles, Tashanique Leonard, Brenda Vazquez, and Michael Martin, four tenants of the Springfield Housing Authority (SHA), Sullivan Public Housing Development, were arrested on outstanding warrants in **Springfield, MA**.

Sixteen individuals were arrested on outstanding State warrants throughout **Windsor County, VT**, as part of an ongoing Fugitive Felon Initiative. Several of the individuals targeted were Vermont State Housing Authority Section 8 residents.

Other Fraud/Crimes

Veronika Smith-Riley, a loan processor with Commonwealth United Mortgage, was sentenced in U.S. District Court, Southern District of Florida, **Miami, FL**, to 11 months imprisonment and 3 years probation and ordered to perform 450 hours of community service. Smith-Riley previously pled guilty to one count of conspiracy to commit mail fraud. Smith-Riley, using false loan information, enabled a straw-buyer to secure a mortgage and quit claimed the property back to her. Smith-Riley then leased the property to the Miami-Dade Housing Authority (MDHA) for use in its rental assistance program. MDHA terminated Smith-Riley's contract as a result of her actions.

A 25-count felony criminal complaint was filed in State Court, **Los Angeles, CA,** against Anthony Miller, a 12-year public housing resident, and coconspirator Marjorie Craddock, a former insurance agent, Western Southern Life Insurance Company. Miller and Craddock were each charged with three counts of insurance fraud, two counts of grand theft, and one count of conspiracy. In addition, Miller was charged with 10 counts of forgery, and Craddock was charged with nine. On January 18, 2006, Miller was arrested as a primary suspect in an unsolved homicide. On January 25, 2006, an arrest warrant was issued for Craddock. Miller and his family reside at Jordan Downs Public Housing Apartment Complex in Los Angeles. Miller, the alleged beneficiary on 54 life insurance policies, including a policy on the murder victim, paid approximately $2,000 in cash monthly for the policies, an amount not supported by his reported Social Security Supplemental Security Income (SSI) and Aid to Families with Dependant Children (AFDC) benefits.

Danilo Rico, a former East Hartford Housing Authority (EHHA) Section 8 tenant, was indicted in U.S. District Court, District of Connecticut, **East Hartford, CT**, on one count of possession of a firearm by a convicted felon for possessing a 9 mm handgun seized during a Federal search warrant at his EHHA Section 8 unit on August 31, 2005. EHHA terminated Rico from its rental assistance program.

Clarence E. Baker, Jr., a Section 8 tenant at Canterbury Towers Apartments, was charged in a State criminal complaint, in **Worcester, MA,** with felony charges of presenting a false claim to a government agency and larceny over $250 by false pretense. Baker also failed to report his sexual offender conviction on housing assistance documents.

Louis Hanley was sentenced in U.S. District Court, District of Massachusetts, **Worcester, MA**, to 4 years incarceration and 3 years supervised release following his October 5, 2005, guilty plea to one count of interstate travel for the purpose of dealing in firearms without a license. Hanley, a convicted felon, traveled from Maine to the Worcester Housing Authority (WHA) to retrieve a shotgun found by WHA maintenance employees in a WHA Addison Street Apartments housing unit formerly leased to his mother.

Thomas C. McGee and Andrea Wilks were each indicted by a State of Missouri grand jury, in **St. Louis, MO,** on one count of second degree robbery, one count of kidnapping, four counts of false impersonation, one count of attempted stealing, and two counts of stealing over $500 by deceit. Allegedly, McGee and Wilks obtained the tenant list of Greater Bethlehem Elderly, a HUD-funded elderly housing project and, posing as police officers and/or detectives, attempted to steal or embezzle assets of the elderly.

Fifteen unauthorized tenants were found residing at the Worcester Housing Authority (WHA) Great Brook Valley Gardens Housing Development in **Worcester, MA**. During the interview of one unreported tenant, police observed marijuana in plain view and arrested the unreported tenant on drug charges. A juvenile reported missing for 6 months was found hiding in another unit.

Louis Douglas, a Section 8 recipient, was charged in Superior Court, County of Los Angeles, **Los Angeles, CA**, with three felony counts of failing to register annually as a convicted sex offender. Douglas, previously convicted in 1997 of committing lewd and lascivious acts on a child under the age of 14, allegedly failed to disclose his status as a lifetime sex offender to the City of Los Angeles Housing Authority before obtaining housing assistance benefits.

Chapter 4
HUD's Multifamily Housing Programs

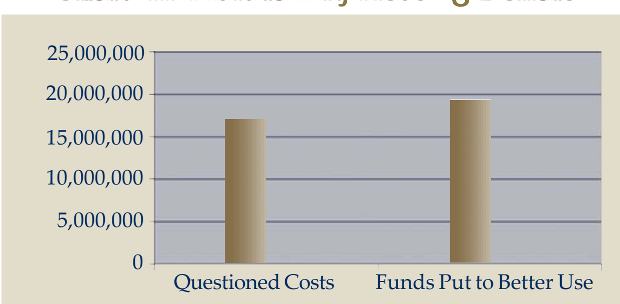
In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation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

Audits

During this period, the Office of Inspector General (OIG) issued nine external reports and one internal report in the multifamily housing program area. These reports disclosed more than $15 million in questioned costs and more than $19 million in recommendations that funds be put to better use.

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

Chart 4.1: Multifamily Housing Dollars



Owner and Management Agent Operations

HUD OIG audited Mount Saint Francis Health Center in **Woonsocket, RI**, to determine whether the owner complied with its HUD regulatory agreement and other applicable laws and regulations.

The project had more than $4.4 million in questionable cash disbursements and accrued expenses. Under the direction of the owner and identity-of-interest management agent, the project made questionable cash disbursements of more than $1.6 million and accrued questionable expenses of more than $192,000 while in a non-surplus-cash position, and the owner and identity-of-interest management agent billed HUD more than $2.4 million for services not provided. In addition, the general manager of the management agent received a salary as the assistant administrator of the nursing home, resulting in more than $112,000 in unnecessary expenses.

OIG recommended that HUD 1) pursue the recovery of double the amount of questionable cash disbursements to identities of interest; 2) obtain support or reimbursements for unsupported and unnecessary disbursements; 3) pursue the recovery of questionable distributions to non-identities-of-interest; 4) take appropriate action to prevent payment of ineligible and unnecessary cash disbursements after the audit period; 5) require the project to develop and implement procedures that ensure only eligible expenses are paid from project funds and that documentation is maintained to support the eligibility of payments made; 6) require the project to replace the management agent; and 7) pursue all applicable administrative sanctions against the owner, management agent, and identity-of-interest companies. (Audit Report: **2006-BO-1004**)

HUD OIG audited Holiday Apartments, LA Pro 30, and Two Worlds II in **Los Angeles, CA**, to assess HUD's concerns over inappropriate disbursements and determine whether the projects were administered in compliance with HUD requirements.

The owner and identity-of-interest management agent used project funds to pay more than $2.6 million in ineligible and unsupported costs, including excessive and unreasonable charges by an identity-of-interest maintenance contractor, excessive charges for the management agent's president, unsupported rent charges and capital improvement expenses for the management agent's office, and ineligible ownership expenses. OIG anticipates similar additional questionable costs continued after the end of the audit period that could cost the projects another $457,000. OIG's building inspections identified more than 240 health or safety violations, which resulted in more than $561,000 in housing assistance payments for units and buildings that were not decent, safe, and sanitary. In addition, the owner and identity-of-interest management agent did not effectively manage the projects, to include not accurately calculating, reporting, and resolving more than $655,000 in project liabilities.

OIG recommended that HUD require the owner to repay the respective projects for the ineligible costs and provide support for the reasonableness of unsupported costs or repay the projects. In addition, HUD should require the owner to correct unit deficiencies and obtain new management, accounting, and maintenance services. (Audit Report: **2006-LA-1010**)

HUD OIG reviewed the books and records of Coventry Health Center of **Coventry, RI**, to determine whether Coventry Health Center Associates, L.P., and/or Sterling Health Care Management Company, an identity-of-interest management agent, used the project's funds in compliance with the regulatory agreement and HUD's requirements. Coventry was selected for audit because the nursing home was in default.

Coventry's owner and/or management agent used project funds for inappropriate and unsupported disbursements. The inappropriate and unsupported disbursements occurred while the project was in a non-surplus cash position and/or in default of its HUD-insured loan. HUD sold the project's note and lost more than $6.3 million. OIG identified more than $1.8 million in questionable cash disbursements made by the project's owner and/or management agent. The disbursements were used to pay for non-project-related expenses, loan repayments, excessive management fees, and unnecessary services while the project was in a non-surplus-cash position and/or in default of its HUD-insured loan.

OIG recommended that HUD pursue the recovery of double the amount of questionable cash disbursements to identities of interest, support or reimburse the insurance fund for unsupported costs, and require reimbursement of disbursements that were deemed unnecessary to the nursing home. (Audit Report: **2006-BO-1006**)

HUD OIG reviewed the books and records of the Villas at Camelback Crossing Phase I, a 264-unit multifamily housing project located in **Glendale, AZ**, at the request of HUD. HUD expressed concerns regarding the owner's use of project funds. The objective was to determine whether the owner and its identity-of-interest management agent used project funds only for reasonable operating expenses and necessary repairs as required by the regulatory agreement.

The project's owner, Millenium Communities, Inc., and American West Communities, LLC, the project's identity-of-interest management agent, inappropriately used more than $1 million in project funds for ineligible purposes in violation of the regulatory agreement. The ineligible uses included more than $300,000 in international wire transfers to unknown entities, more than $26,000 for payments on unauthorized loans, and more than $180,000 for payment of project construction costs. Additional improper uses included more than $80,000 paid to management agent supervisory personnel and corporate officers; net payments of approximately $65,000 to other identity-of-interest projects; and payments of more than $116,000 for unallocated payroll, health insurance, and other expenses of the identity-of-interest Camelback II project. The project owner and/or management agent lacked documentation to support additional disbursements of more than $165,000 for credit card expenses, legal expenses, insurance expenses, and other costs. Further, the project did not obtain required HUD approval of its management agents and inappropriately paid approximately $104,000 in management fees.

OIG recommended that HUD ensure that the owner reimburses the project's operating account for the inappropriate expenses and provides documentation for the unsupported payments or reimburses those amounts that cannot be supported to the project's operating account. (Audit Report: **2006-LA-1005**)

HUD OIG reviewed the books and records of the Villas at Camelback Crossing Phase II, a 240-unit multifamily housing project located in **Glendale, AZ**, at the request of HUD. HUD expressed concerns regarding the owner's use of project funds. The objective was to determine whether the owner and its identity-of-interest management agent used project funds only for reasonable operating expenses and necessary repairs as required by the regulatory agreement.

The project's owner, Camelback Crossing II Limited Partnership, and American West Communities, LLC, the project's general partner and identity-of-interest management agent, inappropriately used more than $1 million in project funds for ineligible purposes during a period when the project did not have surplus cash available for distribution and/or was in default on its HUD-insured mortgage. The ineligible uses included $262,000 in international wire transfers to unknown entities, more than $101,000 for payments on unauthorized loans, $100,000 to an unknown certificate of deposit account, and approximately $79,000 for payment of project construction costs. Additional improper uses included more than $151,000 paid to corporate officers and management agent supervisory personnel and net payments of $119,000 to other identity-of-interest projects. The owner and/or management agent also lacked documentation to support additional disbursements of more than $182,000 for credit card expenses, real estate taxes, and other costs. Further, the owner did not obtain required HUD approval for American West to serve as the project's management agent and allowed another identity-of-interest project to retain $12,000 in project revenue.

OIG recommended that HUD ensure that the owner reimburses the project's operating account for the ineligible disbursements and provides documentation for the unsupported payments or reimburses those amounts that cannot be supported to the project's operating account. (Audit Report: **2006-LA-1006**)

HUD OIG reviewed the books and records of the Villas at Augusta Ranch, a 238-unit multifamily housing project located in **Mesa, AZ**, at the request of HUD. HUD expressed concerns regarding the owner's use of project funds. The objective was to determine whether the owner and its identity-of-interest management agent used project funds only for reasonable operating expenses and necessary repairs as required by the regulatory agreement.

The project's owner, Tegan Communities, Inc., and American West Communities, LLC, the project's identity-of-interest management agent, inappropriately used more than $965,000 in project funds for nonproject (ineligible) purposes in violation of the regulatory agreement. The ineligible uses included approximately $367,000 in wire transfers to unknown entities, approximately $137,000 for payments on an unauthorized line of credit, and $8,600 for payment of project construction costs. Additional improper uses included more than $78,000 paid to management agent supervisory personnel and corporate officers and net payments of approximately $72,000 to other identity-of-interest projects. The owner lacked documentation to support additional disbursements of more than $246,200 for credit card expenses, legal expenses, and other costs. Further, the project did not obtain required HUD approval of its management agent and inappropriately paid more than $56,000 in management fees.

After OIG's audit, the project was sold, and the HUD-insured mortgage was paid in full, canceling HUD's insurance liability on the project. Accordingly, OIG did not recommend repayment of the ineligible costs identified but recommended that HUD pursue double damages remedies under the equity skimming statues for the misuse of project funds. (Audit Report: **2006-LA-1007**)

In response to a request from HUD's Office of Multifamily Housing in **San Francisco, CA**, HUD OIG audited The Avenue, a 145 bed assisted living facility. The objective was to determine whether project funds were administered in compliance with the regulatory agreement and HUD requirements.

The project's owner misused more than $32,800 in project funds by entering into a food service contract that had excessive costs and paid Feng Shui Consulting for ineligible expenses.

OIG recommended that HUD require the owner to repay The Avenue more than $32,800 from nonproject funds. (Audit Report: **2006-LA-1003**)

HUD OIG reviewed the books and records of The Sanctuary, a 39-bed assisted living facility located in **Geneva, OH**. The review was part of OIG's efforts to combat multifamily equity skimming on HUD's Federal Housing Administration (FHA) insurance fund. OIG chose the project based upon its negative surplus-cash position since 2002 and indications that project funds or assets were not used as required. The objective was to determine whether the owner/management agent used project funds in compliance with the regulatory agreement and HUD's requirements.

Eld-Terra, Incorporated, the managing general partner of The Sanctuary of Geneva Limited Partnership, improperly used more than $43,000 in project funds from February 2003 through January 2005, when the project was in a non-surplus-cash position. The general partner inappropriately disbursed $37,000 to repay owner advances to the project and approximately $1,000 for non-project-related legal services. Also, the general partner lacked documentation to support that more than $5,000 in project funds was properly used.

OIG recommended HUD require the general partner to reduce the project's management fee liability for the inappropriate payments, provide documentation to support the unsupported payments or reduce the project's management fee liability for the appropriate amount, and implement procedures and controls to ensure that future repayments of owner advances are made only from project surplus cash or with prior HUD approval and project funds are used according to HUD's requirements. (Audit Report: **2006-CH-1002**)

Section 8 Contract Administrators

In response to a request from HUD, OIG audited the Idaho Housing and Finance Association in **Boise, ID.** The objective was to determine whether Idaho Housing monitored projects in accordance with its annual contributions contract with HUD to ensure that project funds were expended appropriately.

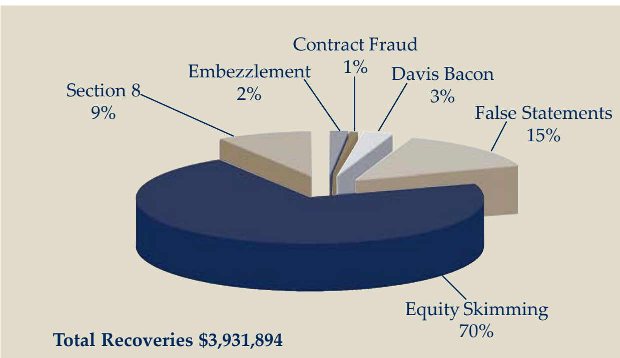
Idaho Housing inappropriately allowed excessive owner distributions; duplicate and other unsupported reimbursements from replacement reserves; a conflict-of-interest to exist between itself and The Housing Company, a nonprofit owner of subsidized multifamily projects; and excessive management fees. These deficiencies resulted in questioned costs of more than \$3.8 million and unsupported costs of more than \$182,000.

OIG recommended that HUD require Idaho Housing to reimburse the affected projects' residual receipts accounts for the excessive distributions, duplicate reimbursement, and excessive management fees; provide supporting documentation or reimburse the affected projects' replacement reserve accounts for unsupported reimbursements; and take corrective action to resolve the conflict of interest relationship. OIG also recommended that HUD obtain a formal legal opinion to determine whether the 1988 housing assistance payments amendments subject the owners of the projects to limitations on distributions in accordance with 24 CFR 883.702(e). (Audit Report: **2006-SE-1001**)

Investigations

During this reporting period, OIG opened 74 investigation cases and closed 105 cases in the multifamily housing program area. Judicial action taken on these cases during the period included $3,931,894 in investigative recoveries, 60 indictments/informations, 30 convictions/pleas/pretrial diversions, 101 arrests, 1 civil action, 1 personnel action, and 81 administrative actions.

Chart 4.2: Multifamily Housing Recoveries



Multifamily rental assistance fraud is one of the investigative priorities for the Office of Investigation. OIG continues rental assistance fraud initiatives nationwide that will help reduce fraud in HUD rental assistance programs and support the HUD Rental Housing Integrity Improvement Project (RHIIP). 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.

Rental Assistance Fraud

Olandria Williams, a former Section 8 tenant at Shoreview Apartments, a HUD-subsidized housing complex, pled guilty in the U.S. District Court, Northern District of California, **San Francisco, CA**, to one count of false statements to HUD. Williams falsified her reported income and failed to disclose property she owned in Sacramento, CA. Under the plea agreement, Williams agreed to pay HUD $45,072 in restitution for Section 8 subsidies to which she was not entitled.

Carsereena Red Dog, a Section 8 Moderate Rehabilitation recipient and accountant for Opportunities Inc. (OI), a HUD funded nonprofit organization in Great Falls, MT, along with Leslie Red Dog, also an OI Section 8 Moderate Rehabilitation recipient, were each indicted in U.S. District Court, District of Montana, **Billings, MT**, on one count of conspiracy and one count of false statements to HUD. Carsereena and Leslie Red Dog allegedly failed to report all income on annual rental assistance recertification documents submitted to OI. As a result, HUD's loss is estimated at $36,000.

Rosalyn Tillery, a former Section 8 tenant at La Salle Apartments, a HUD-subsidized multifamily housing complex, was indicted in U.S. District Court, Northern District of California, **San Francisco, CA**, on one count of making false statements to HUD. From July 1995 through December 2001, Tillery allegedly failed to claim her employment with the County and City of San Francisco or her 1997 purchase and co-ownership of a single-family residence in Hercules, CA, on HUD documents. As a result, Tillery received approximately $35,759 in Section 8 housing assistance to which she was not entitled.

Shaneen Edwards, a Miami Department of Community Development (MDCD) Section 8 tenant, was indicted in U.S. District Court, Southern District of Florida, **Miami, FL**, on two counts of false statements to HUD and 44 counts of theft of government funds. Edwards allegedly concealed her employment as a teacher with the Miami-Dade County Public Schools to qualify for continued MDCD housing assistance, and failed to use her subsidized unit as her primary residence. As a result, HUD realized losses of $25,445.

Rhonda Olkowski, a former Section 8 tenant, South Middlesex Opportunity Council (SMOC), was sentenced in the U.S District Court, **Boston, MA,** to 6 months probation and ordered to pay HUD $30,360 in restitution for her guilty plea to one count of false statements on November 9, 2005. From February 2001 to April 2004, Olkowski, whose husband is a U.S. Federal Air Marshal, failed to report her husband's income on SMOC documents.

FRAMINGHAM

Woman charged with scamming Section 8 benefit

By Timothy R. Homan
DAILY NEWS CORRESPONDENT

FRAMINGHAM – Federal authorities have charged a Dudley woman with lying to the U.S. Department of Housing and Urban Development so she could receive subsidized housing benefits from 2001 to 2004 while living in Framingham.

Rhonda Olkowski, 38, who lived at 26B Victor Road, Framingham, faces up to five years in prison and a $250,000 fine if convicted of under-reporting her income to participate in the Section 8 housing program administered by HUD.

The one-count charge was filed Thursday by the U.S. Attorney's office in Boston.

The Framingham Housing Authority currently owns and operates 1,069 units, with 687 of those set aside for Section 8 tenants, according to Steve Starr, chairman of the FHA.

Section 8 housing is a rental-assistance program for qualified low-income residents. Regardless of rental rates, participating tenants pay a designated portion of their income, usually no more than 30 percent, toward their rent while HUD pays the difference to the landlord.

Star and others said attempts to defraud the federal program are commonplace.

WOMAN CHARGED, *Page B2*

Manila McCloud, a Miami Department of Community Development (MDCD) Section 8 tenant, was indicted in U.S. District Court, Southern District of Florida, **Miami, FL**, on one count of false statements to HUD and 39 counts of theft of government funds. McCloud allegedly concealed her employment with Miami-Dade Transit Agency to qualify for MDCD housing assistance and failed to use her subsidized unit as her primary residence. As a result, HUD realized losses of $22,695.

Alan C. Maki, a Section 8 tenant at Canterbury Towers Apartments, a HUD-assisted multifamily housing complex, was charged in Worcester District Court, **Worcester, MA**, with perjury and larceny over $250 by false pretense. Maki allegedly failed to disclose his previous sex offender conviction on housing assistance documents.

Eight Walnut Grove Apartment Section 8 tenants were arrested in **Kansas City, MO**, on outstanding felony warrants involving fraud, tampering, and other charges by the Kansas City, MO, Police Department; State of Missouri, Division of Family Services, Department of Social Services Investigation Section; and HUD OIG. Five of the felony warrants relate to housing assistance fraud cases filed against Walnut Grove project-based Section 8 tenants for failing to report income.

Theft and Embezzlement

Golam Mostafa, owner of Mostafa Contracting and T&MTT, construction companies based in Brooklyn, NY, was found guilty in U.S. District Court, Southern District of New York, **New York, NY**, on five counts of Federal income tax evasion and one count of filing a false Federal Income Tax Return. From 1997 through 2003, Mostafa Contracting and T&MTT received $17,708,578 in HUD funds through ARCO, a $425 million HUD contractor that managed Caldwell Houses, Gates Avenue Houses, Jose Diego Beekman, JD Beekman, Medgar Evers, Mott Haven 6, Willow Street Apartments, West Street Apartments, Oxford Knolls Apartments, 31 North Virginia Avenue, Willard J. Price, and Pueblo, all HUD mortgagee in possession (MIP) multifamily properties. Mostafa's contract with HUD/ARCO required him to complete all building and unit renovations and rehabilitations on HUD MIP multifamily properties, but Mostafa subcontracted building and unit renovations back to ARCO employees instead. From 1998 through 2002, while under contract with HUD/ARCO, Mostafa sent approximately $7 million to Bangladesh via a money remitter, reporting this amount as a cost-of-goods-sold expense for income tax purposes. Mostafa was arrested on March 22, 2005, by HUD OIG and remains incarcerated.

Jill M. Trayner, former executive director, United Methodist Retirement Center of Tampa, Inc., also known as Methodist Place, a HUD multifamily housing complex for the elderly, pled guilty in U.S. District Court, Middle District of Florida, **Tampa, FL,** to a one-count information charging her with theft of government funds. The plea agreement requires Trayner to pay $366,228 in restitution to Methodist Place. Trayner diverted Methodist Place program funds into an unknown account and used the funds to pay her gambling, vehicle, credit card, and other personal expenses. Trayner was arrested after her plea.

Jessica Elaine Thompson Miller, Green River Management, Inc., was charged in State Court, Payne County, OK, **Stillwater, OK**, with one count of embezzlement. From May 1992 until December 2003, Miller was the on-site manager for Southern Heights Apartments, a HUD-subsidized multifamily complex. Miller allegedly moved tenants into vacant units, reported tenant move outs when tenants remained in their apartments, and embezzled cash rents from tenants and utility reimbursements from HUD associated with these units. HUD's loss is $87,775.

Other Fraud/Crimes

American Management Incorporated (AMI), a property management company for HUD-owned multifamily properties, was named in a civil complaint filed in U.S. District Court, Eastern District of Michigan, **Detroit, MI**. AMI and its employees allegedly fabricated repair and service subcontracts totaling $133,364 at HUD-owned multifamily properties managed by AMI. The complaint further alleges AMI facilitated the issuance of purchase orders for employee labor previously paid by HUD.

Mark Rolfsema, a former Section 8 tenant, Andover Commons Apartments, was sentenced in U.S. District Court, District of Massachusetts, **Andover, MA**, to 57 months incarceration and 3 years supervised release following his previous guilty plea to possession of child pornography. Rolfsema possessed child pornography found during a search of his Section 8 apartment.

Joel Hernandez Pedroso, was arrested in **Miami, FL**, following the unsealing of a Federal indictment charging Hernandez Pedroso with one count of conspiracy to commit fraud against the United States. Hernandez Pedroso, in conjunction with employees of Maloney Properties and United Housing Management, allegedly facilitated and received approximately $8,000 in cash from at least five individuals in exchange for Section 8 subsidized units at several HUD-assisted multifamily housing complexes in Boston. During the investigation, Hernandez Pedroso fled to Miami where he was arrested by HUD OIG, U.S. Marshal's Service, and the Miami Police Department.

Property manager indicted on bribery charges

ENTERPRISE WIRE REPORT

BOSTON — A federal grand jury has indicted a Brockton woman on charges that as a property manager responsible for screening applicants for Section 8 subsidized apartments in Boston, she accepted cash payments from applicants seeking the housing.

Wanda Mercado, 38, of 76 Brook St., was named in a federal indictment charging her with five counts of corrupt receipt of payments by an agent of a federally funded local government entity.

According to the indictment, Mercado took money from five applicants who sought subsidized apartments in three buildings that she managed — 610 Cummins Highway, Mattapan; 60 Brookledge Street, Dorchester, and 37 Williams St., Roxbury.

It is alleged that Mercado was paid amounts ranging from $4,500 to $6,000 by the five applicants for a total of $26,000.

At the time, Mercado was employed as a property manager for Peabody Properties, Inc., which served as the management agent for the buildings.

There is a wait list for financially eligible applicants to the Section 8 housing program, which provides rental subsidies for qualifying low-income families. It is illegal to solicit or accept payments from applicants for housing assistance.

In a similar case in Avon, Marysol Morales of Brockton, a former Avon Housing Authority administrator, faces charges of bilking thousands of dollars in bogus fees and deposits from people applying for the federal rent assistance. She was indicted on a total of 21 federal counts.

Wanda Mercado, former Property Manager for Peabody Properties, was indicted in U.S. District Court, **Boston, MA,** on five counts of bribery. Mercado solicited and accepted approximately $26,000 in bribes from five Section 8 applicants in exchange for subsidized rental units at Schoolhouse 77, a Boston multifamily complex. In addition to criminal charges, Peabody Properties placed a $350,000 lien on Mercado's personal residence in Brockton, MA.

Francis Oppong, an illegal resident of Lincoln Village Apartments, a HUD-assisted multifamily housing complex, was arrested in **Worcester, MA,** on an outstanding Immigration and Customs Enforcement deportation warrant.

Chapter 5
HUD's Community Planning and Development Programs

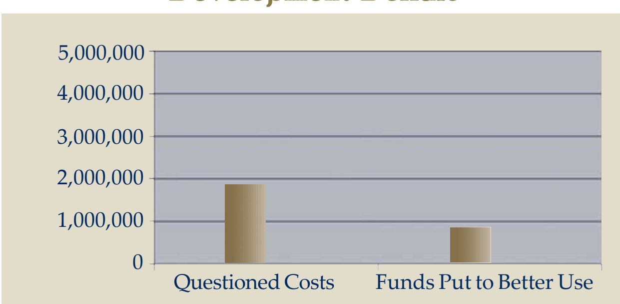
The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development 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 $2 million in questioned costs and more than $1 million in recommendations that funds be put to better use.

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

Chart 5.1: Community Planning and Development Dollars



Community Development Block Grant Program

HUD OIG audited the City of **Hartford, CT,** Division of Grants Management, regarding its administration of the CDBG program in response to a Hotline complaint. The objectives were to determine whether the City awarded grants to subrecipients for eligible activities and adequately monitored their performance to ensure they were paid in accordance with the contract terms, met contract objectives, and properly accounted for Emergency Demolition and Repair program income.

The City paid more than $1 million in ineligible costs associated with 5 of the 17 activities reviewed. Of the ineligible costs, more than $831,000 related to activities ineligible under the CDBG program, and approximately $207,000 related to an activity that was ineligible under the cited eligibility category. OIG also identified more than $394,000 allocated for ineligible activities for the City's CDBG program year beginning July 1, 2005. In addition, although the City paid subrecipients in accordance with the contracts, we could not always determine whether the contract objectives were met.

The City also did not properly account for approximately $147,000 in CDBG program income generated through its Emergency Demolition and Repairs program. In addition, more than $525,000 in receivables is at risk of not being returned because of ineffective internal controls over the program receipts.

OIG recommended that HUD require the City to develop and implement procedures to ensure that only eligible activities meeting CDBG program objectives are funded. In addition, HUD should require the City to repay more than $831,000 in ineligible costs, repay approximately $207,000 in costs that were improperly classified as direct homeownership assistance, reprogram more than $394,000 allocated for ineligible activities in the program year beginning July 1, 2005, repay more than $62,000 in Emergency Demolition and Repair program income, and provide support for or repay the more than $85,000 in Emergency Demolition Repair program payments. (Audit Report: **2006-BO-1001**)

This is the sixth of HUD OIG's ongoing audits of the Lower Manhattan Development Corporation's 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, NY**. The auditee disbursed $64 million of these funds during OIG's audit period of April 1 through September 30, 2005. The objectives of the current review were to determine whether the auditee disbursed the funds in accordance with HUD-approved action plans, expended the 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.

The auditee generally disbursed Disaster Recovery Assistance funds in accordance with the HUD-approved action plans. The auditee also expended the 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, weaknesses in the auditee's control procedures permitted funds to be disbursed contrary to the terms of its subrecipient agreements and charged to the wrong program. More than $259,000 was disbursed contrary to a subrecipient agreement, $7.5 million was disbursed for eligible costs but without auditee approval as required, and more than $7,000 was charged to the wrong program.

OIG recommended that HUD require the auditee to obtain reimbursement for the more than $259,000 disbursed contrary to the subrecipient agreement, strengthen its controls over the Disaster Recovery Assistance funds to ensure that funds are not disbursed without proper approval and/or authorization, and obtain reimbursement for more than $7,000 charged to the wrong program. (Audit Report: **2006-NY-1006**)

Special Purpose Grant Program

HUD OIG audited NorthStar Community Development Corporation's Economic Development Initiative – Special Purpose Grant in **Detroit, MI,** as part of its 2005 annual audit plan. OIG chose NorthStar's Grant because it disbursed 90 percent or more of its funds. The objectives were to determine whether NorthStar used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted properties.

NorthStar improperly used more than $123,000 in Grant funds and lacked documentation to support that nearly $2,000 in Grant funds was used according to NorthStar's amended budget. In addition, NorthStar used more than $184,000 in Grant funds to acquire or aid in the acquisition of and/or rehabilitate real property; however, it did not place covenants on the properties' titles, assuring nondiscrimination based on race, color, national origin, or handicap. Further, NorthStar did not record HUD's interest on the properties' titles.

OIG recommended that HUD require NorthStar to reimburse HUD from nonfederal funds for the inappropriate expenses; provide supporting documentation or reimburse HUD for unsupported expenses; implement procedures and controls to address the deficiencies identified; and record covenants and liens on the titles. If the covenants and liens are not recorded, NorthStar should reimburse HUD the more than $184,000 used on the properties. (Audit Report: **2006-CH-1006**)

HUD OIG audited the City of **St. Ignace, MI**'s Economic Development Initiative – Special Purpose Grant as part of its 2005 annual audit plan. OIG chose the City's grant because it had disbursed 90 percent or more of its funds. 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 the funds to pay for the construction of the St. Ignace Public Library. However, it did not place a covenant on the property title for the library, assuring nondiscrimination based on race, color, national origin, or handicap.

OIG recommended that HUD assure the covenant, executed on October 18, 2005, on the library's property title, ensuring nondiscrimination based on race, color, national origin, or handicap, includes HUD's remedies in the event that discrimination occurs. The appropriately executed covenant with HUD's remedies should help ensure that the City protects HUD's interest in the more than $223,000 in Grant funds used for the library. (Audit Report: **2006-CH-1001**)

HUD OIG audited the City of **Rhinelander, WI**'s Economic Development Initiative – Special Purpose Grant. OIG chose the City's grant because it had disbursed 90 percent or more of its funds. 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 $120,000 in Grant funds to pay for the reconstruction of U.S. Highway 8, which included the construction of a rail spur crossing and access road. However, it did not place a covenant on the property title for the access road, assuring nondiscrimination based on race, color, national origin, or handicap. Further, HUD did not request that the City record HUD's interest on the access road's property title.

OIG recommended that HUD require the City 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 the access road showing HUD's interest in the assisted property. If the covenant and lien are not recorded, the City should reimburse HUD approximately $47,600 for the Grant funds used to pay for the construction of the access road. (Audit Report: **2006-CH-1003**)

Supportive Housing Program

HUD OIG audited the Fontana Native American Indian Center in **Fontana, CA**, in response to a request from HUD. The objectives were to determine whether the Center administered its Supportive Housing Program grant in accordance with HUD requirements and its grant agreement.

The Center spent more than $194,500 in grant funds for ineligible, unsupported, and unnecessary expenses. Additionally, the Center's financial management and record-keeping systems were inadequate.

HUD OIG recommended that HUD require the Center to reimburse the grant or repay HUD for the ineligible, unsupported, and unnecessary expenses. OIG also recommended that HUD require the Center to establish and implement financial management and record-keeping systems that meet Federal requirements and not award the Center additional funding until it has implemented adequate systems and controls. (Audit Report: **2006-LA-1009**)

In response to a complaint from the Government Accountability Office (GAO), HUD OIG completed a limited review of Women Rising, Inc., located in **Jersey City, NJ**. The complaint generally alleged that the grantee was misappropriating funds in regard to reimbursable expenses and the payment of salaries under its Program Home, part of HUD's Supportive Housing program. The review objectives were to determine whether the allegations in the complaint were valid, the grantee had adequate controls over disbursements and drawdowns, and the grantee's cost allocation plan was approved by HUD.

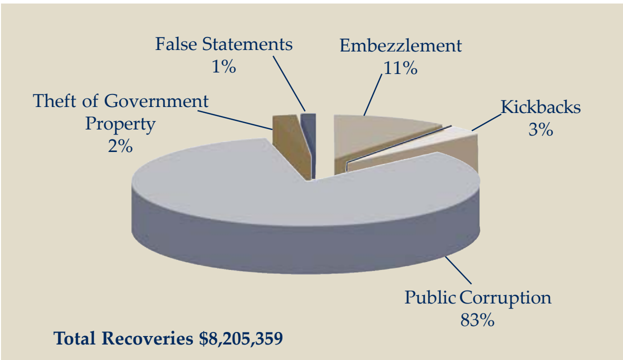
The allegations in the complaint regarding HUD funding were not valid. The grantee generally had adequate controls over disbursement and drawdowns; however, more than $94,000 of the final drawdown was not supported by invoices or evidence that costs were incurred. Additionally, the grantee's cost allocation plan had not been approved by HUD.

OIG recommended that the grantee be directed to provide documentation to support more than $94,000 in drawdowns or reimburse HUD for the unsupported costs. In addition, the grantee should ensure that all drawdowns are properly supported with documentation and submit its cost allocation plan to HUD for review and approval. (Audit Report: **2006-NY-1002**)

Investigations

During this reporting period, OIG opened 42 investigative cases and closed 36 cases in the CPD program area. Judicial action taken on these cases during the period included $8,205,359 in investigative recoveries, 43 indictments/informations, 13 convictions/pleas/pretrial diversions, 49 arrests, 2 civil actions, 3 personnel actions, and 17 administration actions.

Chart 5.2: Community Planning and Development Recoveries



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.

Public Corruption

Jose Cipolla, a contractor with Mardell Construction Company, and Frank Guido, owner of Franklin Construction Company, were sentenced in U.S. District Court, Western District of New York, **Rochester, NY**, following their earlier guilty pleas to one count of perjury for lying to a Federal grand jury by denying they paid kickbacks to City of Rochester rehabilitation specialist David Lippa. Cipolla was sentenced to 6 months home confinement and 5 years probation and ordered to pay HUD $5,000 in restitution; Giudo was sentenced to 5 years probation and ordered to pay the U.S. Department of Justice (DOJ) $5,000 in restitution. On December 14, 2005, Lippa and Mark Stedman, former City of Rochester rehabilitation specialists, were sentenced for their earlier guilty pleas to one count of bribery. Lippa was sentenced to 5 months incarceration, 5 months home confinement, and 3 years probation; fined $3,000; and ordered to perform 40 hours of community service. Stedman was sentenced to 2 years probation and 6 months home confinement and fined $1,000. Lippa and Stedman solicited kickbacks from contractors in exchange for City of Rochester rehabilitation contracts. The City of Rochester Rehabilitation program receives $2 million yearly in HUD CDBG and HOME grant funds to rehabilitate housing for low-income families in the City of Rochester.

Emmanuel Onunwor, the former mayor and director of East Cleveland Department of Community Development (ECDCD), a HUD-funded organization, and Cuyahoga Metropolitan Housing Authority (CMHA) Section 8 landlord, was sentenced in U.S. District Court, Northern District of Ohio, **Cleveland, OH**, to 9 years in prison and 3 years probation and ordered to pay the Bankruptcy Court and Internal Revenue Service (IRS) $5,111,000 in restitution. Onunwor was convicted of violating the Racketeering Influenced Corrupt Organizations Act (RICO), mail fraud, extortion, witness tampering, and filing false Federal income tax returns from 1998 to 2002. Onunwor solicited and received bribes, kickbacks, and secret payoffs through intermediaries using HUD funds as an inducement for contractor bribes while he was director of ECDCD and mayor of East Cleveland. In addition, Onunwor filed false disclosure forms with the Ohio Ethics Commission and failed to disclose his receipt of Section 8 housing assistance payments from CMHA to the Bankruptcy Court or IRS.

Southbridge tenant busted for L.M.D.C. housing fraud

Mark Marcucilli, an official with the state Division of Housing and Community Renewal, was charged in Manhattan Federal Court on Dec. 20 with conspiracy in a series of schemes to defraud both the Lower Manhattan Development Corp., and Southbridge Towers, the Mitchell-Lama co-op in Lower Manhattan where he lives.

Marcucilli, 49, was arrested on Dec. 22 and released on his own recognizance with his travel restricted to the New York City and surrounding counties pending the outcome of a grand jury presentation, according to federal prosecutors.

The state D.H.C.R. last week suspended the defendant's job as the agency's assistant director of housing management while the case is pending. Jesse Barab, Marcucilli's lawyer, did not return two calls for comment.

The 30-page complaint alleges a chain of actions, including mail fraud, with unnamed co-conspirators, according to U.S. Attorney Michael Garcia. The charges are the result of investigations by the New York State Inspector General's Office, the federal Department of Housing and Urban Development and the U.S. Postal Service, Garcia said in a statement.

The complaint charges the defendant with illegally obtaining an apartment at Southbridge by falsely stating that his father lived with him there and obtaining L.M.D.C. grant money based on the false claim. At the time, his father actually lived in Yonkers, according to the complaint.

Marcucilli is also charged with helping a co-conspirator to obtain a Southbridge apartment and to illegally sublet it to a third party. The complaint goes on to charge that Marcucilli helped the friend get an L.M.D.C. grant by claiming the friend lived in the apartment that was sublet to someone else.

The complaint also charges that Marcucilli aided another D.H.C.R. employee who lived at Southbridge to illegally sell his apartment by falsely representing to the state agency that he lived with the person who bought it.

As a result of those actions, the defendant is charged with stealing government funds from the L.M.D.C., which gave rent grants to Lower Manhattan residents, including residents at Southbridge, who were affected by the Sept. 11, 2001 World Trade Center attack. The two-year grants were intended to encourage people to move to or remain in Lower Manhattan.

Marcucilli is also charged with conspiring to commit mail fraud and conspiring to steal L.M.D.C. funds. If convicted, he faces a maximum prison sentence of 20 years.

—Albert Amateau

Mark Marcucilli, assistant director of housing management, New York State Division of Housing and Community Renewal (DHCR), and his father, Fred Marcucilli, were each indicted in U.S. District Court, **New York, NY**, on eight counts of conspiracy to commit mail fraud and theft of government funds. The Marcucillis allegedly deceived and obtained HUD and Lower Manhattan Development Corporation (LMDC) funds by falsely claiming residence in the lower Manhattan World Trade Center area. HUD provided $2.7 billion for LMDC, an organization created to coordinate the rebuilding and revitalization of lower Manhattan after the September 11, 2001, terrorist attacks. Mark Marcucilli was arrested on December 21, 2005.

Warren Godbolt, former executive director, Progressive Training Associates (PTA), a non-profit organization receiving funds through HUD's Supportive Housing Program, and Ernest Newton, a former State senator, were sentenced in U.S. District Court, **Bridgeport, CT**, followingtheir earlier guilty pleas. Godbolt was sentenced to 6 months home confinement, 5 years probation, and ordered to perform 300 hours of community service and pay a $25,000 fine. Godbolt pled guilty on August 2, 2005, to two counts of bribery and one count of conspiracy for embezzling more than $100,000 from PTA, which he used for a cruise and to purchase a BMW automobile and for paying a $5,000 bribe to Newton for his assistance in securing a $125,000 grant for PTA. Newton was sentenced to 5 years prison and 3 years probation and ordered to pay the State of Connecticut Elections Enforcement Commission approximately $14,000 in restitution. Newton pled guilty on September 20, 2005, to one count of bribery, one count of mail fraud and one count of tax evasion, for accepting a $5,000 bribe from Godbolt and assisting PTA in securing a $125,000 grant.

Francis G. Keough III, the former director of Friends of the Homeless, Inc. (FOH), Angel T. Guzman, and Michael P. Hallahan, former employees of FOH, were charged in a 50-count superseding indictment with conspiracy to defraud the U.S. Government, obstruction of justice, extortion, mail fraud, theft of honest services, false statements, perjury, criminal contempt, filing false Federal income tax returns, and witness tampering in U.S. District Court, **Springfield, MA**. The superseding indictment also seeks more than $1 million in forfeitures. On January 13, 2006, Guzman and Hallahan were arrested; Keough remains in Federal custody pending trial.

The superseding indictment charges Keough, Guzman, and Hallahan with receiving CDBG and Emergency Shelter Grants funds for their personal use and conspiring to produce and issue false documents. Further charges allege Keough received more than $225,000 in salary payments to which he was not entitled, concealed income and expenses to avoid paying Federal income tax, pilfered appliances from FOH, used shelter and city employees to rehabilitate his beach house in Rhode Island, and provided jobs and housing in exchange for sex or cash. The indictment also alleges Raymond Asselin, the former Springfield Housing Authority executive director, facilitated Keough's receipt of $50,000 in consulting fees from a publicly funded housing project for negotiating a Hampden County position for his son, James Asselin. James Asselin was convicted of embezzling more than $600,000 from a CDBG-funded agency in March 2004.

Keough indicted on 50 counts

Federal prosecutors say jobs were traded for cash

By STEPHANIE BARRY
sbarry@repub.com

SPRINGFIELD – Former homeless shelter director Francis G. Keough III traded jobs for cash, housing for sex and board appointments for bonuses, according to a 50-count federal indictment unsealed yesterday.

It is the third wave of criminal charges in a year for Keough, a one-time City Council president and former head of the Friends of the Homeless shelter on Worthington Street.

Two co-defendants – city worker Michael P. Hallahan and former shelter employee Angel T. Guzman – were arrested yesterday and charged with conspiracy and fraud.

Hallahan is a childhood friend of Keough and deputy weights and measures sealer for the city who also worked part-time at the shelter. Guzman is an ex-convict and former shelter resident whom Keough hired at the shelter in 1999 before getting him a city job using political contacts. He is currently Keough's wife's tenant at a home she owns at 53-55 Pomona Ave.

Keough, 47, was freed on bail when he was first arrested last January and charged with extortion. The bail was revoked in August after a second arrest for allegedly asking witnesses against him to lie to federal investigators.

"I hope Mr. Keough's exoneration will be covered with the same intensity of the lodging of these charges," defense lawyer Daniel D. Kelly said during an interview yesterday. Keough's arraignment was postponed yesterday because he was ill, Kelly said.

Francis G. Keough III

Keough, who has pleaded innocent to earlier charges, is being held at the Hampshire County House of Correction.

The corruption case against Keough is one of several prompted by a five-year federal investigation into public agencies and members of former Mayor Michael J. Albano's administration. Albano has never been charged in the probe.

Yesterday's indictment includes 98 examples of alleged fraud perpetrated by Keough, including:

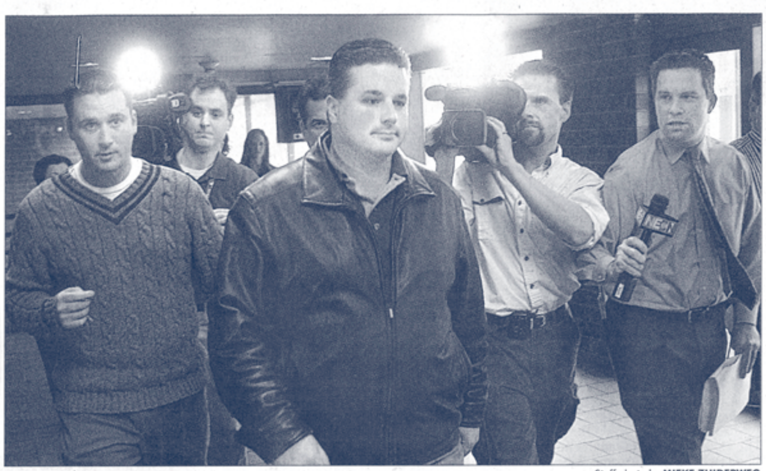
- accepting $50,000 from a

Please see **Charges, Page A8**

Reverend Lamar Wright, president and chief executive officer of Save Our Children Community Project (SOCC) and SOCC subsidiary People United For Change (PUFC), nonprofits funded by HUD, signed a pretrial diversion agreement in U.S. District Court, Eastern District of Arkansas, **Little Rock, AR**, and agreed to pay the Arkansas Department of Human Services $14,000 in restitution and perform 100 hours of community service in return for 18 months deferred adjudication. Wright, previously indicted on June 7, 2005, admitted to aiding and abetting in the theft of Federal grant money. From April 2002 through January 2003, Wright transferred Federal grant money from SOCC and PUFC bank accounts to his personal account; wrote checks from his personal account to codefendant Lola Thrower, the former program administrator for Human Immunodeficiency Virus (HIV) Services, Arkansas Department of Health, a HUD- and Health and Human Services (HHS)-funded State organization; and fabricated invoices and other documents to hide the money transfers and personal checks to Thrower. In addition, Lee Langston, former executive director of Positive Voices (PV), a nonprofit subgrantee of Federal funds administered by HIV Services, was sentenced to 3 months home confinement and 3 years probation and ordered to pay the Arkansas Department of Human Services $15,427 in restitution. On October 4, 2005, Langston pled guilty to one count of theft of Federal property. From May 2003 through March 2004, Langston admitted taking approximately $16,000 from a PV bank account, creating a false invoice, and giving $2,000 to codefendant Thrower. Langston kept the remaining funds, approximately $14,000, for services he never performed.

Richard Goyette, mayor of Chicopee, MA, was indicted in U.S. District Court, **Springfield, MA**, on two counts of extortion. Goyette allegedly extorted two $5,000 cash campaign contributions: one from a developer holding a contract with Chicopee's Office of Economic Development (ECD), a HUD funded entity, and the second from a local towing company. In return for the cash contributions, Goyette allegedly promised the developer he would intercede on his behalf in a planned ECD project and promised the towing company continuation of city contracts. Goyette was arrested on November 1, 2005.

Chicopee mayor arrested



Staff photo by MIEKE ZUIDERWEG

Chicopee Mayor Richard R. Goyette, center, and his brother-in-law James R. Lewis, a South Hadley selectman, left, are pursued by the media after the mayor's court appearance yesterday in U.S. District Court in Springfield. "Mayor, did you take the money?" they asked.

FBI tape shows mayor allegedly taking a bribe

By ETTA WALSH and JACK FLYNN
Staff writers

CHICOPEE – The towing contractor is about to fork over $5,000 in cash when Mayor Richard R. Goyette stops him.

"What, no envelope?" Goyette asks before stuffing the bills in his pockets.

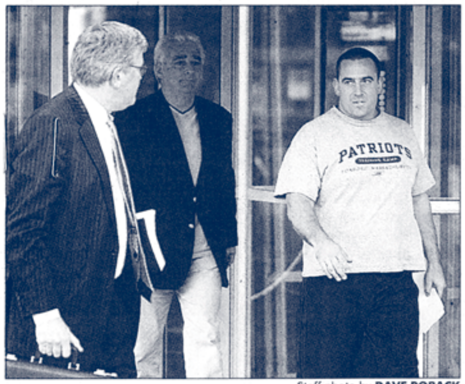
That exchange, captured on FBI videotape, is part of the remarkable footage that led to the first arrest of a sitting mayor in this city – and possibly the region – yesterday.

The arrest, coming a week before the Nov. 8 election, left the city stunned and its leadership uncertain. While the city solicitor said Goyette can stay in office, his political future – or even whether he will show up to work today – remains in doubt.

Goyette, 36, is charged with two counts of extorting $5,000 from contrac-

Please see Chicopee, Page A5

Ex-mayoral aide indicted



Staff photo by DAVE ROBACK

Lawyer Michael O. Jennings, left, turns to talk to his client Matthew Campagnari, 39, right, of Longmeadow as they exit Federal Court in Springfield yesterday.

Ardolinos deny tax fraud charges

By STEPHANIE BARRY
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SPRINGFIELD – Former top mayoral aide Anthony M. Ardolino flexed his City Hall clout to hide investments, fix parking tickets and push friends' projects through the City Council, according to a 16-count federal indictment unsealed yesterday.

But Ardolino, once chief of staff for former Mayor Michael J. Albano, pleaded innocent and his lawyer, Vincent A. Bongiorni, said he looks forward to going to trial.

Ardolino, 35, of Springfield was charged along with his brother, former city patrolman Chester J. Ardolino, 38, of Springfield and their business associate, Matthew D. Campagnari, 39, of Longmeadow with conspiracy, tax fraud and other charges. Campagnari also faces three counts of witness tampering, allegedly flashing a pistol at one unnamed witness in 2002, according to the indictment, and urging another to "plead the (expletive) Fifth."

Anthony M. Ardolino

Chester J. Ardolino

Springfield contractor John J. Walsh, 45, also was charged yesterday in a separate indictment for allegedly lying to a federal grand jury about cash payments he received for renovations to downtown bars with ties to the Ardolinos.

Anthony Ardolino has long been identified as a primary target in a five-year-old public corruption probe.

His older brother was released Friday from house arrest after convictions in a separate real estate fraud case.

The 32-page indictment charges the Ardolino brothers with "fixing" $14,000 in parking tickets for themselves, friends and bar patrons in addition to

Please see **Fraud, Page A7**

Anthony M. Ardolino, former Springfield City chief of staff, Chester J. Ardolino, former Springfield police officer, and Matthew D. Campagnari, a real estate developer, were indicted in U.S. District Court, **Springfield, MA**, on 16 counts of conspiracy to defraud the U.S. Government filing false Federal income tax returns, and witness tampering. A fourth individual, John J. Walsh, doing business as J. Walsh and Sons Building and Remodeling, was also charged with perjury and obstruction of justice. Anthony Ardolino allegedly attempted to steer HUD CDBG funds to the Façade program, a program established to renovate downtown Springfield storefronts. Several bars owned by the Ardolinos and Campagnari were included in the storefront renovations. The defendants were arrested on October 31, 2005, after the indictments were unsealed.

Theft/Embezzlement

Chang Sheng Yu, a Chinese national and resident of **Queens, NY**, was arrested and indicted on eight counts of theft of government funds, mail fraud, and submission of false Social Security numbers for his role in a scheme to defraud HUD and Empire State Development Corporation (ESDC) of $ 118,876 in Federal grant money. ESDC is a HUD-funded nonprofit established to provide assistance to businesses in lower Manhattan after the September 11, 2001, terrorist attacks. Sheng Yu, president of American McKinley Venture Management, Inc., allegedly obtained a Business Recovery Grant (BRG) and attempted to fraudulently obtain a Small Firm Attraction and Retention Grant (SFARG) through ESDC.

Jarmena To, a General Services Administration (GSA) employee, pled guilty in U.S. District Court, Southern District of New York, **New York, NY**, to one count of theft of government funds. To, indicted on July 1, 2005, fraudulently obtained Lower Manhattan Development Corporation (LMDC) grant funds after subletting and relocating from a LMDC qualified apartment. LMDC, a HUD-funded nonprofit, was created to assist in the revitalization of lower Manhattan after the September 2001 terrorist attacks.

Yvonne Grimes, former executive director, Amistad Development Corporation (ADC), a HUD-funded nonprofit, pled guilty in Court of Common Pleas, Cuyahoga

County, **Cleveland, OH**, to forgery and theft. Grimes was sentenced to 2 years probation and ordered to pay HUD $1,200 in restitution. Grimes prepared, signed, and submitted a claim for a round-trip airline ticket she did not use and expended ADC funds to pay personal expenses.

Letitia Slack, a former employee of East Saint Louis Community Development (ESLCD), was sentenced in U.S. District Court, Southern District of Illinois, **East St. Louis, IL**, to 18 months in prison and ordered to pay HUD $158,279 in restitution and $41,588 in delinquent taxes. On November 3, 2005, Slack pled guilty to an information charging her with mail fraud and tax evasion. Slack admitted she embezzled $158,279 from ESLCD, a nonprofit organization funded by HUD through the HOME and CDBG programs. From 2002 to 2005, Slack created false vendor numbers and invoices to receive checks for services and materials not provided. Slack, using her personal checking account, deposited and spent the fictitious vendor payments.

Other Fraud/Crimes

Mhammad Aziz Abu-Shawish was sentenced in U.S. District Court, Eastern District of Wisconsin, **Milwaukee, WI**, to 3 years incarceration and 3 years supervised release, ordered to pay HUD $75,000 in restitution, and fined $1,000. On July 13, 2005, Abu-Shawish was found guilty of submitting a fictitious HUD block grant study and false documentation supporting $30,000 in phony expenses to the City of Milwaukee.

In a Civil Judgment filed in U.S. District Court, **New York, NY**, Arthur Gregory agreed to pay $36,500 to settle civil fraud charges filed by the U.S. Government under the False Claims Act. Gregory submitted false lease documents and secured two Small Business grants from the World Trade Center Small Firm Attraction and Retention Grant Program (SFARG), a HUD-funded nonprofit organization created to redevelop lower Manhattan after the September 11, 2001, terrorist attacks.

James Thomas Jr., owner of Thomas Wrecking, pled guilty to an Information filed in U.S. District Court, Eastern District of Missouri, **St. Louis, MO**, charging him with one count of Federal income tax evasion. Thomas admitted using his company as the "front company" for Spiritas Wrecking to satisfy the HUD-funded St. Louis Community Development Authority's (CDA) regulations relating to minority business participation in the renovation of old St. Louis City Hospital. Thomas funneled Spiritas Wrecking payroll checks through his company to make it appear as if a minority contractor was involved in the St. Louis City Hospital project, as certified to CDA. Thomas agreed to run Spiritas' payroll through his company in return for Spiritas forgiving a debt owed by Thomas.

Chapter 6
Hurricane Relief Oversight

"I think it's important to remember why we're here. We're here for one reason: to help the citizens and communities affected by Hurricane Katrina. … The road to full recovery is long and I expect that we will be there every step of the way to support the process that helps the displaced families and disaster-stricken communities rebuild, recover, and reclaim their lives."

Remarks by Inspector General Kenneth M. Donohue regarding the hurricane-affected States while in Biloxi, MI - March 3, 2006.

Introduction and Background

Hurricanes Katrina, Rita, and Wilma had a dramatic impact on HUD's Gulf Coast operations as well as residents, HUD employees, and the business community. The potential losses to HUD and its housing and community development programs are significant. OIG's Offices of Audit and Investigation continue to maintain a presence in the Gulf Coast disaster area. HUD OIG has established a base of operations in New Orleans and has established new offices in Baton Rouge, LA, and Hattiesburg, MS. To accomplish its goals, OIG will readdress its available assets and will reallocate them as availability and demand rise. HUD OIG foresees and anticipates a continuing leadership role in detecting and preventing fraud regarding disaster recovery funding in the Gulf Coast States and elsewhere.

The destruction and aftereffects of Hurricanes Katrina, Wilma, and Rita will present challenges to HUD OIG that will far surpass the reconstruction of lower Manhattan following the September 11 attack. HUD OIG's continuing oversight of the funds allocated to the Lower Manhattan Redevelopment Corporation has become a template on how to oversee funds allocated to recovery from such disasters. Consequently, the HUD OIG audit and investigative staffs have started 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.

Audit

In the wake of the Gulf Coast disaster, the HUD OIG Office of Audit has responded quickly to establish an office for Hurricane Katrina oversight to prepare for the long process of recovery. The Office of Audit and HUD are not generally first responders; however, the Office of Audit has established an office, developed an audit plan, and begun reviews in the disaster areas. The Office of Audit's initial assignment was to evaluate HUD's use of real estate owned (REO) properties to house disaster evacuees. It also is performing audits of the more than $17 million in contracts issued for disaster-related procurement activities. These reviews are timely and will assist in establishing a presence and acting as a real-time deterrent to waste and abuse in HUD's activities. Below is a summary of the ongoing Katrina audit-related activities.

HUD OIG, Office of Audit, Hurricane Recovery Audit Oversight Division

- Has started audits of HUD's use of REO properties to house disaster evacuees including management and marketing contractors' rehabilitation cost billings.
- Is currently reviewing two management and marketing contractors in two States.
- Is identifying/analyzing all fund drawdowns (usage) by PHAs in the disaster areas for audit and investigation followup.
- Has identified PHAs providing KDHAP vouchers; is planning an audit of the KDHAP voucher process/matching review.
- Has reviewed all HUD waivers to assure that statutory requirements are not waived.
- Is monitoring/analyzing HUD contracting efforts relating to disaster recovery efforts as part of the U.S. Department of Health and Human Services (HHS) Contract Oversight Task Force.
- Is working with OIG legal counsel to gain access to FEMA data for matching purposes.
- Is conducting an internal audit of the HUD contracting process relating to disaster recovery.
- Is monitoring the FEMA mission assignment activities and internal controls.

Investigations

The HUD OIG Office of Investigation immediately responded to the HUD challenges and role in rebuilding the Gulf Coast by establishing the Hurricane Katrina Fraud Task Force (HKFTF). This task force works jointly with the Federal Bureau of Investigation (FBI), the U.S. Department of Justice (DOJ) Command Center in Baton Rouge, LA and State investigative agencies to investigate fraud in all HUD programs affected by the hurricanes in the Gulf. HKFTF is based in New Orleans with personnel also assigned in Arlington and Houston, TX; Baton Rouge, LA; and Hattiesburg, MS.

To assist with the many oversight responsibilities of an endeavor of this magnitude, the Hurricane Recovery Oversight Division (HROD) was also established in the Office of Investigation Headquarters. HROD is responsible for: (1) liaison; (2) research, analysis and recommendations; (3) monitoring, reporting and dissemination; and (4) strategic planning and implementation of Office of Investigation directives associated with disaster assistance and recovery.

The Office of Investigation has created a far-reaching fraud prevention program designed to (1) create a training course for agents/auditors and program officials to teach them to identify fraud in CPD/grant programs; (2) sponsor fraud prevention meetings between HUD OIG and the major programs of HUD; and (3) sponsor fraud prevention meetings between HUD OIG and industry groups, the Mortgage Bankers Association, the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, private insurance companies, multifamily owners, public housing executive directors, State governments, and economic development agencies. As part of our fraud prevention program, HUD OIG has created a suspicious activity report (SAR) that will be given to HUD grantees, subgrantees, and others associated with delivering disaster funds. The SAR is a method of informing HUD OIG of suspected irregularities in the delivery of HUD program money. OIG forensic auditors have been assigned to review temporary housing programs and FEMA payments to HUD-assisted housing residents. OIG plans to use forensic auditors to review all programs that are not audited by the Office of Audit.

HUD OIG opened 18 cases during the semiannual reporting period, ending March 31, 2006, which resulted in six indictments, six arrests, and two convictions.

Hurricane-Related Benefit Fraud

Carolyn Richard and George Davis III were convicted by a Federal jury in **Harrisburg, PA,** for providing false information on their applications for emergency housing through the Housing Choice Voucher and public housing programs. Richard and Davis, who relocated to Columbia, PA, from New Orleans, LA, following Hurricane Katrina, applied for housing assistance with Lancaster City Housing Authority (LCHA) but failed to report their extensive criminal histories, including Richard's incarceration in Louisiana and later release as a result of Hurricane Katrina flooding.

Gilbert Gasice, a housing choice voucher recipient, was indicted in U.S. District Court, Eastern District of California, **Sacramento, CA**, on two counts of mail and wire fraud, and two counts of making false statements. Gasice was arrested in Georgetown, CA, after he allegedly schemed to defraud the County of Sacramento, when it was discovered that he claimed to have been a victim of Hurricane Katrina and received monetary and lodging aid from the Red Cross and other charitable organizations. As a part of his scheme, Gasice moved from his subsidized unit in Sacramento, CA, and relocated to Georgetown, CA, but failed to report his move from the subsidized unit as required and failed to live in the subsidized unit as his sole residence. The loss to HUD is approximately $6,000.

Jermine O. White, Stevie Lawson, and Morris L. Singleton were arrested and indicted in **Baton Rouge, LA,** for falsely representing themselves as hurricane evacuees displaced from public housing due to Hurricane Katrina and using their status as hurricane evacuees to receive FEMA monetary assistance. The investigation determined that White, Lawson, and Singleton did not live in public housing during the hurricanes and received benefits to which they were not entitled.

Hurricane-Related OIG Hotline

During this reporting period, the Hotline received and processed 81 complaints related to Hurricanes Katrina, Rita, and Wilma.

Hurricane-Related Outreach

In **Gulfport, MS**, Inspector General Ken Donohue met with the Gulf Coast State auditors whose States where damaged by the Hurricanes of 2005. Assistant Inspector General for Audit (AIGA) James Heist, Deputy Assistant Inspector General for Audit (DAIGA) Bob Gwin, and Deputy Assistant Inspector General for Investigation (DAIGI) – Inspections and Evaluations John McCarty briefed the State auditors from Florida, Alabama, Mississippi, Louisiana, and Texas on HUD programs, audit applications, and fraud prevention. Mississippi State Auditor Phil Bryant chaired the meeting.

In **Baton Rouge, LA**, Assistant Inspector General for Investigation (AIGI) Joseph Haban, DAIGI John McCarty, and Assistant Special Agent in Charge (ASAC) Thomas Luke of HKFTF briefed DOJ Command Center members consisting of the U.S. Attorneys from Louisiana and Mississippi as well as FBI special agents. The Command Center is directed by U.S. Attorney David Dugas of the Middle District of Louisiana. The briefing covered HUD programs affected by the hurricanes and the opportunity for fraud to be committed within FHA single-family and multifamily programs, CPD grants, and public housing. Early coordination was established for exchange of data, joint investigations, and strategies of future initiatives.

AIGI Joseph Haban, DAIGI John McCarty, and ASAC Thomas Luke met the senior State management teams with both the Mississippi Development Authority and the Louisiana Recovery Authority in **Jackson, MS, and Baton Rouge, LA**, respectively, to discuss their action plans for the use of HUD CDBG in rebuilding their communities. They discussed means by which to combat fraud opportunities and audit weaknesses within their plans. They agreed to develop a proactive program integrity campaign directed at homeowners, contractors, and employees of the States.

Special Agent in Charge (SAC) Joseph Clarke and HUD OIG special agents located in **New Orleans, LA**, **Atlanta, GA,** and **Arlington, TX,** met with HUD KDHAP coordinators and FEMA Disaster Recovery Centers. They presented fraud awareness briefings and distributed HUD OIG Hotline materials to their staffs.

DAIGI John McCarty and SAC Joseph Clarke led the efforts of special agents and other HUD OIG staff assigned to damage assessment teams, who began at the water line in **New Orleans, LA**, and photographed, assessed, and documented hurricane-related damage to all HUD public housing and multifamily projects in the States of Louisiana and Mississippi.

In **Jackson, MS,** ASAC Thomas Luke, SAC Larry Amaker, Supervisory Forensic Auditor Windell Durant, and Senior Special Agent Sandra Hackworth addressed the Southeastern Affordable Housing Management Association about issues affecting multifamily development in the Gulf Coast region and opportunities for fraud associated with hurricane recovery funding.

ASAC Thomas Luke and Supervisory Forensic Auditor Windell Durant have developed fraud prevention training and scheduled presentations to the Mississippi Development Authority's homeowner service centers, property appraisers, and contract employees overseeing quality control programs. Training seminars are scheduled for **Gautier, Gulfport, and Bay St. Louis, MS.**

AIGI Joseph Haban and DAIGI John McCarty met with the Mortgage Bankers Association in **Washington, DC,** to establish fraud prevention training and fraud-reporting protocols for disaster-related matters.

ASAC Thomas Luke and SAC Larry Amaker are working with Louisiana Recovery Authority officials located in **Baton Rouge, LA,** to establish lines of communication and coordinate fraud prevention efforts.

Pictures of HUD OIG's Hurricane Relief and Recovery Efforts

HUD OIG special agents at Industrial Canal levee breach.

HUD Inspector General Kenneth Donohue (center), AIGI Joseph Haban, and DAIGI Lester Davis survey damage at Abundance Development

HUD OIG special agents at the Industrial Canal levee breach overlooking lower 9th Ward.

SAC Joseph Clarke organizing HUD OIG's Operation Hurricane Assessment in New Orleans, LA.

HUD OIG special agents assessing damage in New Orleans, LA.

HUD Inspector General Kenneth Donohue stands below waterline viewing damage at Abundance Development.

Christopher Homes

AIGI Haban (left) and IG Donohue (right) outside of the Housing Authority of New Orleans.

Malta Square

B.W. Cooper Extention

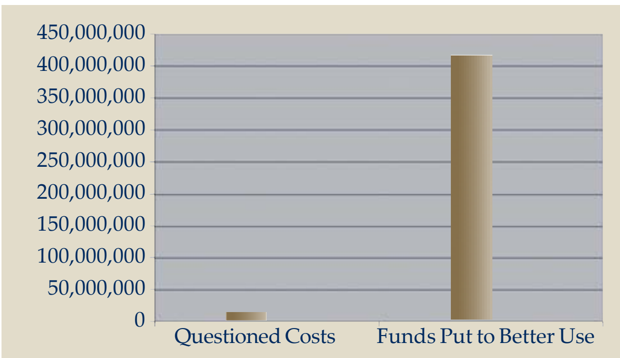
Chapter 7
Other Significant HUD Audits and Investigations/OIG Hotline

Audit

During this reporting period, the Office of Inspector General (OIG) issued nine internal reports 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 7.1: Other Significant Audit Dollars



Audit of HUD's Financial Statements

HUD OIG audited HUD's fiscal year (FY) 2005 consolidated financial statements in accordance with the Chief Financial Officers Act of 1990, and the report on those financial statements is included in HUD's FY 2005 Performance and Accountability Report. In OIG's opinion, HUD's FY 2005 financial statements were presented fairly. In conjunction with OIG's audit of HUD's FY 2005 financial statements, OIG also reported on two material weaknesses related to HUD's need to

- Incorporate better risk factors and monitoring tools into Federal Housing Administration's (FHA) single-family insured mortgage program risk analysis and liability estimation process and
- Continue to improve its review over the FHA credit reform estimation process.

OIG also reported on six reportable conditions in internal controls related to the need to

- Comply with Federal Financial Management System requirements and continue to enhance FHA's management of controls over its portfolio of integrated insurance and financial systems,
- Improve oversight and monitoring of subsidy calculations and intermediaries' program performance,
- Further strengthen controls over HUD's computing environment,
- Improve personnel security practices for access to the Department's critical financial systems,
- Improve processes for reviewing obligation balances, and
- Improve controls for developing estimates of budget authority required for the Section 236 Interest Reduction Program.

In addition, HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements. The audit also identified more than $377 million in excess obligations recorded in HUD's records, which represent funds that HUD could put to better use. (Audit Report: **2006-FO-0003**)

Audit of the Process HUD Used to Award its FY 2004 Healthy Homes and Lead Hazard Control Properly

In response to a number of congressional inquiries and complaints, HUD OIG audited the process HUD used to award its FY 2004 Healthy Homes and Lead Hazard Control grants. The objective of the audit was to determine whether the grants were properly awarded.

HUD did not properly evaluate 34 of 72 successful applications reviewed, representing $92.7 million of the $168 million (55 percent) awarded. HUD improperly awarded eight grants for $20.5 million. OIG could not determine the propriety of the remaining 26 grant applications receiving $72.3 million because the documents needed to support HUD's award decisions could not be provided. In addition, HUD files pertaining to 54 of 55 applications (98 percent) reviewed for applicants that did not receive funding did not support the decision to reject the grant applications. Of these 54 applicants, HUD denied one applicant approximately $365,700 in grant funds that it was eligible to receive.

OIG recommended that HUD (1) implement controls to ensure it properly evaluates the grant applications and supports all awards; (2) continue recovery efforts or obtain a legal opinion to determine whether it can pursue recovery of the $20.5 million in improperly awarded grants it provided to eight applicants; (3) depending on the legal opinion, obtain the necessary documentation to support the award decisions relating to 26 other applicants receiving $72.3 million in grant funds and recover the amounts it determines were improperly awarded; and (4) review the remaining 135 applications that did not receive awards to ensure these applicants were not denied awards they should have received. (Audit Report: **2006-PH-0001**)

HUD's Information Security Program and Practices

HUD OIG performed an annual independent evaluation of HUD's information security program and practices as directed by the Federal Information Security Management Act of 2002 (FISMA).

HUD has made significant efforts to improve its system security program, but continued progress is needed to fully comply with Federal requirements. HUD has appointed a chief information security officer, revised its information security policy, and completed certification and accreditation for more than 90 percent of its applications. However, the quality of the underlying documents and the certification and accreditation process vary by application. While a number of vulnerabilities have been corrected, additional vulnerabilities, identified through oversight activities, were not corrected before accreditation.

HUD program officials and system owners have not fully met their responsibilities as specified in FISMA, section 3544(a). Also, HUD has not fully implemented an agencywide information system security program as specified in FISMA, section 3544(b). Improvements are needed in maintaining an adequate system inventory, categorizing security impact level properly for information systems, providing sufficient training to program officials and contractor staff, and developing and testing contingency plans. (Audit Report: **2006-DP-0801**)

HUD's Financial System

HUD OIG audited certain components of HUD's financial system to determine whether it is capable of performing the cost management function as defined in Joint Financial Management Improvement Program (JFMIP) publication JFMIP-SR-02-01, "Core Financial System Requirements," dated November 2001.

HUD's core financial systems (1) cannot perform all of the mandatory cost management functions specified in JFMIP SR-02-01 and (2) cannot accumulate nonfinancial data that would be needed to internally calculate cost management information. Without these capabilities, HUD's core financial system does not provide all of the nonfinancial data elements needed to support the integration of budget, cost, and performance measures. This information is obtained from sources that include both automated and manual processes, procedures, controls, data, software, and support personnel that are not integrated through a common database or electronically interfaced with the core financial system.

OIG recommended that HUD develop compliant cost management functional requirements that support the integration of budget, cost, and performance measures as part of the HUD Integrated Financial Management Improvement Project. While HUD disagreed with OIG's recommendation, OIG obtained documentation from the Project that includes mandatory functional requirements for the accumulation of nonfinancial data. (Audit Report: **2006-DP-0001**)

Security Configuration Assessment of HUD's Servers

HUD OIG completed a security configuration assessment of HUD's servers on which FHA financial applications reside. The objective of the audit was to review user access, security controls to files and directories, and configuration of network services of HUD's Unix operating system.

HUD has generally implemented the Unix operating system configuration settings properly. However, weaknesses in the configuration of network services still exist, and user access and security controls to files and directories are not sufficiently tightened.

OIG's 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, it has limited its distribution to selected HUD officials. (Audit Report: **2006-DP-0002**)

FHA Financial Statements

Urbach, Kahn, and Werlin, LLP (UKW), audited FHA's financial statements for the year ending September 30, 2005.

UKW concluded that FHA's fiscal year 2005 principal financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

UKW's consideration of internal control over financial reporting resulted in the following matters being identified as reportable conditions and with respect to the first two items, material weaknesses:

- FHA must incorporate better risk factors and monitoring tools into its single-family insured mortgage program risk analysis and loan liability estimation process.

- FHA management must continue to improve its review over the credit reform estimation process.

- FHA must continue to enhance the management of controls over its portfolio of integrated insurance and financial systems.

UKW found no reportable instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements. (Audit Report: **2006-FO-0002**)

Audit of the Government National Mortgage Association's (Ginnie Mae) Financial Statements

HUD OIG audited the Government National Mortgage Association's (Ginnie Mae) financial statements for FY 2005.

The financial statements present fairly the financial position of Ginnie Mae in all material respects. There were no material weaknesses or reportable conditions in Ginnie Mae's internal controls or reportable instances of noncompliance with laws, regulations, and provisions or contracts. (Audit Report: **2006-FO-0001**)

Network Vulnerability Assessment

HUD OIG completed a network vulnerability assessment of HUD to evaluate whether its network security systems, including security controls and practices, adequately protect the integrity, confidentiality, and availability of data and information from unauthorized access to its systems through the performance of penetration testing.

Although HUD has implemented controls to protect its network from external intruders, internal penetration testing identified security configuration and technical controls deficiencies.

OIG has determined that the contents of this report would not be appropriate for public disclosure; therefore, it has limited its distribution to selected HUD officials. (Audit Report: **2006-DP-0003)**

Audit of HUD's Information Security Program Compliance with Federal Requirements

HUD OIG audited HUD's information security program compliance with Federal requirements. OIG evaluated (1) the adequacy of the categorization of HUD's major systems, (2) whether HUD's Office of the Chief Information Officer has developed security policies and implemented and monitored enterprisewide controls, and (3) whether HUD program officials and system owners have properly implemented information security responsibilities assigned to them.

HUD has made considerable progress in implementing a comprehensive, entitywide information system security program. However, there are several matters that require management attention: (1) HUD's program officials and system owners have not properly categorized HUD's application systems and utilities, which could result in unnecessary expenditure of funds; (2) HUD's Office of the Chief Information Officer has not fully implemented an effective entitywide information security program; and (3) HUD's program officials and system owners have not complied with security

Investigation

During this reporting period, OIG opened 19 investigation cases and closed 6 cases involving areas of HUD operations that do not fall under specific program categories. Judicial action taken on these cases during the period included $30,685 in investigative recoveries, three indictments/informations, five arrests, and two convictions/pleas/pretrial diversions.

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.

James Joyce, a HUD employee, was indicted in U.S. District Court, District of New Hampshire, **Manchester, NH**, on two counts of possession of firearms and dangerous weapons in Federal facilities. Joyce allegedly carried a knife and firearm into the HUD office at the Manchester Federal building.

Toulu Thao, a HUD housing specialist, was indicted in U.S. District Court, Eastern District of California, **Fresno, CA**, on four counts of false statements. Thao allegedly received $125,000 from organizations doing business with HUD but failed to disclose income, business arrangements, and/or business agreements he had with these organizations on his Office of Government Ethics (OGE) Form 450, "Confidential Financial Disclosure." Thao was arrested on February 13, 2006.

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 seven full-time OIG employees, who take allegations of waste, fraud, abuse, or serious mismanagement in HUD or in 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 9,416 complaints – 73 percent received by telephone, 22 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, 1,270 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 918 cases this reporting period. The closed Hotline cases included 146 substantiated allegations. The substantiated allegations resulted in four administrative sanctions against HUD employees for personnel violations or against investors for improprieties involved in the purchase of a home. The Department also took 142 corrective actions that resulted in $82,697 in recoveries of losses and $2,352,885 in HUD funding that could be put to better use. The recoveries included an unsupportable appraisal which resulted in an overinsured FHA-insured mortgage. Some of the funds that could be put to better use were the result of cases in which tenants improperly reported their incomes or family composition to qualify for rental assistance.

Chart 7.2: Hotline Cases Opened by Program Area

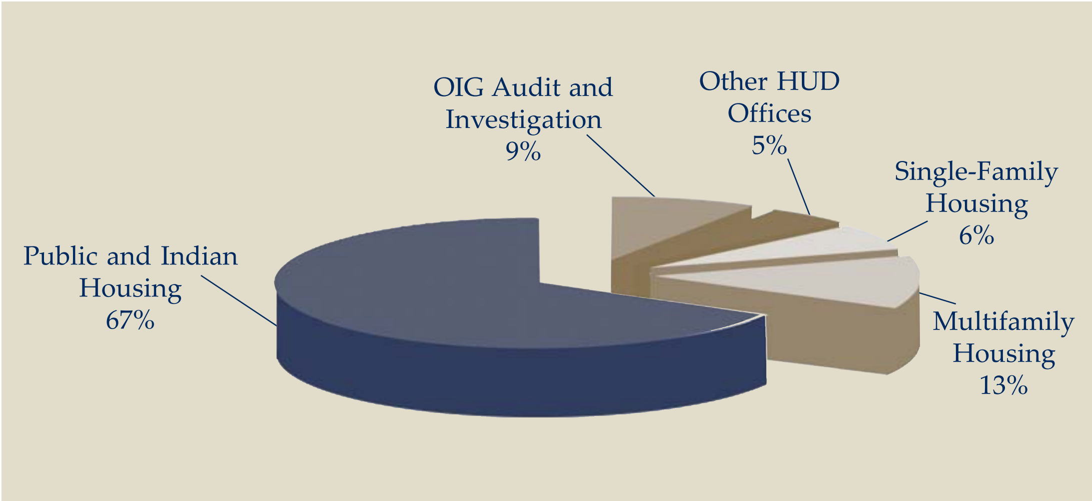


Chart 7.3: Hotline Dollar Impact from Program Offices

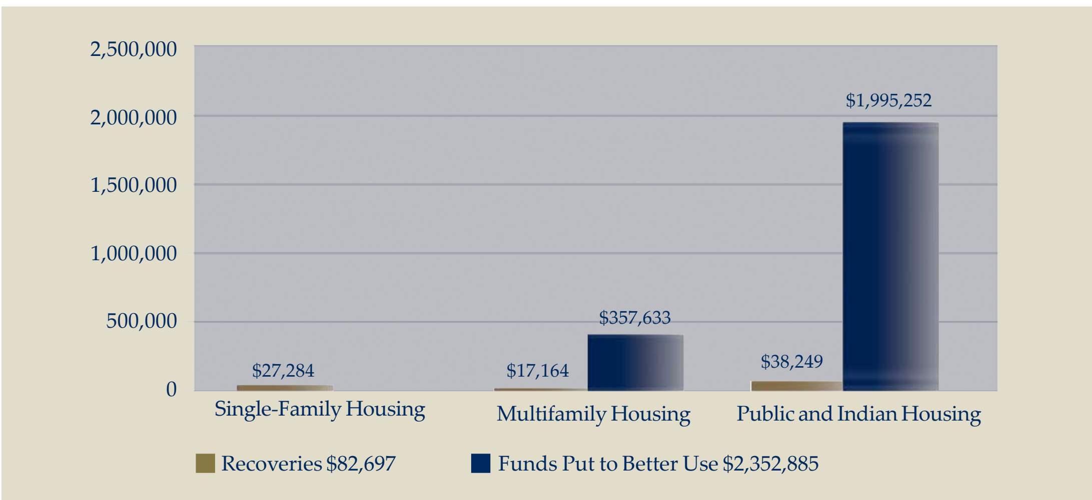
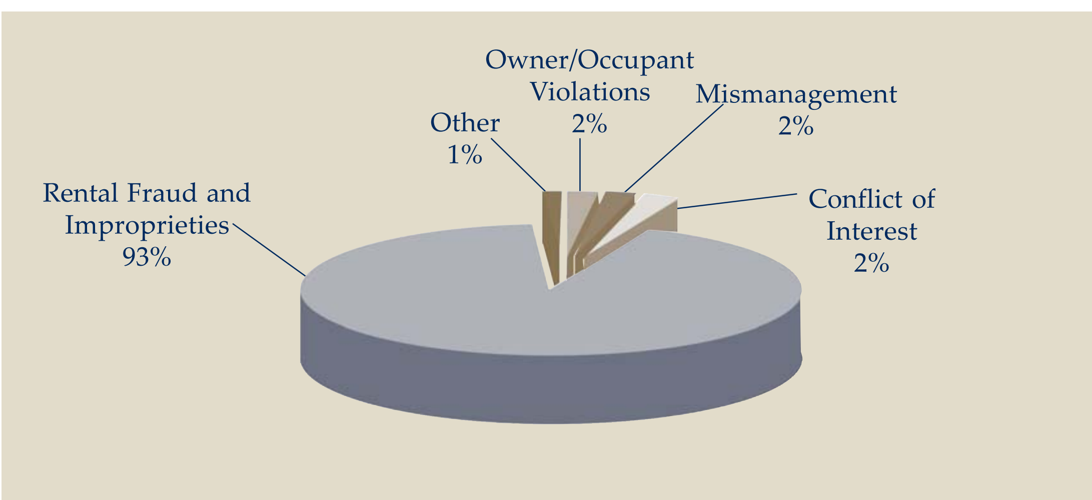


Chart 7.4: Substantiated Cases by Type of Complaint Received by Hotline



Chapter 8
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 presented the results of its audit and investigative work and discussed its goals, objectives, and provided information about its role and function.

Assistant Inspector General for Investigations (AIGI) R. Joseph Haban, Assistant Special Agent in Charge (ASAC) Robert Gale, and Special Agent (SA) Linda Cisco attended a press conference headed by Senator Barbara Mikulski in **Baltimore, MD**. This press conference, used to publicize the final report prepared by the Baltimore City Flipping and Predatory Lending (BCFPL) task force, announced that Baltimore property flipping had dropped 77 percent since 1999. The BCFPL task force focuses on five fronts in the war on flipping: law enforcement, implementing regulatory reforms, education and prevention efforts, victims' assistance, and rebuilding neighborhoods. Since 2000, the U.S. Attorney's Office, District of Maryland, has sought criminal charges against 104 defendants who participated in mortgage fraud within Baltimore City and Prince Georges County. The results include 100 convictions and four acquittals. Senator Paul Sarbanes, Congressman Elijah Cummings, and U.S. Attorney Rod Rosenstein were also in attendance.

Regional Inspector General for Audit (RIGA) Joan Hobbs of **Los Angeles, CA**, spoke at the Northern California/Nevada Chapter of the National Association of Housing and Redevelopment Officials (NAHRO) on February 5, 2006. Ms. Hobbs was a member of a three-person panel to discuss housing oversight by the board of commissioners. Approximately 20 commissioners attended the session, which included a discussion regarding the growing amount of fraud being detected in housing authorities.

RIGA Frank Baca, Assistant Regional Inspector General (ARIG) Will Nixon, and Senior Auditor Beth Howard gave a presentation on Single Family Mortgage Fraud to the **Oklahoma City, OK**, Greater Metropolitan Title Association. Approximately 425 realtors and title company representatives attended the meeting. Other speakers included officials from the Federal Bureau of Investigation (FBI) and First Fidelity Bank.

Special Agent in Charge (SAC) Robert Brickley, ASAC Rene Febles, and Senior Special Agent (SSA) Daniel Ellis participated in two presentations at Penn Del Associated Housing Management Association's (AHMA) annual seminar in **Lancaster, PA**. SAC Brickley described HUD OIG's investigative process and procedures to follow when documenting files and referring matters for investigation. ASAC Febles and SSA Ellis participated in a HUD Multifamily Rental Housing Integrity Improvement Project (RHIIP) workshop to promote cooperative working relationships among HUD, HUD OIG, and rental housing owners and/or managers.

SAC Peter Emerzian, ASAC Diane DeChellis, ASAC Maureen Nelting, and SA Jessica Piecuch participated in a Massachusetts Anti-Gang Conference sponsored by the Massachusetts U.S. Attorney's Office in **Boston, MA**. Keynote speakers included the Massachusetts lieutenant governor, current and former Boston police commissioners, and representatives from various Federal law enforcement agencies in Washington, DC.

SAC Peter Emerzian discussing HUD OIG's relocation program

SAC Emerzian, a panelist addressing victim intimidation, discussed HUD OIG's relocation program. More than 300 members representing Massachusetts' local, State, and Federal law enforcement and prosecutive agencies attended the conference.

SAC James Beaudette and ASAC Lori Chan provided an overview of HUD OIG and mortgage fraud schemes to approximately 35 Institute of Appraisers, Northwest regional members in **San Francisco, CA**. After the presentation, SAC Beaudette and ASAC Chan hosted a question and answer forum.

SAC Robert Brickley presented HUD OIG's background, mission, and role in criminal investigations at the Maryland Chapter Appraisal Institute meeting held in **Atlantic City, NJ**. SAC Brickley illustrated Federal Housing Administration (FHA) fraud and predatory lending schemes, explained specific FHA violations, described civil and administrative remedies, and expanded on appraisers' responsibilities to report wrongdoing. Approximately 30 individuals attended.

SAC Barry McLaughlin hosted the quarterly Northern Illinois Real Estate Fraud Working Group meeting in **Chicago, IL**. This group, created by SAC McLaughlin in conjunction with other agencies, discussed current schemes affecting the real estate industry and ways to coordinate efforts to prevent duplication when investigating fraud. Keynote speakers at the meeting included representatives from the City of Chicago Division of Housing and United States Attorney's Office. The Working Group is comprised of representatives from HUD, the State of Illinois/Division of Banks and Real Estate, the Internal Revenue Service (IRS), Fannie Mae, the Financial Crimes Enforcement Network (FINCEN), the HUD Quality Assurance Division, the Illinois Attorney General's Office, the FBI, Freddie Mac, the Chicago Police Department, the Cook County States Attorney's Office, the U.S. Postal Inspection (USPIS), and the United States Trustee's Office.

SAC James Beaudette, ASAC Lori Chan, and SA Jason Constantine offered an overview of HUD OIG, information on rental assistance initiatives, a presentation entitled "Trends in Housing Fraud," and case studies to Federal and local fraud investigators in **Seattle, WA**. Those in attendance included special agents from the Social Security Administration (SSA) OIG, the Washington Department of Social and Health Services, and investigators assigned to housing authorities.

ASAC Larry Amaker and SA Michael Wagenhauser spoke at the National Affordable Housing Management Association (NAHMA), Mid Atlantic Region, annual conference in **Richmond, VA**. ASAC Amaker and SA Wagenhauser explained HUD OIG's mission and ways in which NAHMA can assist with identifying, investigating, and prosecuting rental assistance fraud in multifamily housing. ASAC Amaker and SA Wagenhauser also presented an overview of HUD OIG's fugitive felon and RHIIP initiatives. Approximately 250 individual attended the conference.

ASAC Ray Espinosa participated in Northern Illinois University's Criminal Justice Career Fair in **Dekalb, IL**. ASAC Espinosa, along with representatives from the U. S. Secret Service and FBI, provided a presentation describing career and internship opportunities with various law enforcement agencies.

ASAC Brad Geary, along with representatives from the FBI, the U.S. Department of Veterans Affairs (VA) OIG, and a private security firm, participated in a panel discussion at a REO MAC conference in **New York City, NY**. REO MAC is a national organization specializing in the purchase of HUD real estate owned (REO) properties. More than 50 people attended a breakout session discussing various schemes and frauds affecting the real estate industry. SSA Kevin McBride from HUD OIG Headquarters also attended.

ASAC Brad Geary presented a fraud awareness briefing at the Appraisal Institute in **Chicago, IL**. ASAC Geary discussed fraud schemes affecting HUD and the real estate trade, along with newly implemented changes in FHA underwriting and their impact on the appraisal industry. More than 30 appraisers attended the meeting.

Assistant Regional Inspector General for Audit (ARIGA) Tom Towers and ASAC George Dobrovic presented an overview of current OIG goals and initiatives to HUD employees at the **Detroit, MI**, field office. The presentation also focused on how OIG can be a resource to supplement their detection of fraud, waste, and abuse.

ARIGAs Tanya Schulze and Vince Mussetter gave a presentation to the California State University, **Los Angeles, CA,** Accounting Society. In response to their request, ARIGAs Schulze and Mussetter gave a presentation to about 30 students on the background of HUD and OIG's mission, organization, and responsibilities. ARIGA Mussetter also discussed some recent audit results to illustrate the nature of OIG's work. The ARIGAs also talked about the environment and culture of OIG and career opportunities in the auditing field.

ARIGA Ed Schmidt, along with SAs Jason Constantine and Charles Grace, gave a presentation describing the functions of HUD OIG to a group of newer employees at the HUD regional office in **Seattle, WA**. The presentation was part of HUD's world training program in the HUD Seattle regional office. ARIGA Schmidt described HUD OIG's statutory missions, how HUD OIG is organized, the divisions and responsibilities between the Offices of Audit and Investigation, areas of audit work, and the audit reporting process. SAs Constantine and Grace explained the work of the Office of Investigation.

ARIGA Ron Farrell and Auditor Kim Toler, Region 5, participated in Cleveland State University's 27th Annual Spring Career Fair in **Cleveland, OH**, on March 3, 2006, along with more than 150 other employers. Mr. Farrell and Ms. Toler spoke with more than 100 students about OIG's mission and the benefits of pursuing a student volunteer position/career with HUD OIG. They accepted resumes from students interested in a student volunteer position with HUD OIG/Audit in Columbus, OH, or Detroit, MI.

ARIGA Fred Smith spoke to the Beta Alpha Phi accounting association at the University of Northern Colorado in **Denver, CO**. ARIGA Smith presented HUD's mission statement and strategic goals and discussed ways in which OIG interacts with HUD to accomplish its mission and goals. ARIGA Smith also discussed HUD's mission of increasing home ownership, supporting community development, and increasing access to affordable housing free from discrimination, as well as the benefits of a career in the Federal Government. ARIGA Smith fielded questions from the approximately 20 student and professors in the audience.

ASAC Michael Wilson provided an overview of HUD OIG and single-family fraud schemes at the Appraisal Institute in **Dallas, TX**. ASAC Wilson described common criminal schemes and presented case studies of single-family fraud investigations. Approximately 30 members of the Appraisal Institute attended.

ASACs Brad Geary and Ray Espinosa provided a presentation on the role and relationship of HUD OIG and Joint Terrorism Task Force (JTTF) investigations at the Anti-Terrorism Advisory Committee meeting sponsored by U. S. Attorney Patrick Fitzgerald and the Chicago Office of the FBI in **Chicago, IL**. In addition to discussing HUD's four major program areas and frauds associated with each, current JTTF/HUD OIG investigations from Detroit, Milwaukee, and Indianapolis were presented to the 75 law enforcement attendees.

ASAC Lori Chan presented HUD OIG initiatives at a Law Enforcement Database Seminar hosted by the Northern District of California U.S. Marshal's Service (USMS) and Western Regional Inspector General Council in **Oakland, CA**. ASAC Chan responded to inquiries during a question and answer session. Approximately 150 individuals representing about 50 State, county, and local law enforcement agencies attended.

ASAC Herschell Harvell, Jr., and SA David Carter attended the Southern California Housing Authority Manager's Association (SCHAMA) meeting at Riverside County Housing Authority, **Riverside, CA**. ASAC Harvell presented HUD OIG's mission and strategies for an effective alliance between housing authorities and HUD OIG and provided an overview of HUD OIG's Sex Offender and Fugitive Felon initiatives and U.S. Postal Service (USPS) OIG iiitiatives. SA Carter provided a brief overview of Section 8 program fraud, "Red Flag" fraud indicators, and various schemes used by criminals. ASAC Harvell and SA Carter responded to questions and encouraged reporting or contacting HUD OIG with waste, fraud, and/or abuse issues involving any HUD program.

SAs Gary Diers and Kris Kanakares addressed the 2005 Annual Kansas NAHRO convention held in **Topeka, KS**. SAs Diers and Kanakares presented an overview of successful fraud investigations in the Great Plains Region. Approximately 50 public and assisted housing professionals attended this seminar.

SAs Jason Constantine and Charles Grace presented HUD OIG's role regarding Seattle Housing Authority (SHA) crime and fraud at a conference held at the King County Police Academy, **Burien, WA**. Those in attendance included representatives from the Seattle Police Community Policing Division, Seattle Police Patrol Division, and Seattle City Prosecutors Office. SAs Constantine and Grace responded to questions and provided information on referring SHA crimes to HUD OIG.

SA Heather Yanello provided information on property flipping and mortgage fraud at the Suspicious Activity Reports (SAR) training seminar hosted by members of the Western New York SAR review team in **Buffalo, NY**. SAR review team members include personnel from the U.S. Attorney's Office, IRS Criminal Investigation Division (CID), New York State Attorney General's Office of the Inspector General, and U.S. Secret Service. The SAR training covered general guidelines in preparing SARs, SAR legal requirements established by FINCEN, and information on property flipping and mortgage fraud. SA Yanello also discussed mortgage fraud as a financial crime, how mortgage fraud relates to the Bank Secrecy Act, and a property flipping scheme shown on the HBO series "The Sopranos." Approximately 100 bank compliance and bank investigators attended this training in person and via teleconferencing.

SAs Donald Varner and Brian Caldwell presented information on fraud scemes to 45 senior appraisers at the Appraisal Institute for Region IX in **Atlanta, GA**. An extensive question and answer forum followed the presentation.

SA Louis Mancini attended a U.S. Department of Justice (DOJ)-sponsored conference in **Philadelphia, PA**, to exchange ideas and best practices for the DOJ-sponsored Public Housing Safety Initiatives (PHSI) under development in major US metropolitan areas. The purpose of the conference was to facilitate continuity and cooperation among all agencies participating in the various PHSI with regard to law enforcement, community building, and crime prevention. The Philadelphia PHSI includes HUD OIG, USMS, the Bureau of Alcohol, Tobacco, and Firearms (ATF), the Drug Enforcement Administration (DEA), and the Philadelphia Police Department.

SA David Carranza provided an overview of HUD OIG's mission, structure, and resources to police officers and detectives from the **Ventura, CA**, Police Department, Narcotics and Investigations Division, Crimes Suppression Team. SA Carranza also discussed HUD OIG's authority in the Fugitive Felon, Sexual Offender, and Rental Assistance initiatives, along with the need for networking and information sharing to achieve common goals. In addition to SA Carranza, the Ventura Housing Authority's deputy director and housing manager provided information and answered questions relating to housing eligibility, narcotic and violent crimes leading to terminations, sexual offender policies, and annual certifications and inspections of tenants and their housing units.

SAs Keith Fong and Eric Huhtala presented an overview of HUD OIG's mission and role in investigating and prosecuting fraud to 25 attendees at a Sacramento County District Attorney's Office training seminar in **Sacramento, CA**. The audience included investigators from the Sacramento County Department of Human Assistance, Investigations Division, along with Child Action, Inc., a nonprofit contractor for Sacramento County child assistance programs. Information on detecting, preventing, and reporting fraud was also provided by SAs Fong and Huhtala.

A Weed and Seed Panel, comprised of Donna Schulz, Law Enforcement Coordinator Manager and William Daniels, Law Enforcement Coordinator, U.S. Attorney's Office; Delores McLaughlin, Brevard County Weed and Seed Coordinator; and ASAC Timothy Mowery, HUD OIG, made individual presentations for the Public Housing Authorities Directors Association (PHADA) during the 2006 PHADA National Conference in **St. Petersburg, FL**. ASAC Mowery's presentation reflected HUD OIG's effort to identify and remove sexual offenders, fugitive felons, and HUD program participants committing illicit drug offenses from HUD-funded programs. Conference attendees were advised on how local and national HUD OIG initiatives compliment the overall objective of the Weed and Seed Program, a HUD-funded DOJ-administered program.

On October 5, 2005, Senior Auditor Anthony Anderson and Auditor Lanre Iwayemi represented OIG at a career fair at Southern Illinois University in **Edwardsville, IL**. Anthony and Lanre met with students during the event, offering information about OIG and explaining how OIG hires employees and where it currently has openings. They collected about a dozen resumes and, as requested by the students, forwarded two of the resumes to the Region III Office of Audit and two to the Region VII Office of Investigation.

SA Joshua Stockman gave a presentation to the Identity Theft Investigators of Arizona (IDTIA) at the Maricopa County Sheriff's Training Auditorium in **Phoenix, AZ**. SA Stockman's presentation focused on HUD OIG's mortgage and rental assistance fraud initiatives and included examples of successful HUD OIG investigations in the Phoenix metropolitan area. Approximately 75 representatives from varied law enforcement agencies, including the Maricopa County Sheriff's Office, the Arizona Department of Public Safety, USPIS, the Social Security Administration OIG, the Maricopa County Attorney's Office, the Arizona Attorney General's Office, and police departments from Phoenix, Mesa, and Chandler, attended. SA Stockman responded to questions relating to HUD rental assistance programs, FHA mortgage insurance, and the Real Estate Settlement Procedures Act (RESPA).

SA James Carrieres gave presentations to the **San Diego, CA,** Appraisal Institute and **Phoneix, AZ**, Appraisals, a private group of residential appraisers. SA Carrieres presentations included an overview of HUD OIG and successful single-family fraud cases prosecuted in Arizona. Approximately 110 appraisers attended these events.

ASAC Brad Geary, along with a representative from the United States Trustee's Office, Northern District of Illinois, provided three break-out presentations at a Bankruptcy Fraud Training seminar held at Department of Justice National Advocacy Center, **Columbia, SC**. The presentations focused on the relationship between single-family loan fraud and fraud within the bankruptcy courts. Those attending included Federal agents, assistant United States attorney's, and trial attorneys from United States Trustee's offices throughout the country.

SA Scott Savedow discussed fraudulent schemes and the impact and consequences of loan origination fraud on the FHA to the Mortgage Bankers Association during their two-day Fraud Detection seminar in **Miami, FL**. Approximately 40 bank and mortgage company executives attended the seminar.

SA Charles Grace presented the Inspector General's role in HUD programs at the Association of Oregon Housing Authorities (AOHA) biannual meeting, held at the Portland Housing Authority in **Portland, OR**. The attendees included Oregon housing authorities executive directors and an Oregon State lobbyist from Salem, OR. SA Grace responded to questions involving Section 8 tenant/landlord fraud, prosecutorial advice, fraud indicators, budgetary items, and contact information and advised AOHA members of HUD OIG's active pursuit of fraud investigations.

ARIGA Fred Smith spoke to the Beta Alpha Phi accounting association at the University of Northern Colorado, **Greeley, CO**. ARIGA Smith discussed HUD's mission statement and strategic goals and how OIG interacts with HUD to accomplish its mission and goals. ARIGA Smith discussed how OIG accomplishes its mission by conducting independent and objective audits, investigations, and other activities relevant to the HUD mission and how OIG keeps the Secretary of HUD, Congress, and the American public fully and currently informed.

SA Neil McMullen met with members of the Hill Street Community Association (HSCA) in **Inglewood, CA**. HSCA members include homeowners and landlords who participate in the Inglewood Housing Authority's (IHA) rental assistance program by providing housing for Section 8 recipients. SA McMullen provided an overview of HUD OIG's mission and authority, described ways in which HSCA members may assist IHA in preventing

Section 8 fraud, and explained HUD OIG's successful partnership with the Inglewood Police Department in addressing gang and drug activity through Section 8 fraud prosecutions. Both SA McMullen and Inglewood Police Department representatives emphasized the importance of community involvement in reducing violent criminal activity in subsidized housing.

SA Malinda Antonik presented HUD OIG's mission and role in preserving the integrity of the HUD-funded programs at the Florida Association of Homes for the Aging's (FAHA) 2006 Legislative Workshop in **Tallahassee, FL**. Topics discussed included HUD OIG's efforts to identify and eliminate fraudulent schemes in HUD's Rental Assistance, Fugitive Felon, Missing Children, FHA, and Hurricane Relief programs. Approximately 35 FAHA members attended.

SA James Carrieres met with members of the Hispanic Association of Real Estate Professionals and provided an overview of HUD OIG's mission, HUD's FHA programs, and successful single-family fraud prosecutions in **Phoenix, AZ**. Approximately 100 real estate agents, appraisers, loan officers, and escrow officers attended.

HUD Newark Field Office Director, Diane Johnson, presented the **Newark, NJ**, HUD OIG Office of Investigation with a certificate of appreciation in recognition of the "blue ribbon service" provided to HUD clients in New Jersey.

Chapter 9
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, OIG reviewed 120 policy notices. This chapter highlights some of OIG's recommendations on these notices as well as other policy directives.

Proposed Rules

HUD's Proposed Interim Rule for Project-Based Voucher Rents for Units Receiving Low-Income Housing Tax Credits--24 CFR Part 983

This rule relates to project-based vouchers in low-income housing tax credit projects. HUD OIG did not concur with the proposed interim rule since it did not allow for a comment period before implementation and also because it did not provide support for the proposed action.

The Department was reviewing OIG's comments at the end of this semiannual reporting period.

Housing Opportunities for Persons with Aids

This rule is proposed for the Housing Opportunities for Persons with Aids (HOPWA) program. OIG commented because the proposed rule change does not address several requirements that the Inspector General believes are important.

The Department is incorporating OIG changes but has not published the proposed rule 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. Additionally, HUD OIG has communicated other issues on each draft rule and cannot concur in the proposed rules until the issues are addressed.

For the conversion of developments from public stock, HUD incorporated OIG comments and issued its final rule on March 21, 2006, to become effective April 20, 2006. The Department is still considering OIG's comments on the other two rules.

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 PIH 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 Office of Public and Indian Housing revised the draft rule and is currently issuing additional guidance to clear the remainder of our comments.

Proposed Notices

Project-Based Voucher Units with Low-Income Housing Tax Credit Allocations

The HUD draft notice was to supersede Notice PIH 2002-22 and add requirements for public housing agencies to cap rent amounts under the project-based voucher program for units receiving low-income housing tax credits so as not to exceed the tax credit rent based on the project-based final rule effective November 14, 2005. It also addressed applicability based on the effective date of the rule.

OIG commented that the notice was not clear in its language on the applicability as well as all of the terminology included in the notice. Also the notice incorrectly stated in the subject line and purpose that it applied to project-based and tenant-based programs.

Based on OIG's comments, HUD eliminated confusing and unnecessary wording and issued an amendment to Notice PIH 2002-22 rather than superseding the notice. The language regarding applicability was clarified to ensure the new final rule requirements are only applied to projects selected after the effective date of the final rule.

Using HOME Tenant-Based Assistance to Mitigate Displacement

The OIG did not concur with HUD's draft notice for using HOME Investment Partnership 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 (FY) 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. In OIG's opinion, this draft notice meets the standard as a rule and should be published in the Federal Register for comment.

The Department decided not to issue the proposed notice based on OIG's comments.

Establishment of Amnesty Program at Public Housing Agencies Resulting from Inspections of Family Income

The OIG reported on this issue in the March 31, 2005, Semiannual Report to Congress, and HUD had not reached a final decision as of that date.

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 assistance programs. The draft notice threatens to jeopardize current investigations and to undermine the fairness of past convictions.

The Office of Public and Indian Housing decided not to issue the draft notice based on OIG's comments.

Mortgagee Letters

Special Authority for Use of Deed in Lieu of Foreclosure to Assist Victims of Hurricanes

HUD drafted a mortgagee letter to make it easier for mortgagees to accept voluntary conveyances of property from borrowers in those cases in which, due to storm damage, the home is not habitable and will not be restored. The proposed change included a $5,000 incentive payment to the borrower or mortgagee, as applicable, to complete a deed-in-lieu agreement. OIG commented that the $5,000 payment constituted an enhanced entitlement and an unexpected windfall to the borrowers but at a cost to HUD that simply increased claim losses without a material corresponding benefit. HUD believes this cost is more than offset by a decrease in the interest and other costs that would be payable in an insurance claim if the loans foreclose. OIG recommended that the deed-in-lieu transactions be tracked so that the Department could evaluate the participation levels and borrower eligibility.

It is not known if the Department will monitor the transactions. The proposed letter was published May 3, 2006, after the end of this semiannual period as Mortgagee Letter 2006-10.

Expanded Streamline (K) Limited Repair Program

HUD drafted a mortgagee letter to modify documentation and control requirements over 203(k) Rehabilitation Mortgage loans, an acknowledged higher risk Federal Housing Administration (FHA) insurance program. The proposed change eliminated the $5,000 repair minimum and raised the maximum to $35,000. OIG commented that financing as much as $35,000 of "minor repairs" could expose unwary borrowers to problems associated with past program abuses and recommended that the Department require a final inspection of the work when repair costs exceeded $15,000.

HUD agreed and included the inspection requirement when it published Mortgagee Letter 2005-50, dated December 29, 2005.

Tax-Exempt Status for Nonprofit Downpayment Gift Providers

HUD drafted a mortgagee letter regarding nonprofit "downpayment assistance providers". OIG nonconcurred.

The Department was reviewing OIG's nonconcurring comments at the end of the semiannual reporting period.

Special Authority for Use of Partial Claims and Loan Modifications to Assist Victims of Hurricane Katrina

HUD drafted a mortgagee letter to provide financial relief to victims of Hurricane Katrina who owned FHA-financed homes. The mortgagee letter would allow lenders to advance up to 12 months of principal, interest, taxes, and insurance and file a partial claim for the amount of the advance. Homeowners would be required to sign a repayment agreement.

OIG commented that the agreement should be securitized through a promissory note or other appropriate instrument and recorded as a lien against the property. Without a lien, recovery of the advance would not occur as a distribution from the closing of a future property sale, and the agreement would not provide a strong and enforceable legal document in seeking repayment directly from the borrower.

The Department addressed our issues and published this proposal under Mortgagee Letter 2005-46 on December 1, 2005.

Late Request for Endorsement Procedures/Certification Eliminated, Proposed Mortgagee Letter

HUD drafted a mortgagee letter to remove the certification requirement from FHA's 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. 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. It remains a concern because these ineligible late-endorsed loans were early defaults that were subsequently endorsed for insurance.

The Department issued Mortgagee Letter 2005-23, which modified late endorsement procedures but retained a certification requirement.

Premium Pricing on FHA-Insured Mortgages

OIG reported on premium pricing on FHA-insured mortgages in the March 31, 2005, Semiannual Report to Congress, and HUD had not reached a final decision.

Department action on the proposed letter was still pending at the end of this semiannual reporting period.

Chapter 10
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 for 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 March 31, 2006," and table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of March 31, 2006."

Delayed Actions

Audits of HUD's FY 1991 through 1995 Financial Statements

First issued June 30 1992. HUD has been preparing consolidated financial statements under the requirements of the Chief Financial Officers Act for 15 years beginning with fiscal year (FY) 1991. Various internal control weaknesses have been reported in these audits. As a result of the FY 2005 financial audit process, OIG reported HUD's need to (1) incorporate better risk factors and monitoring tools into the Federal Housing Administration's (FHA) single-family insured mortgage program risk analysis and liability estimation process and (2) improve FHA's management review of the credit reform estimation process. Corrective action plans to resolve these issues have final action targeted by the end of calendar year 2006.

Audits of FHA's FY 1991 through 1995 Financial Statements

First issued March 27, 1992. FHA has prepared financial statements for 15 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2005 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.

Guild Mortgage Company DBA, Residential Mortgage Bankers, Nonsupervised Direct Endorser – Downey, CA

Issued July 9, 2004. Guild Mortgage Company (Guild) allowed predatory lending practices, a prohibited net branch arrangement, and did not always follow prudent lending practices. Guild allowed its branch, Residential Mortgage Bankers, to charge excessive fees for underwriting and processing, as well as allowing loan discount points and premium rate pricing for which the interest rates were not reduced and the borrowers did not receive any value or services for the charges. In addition, Residential Mortgage Bankers was established as an independent mortgage corporation originating FHA loans without meeting HUD's application and asset requirements. Guild also failed to establish appropriate loan processing and underwriting controls to ensure HUD requirements were followed during the loan origination process. OIG recommended that Guild (1) be referred to the Mortgagee Review Board and assessed civil money penalties for engaging in predatory lending practices, (2) be required to review and analyze all FHA loans originated by Residential Mortgage Bankers in which loan discount points were charged and there was no interest rate reduction, (3) make refunds as required by HUD regulations, (4) repay HUD losses totaling more than $811,000, and (5) indemnify the remaining loans amounting to more than $159 million.

OIG received a management decision, dated November 8, 2004, which included a decision for recommendation 1C, which states that a written legal opinion would be requested from the Office of General Counsel regarding loan discount points and premium rate pricing. A legal opinion, dated December 7, 2004, from the Office of General Counsel only addressed the issue of premium rate, pricing but the opinion went on to state that issues regarding discount points would be addressed by the Office of Real Estate Settlement Procedures Act/ Office of Land Sales. HUD, however, closed the recommendation on February 7, 2005, as having been satisfied. On March 29, 2005, OIG reopened this recommendation and issued a memorandum to the Assistant Secretary for Housing, explaining that the original recommendation had not been fully satisfied and giving HUD 30 days to provide an action plan. On June 8, 2005, we received a response from the General Deputy Assistant Secretary for Housing-Deputy Federal Housing Administration Commissioner stating that the Office of Housing did not agree that loans with discount point charges, in which there was no interest rate reduction, were a HUD or Real Estate Settlement Procedures Act requirement. Further, the memorandum stated that the Real Estate Settlement Procedures Act Office would provide the official written confirmation response on its decision regarding this issue by June 30, 2005.

In November 2005, OIG received the referenced legal opinion, dated November 3, 2005, whose subject line was – Availability of Enforcement Action Under RESPA Based on Discount Points Charged in Above-Par Loans. The opinion memorandum concluded that Guild's charging of discount points in these transactions is contrary to HUD's regulations and statements of policy interpreting Section 8(b) of RESPA. It also noted that the statute of limitations expired before our audit and several appellate courts have questioned aspects of HUD's interpretation of Section 8(b). The opinion also concluded there may be a violation of Section 4 of RESPA if the disclosures provided did not accurately describe the function of the discount points. OIG's conclusion, as described in the audit report, was that the fees labeled as discount points were actually **unearned fees disguised as discount points** on the HUD-1 Settlement Statements. As a result, neither the Good Faith Estimates nor the HUD-1 Settlement Statements accurately described the function of the fees labeled as discount points that went to the lender as additional compensation instead of providing interest rate deductions to the borrowers.

In a letter, dated December 22, 2005, OIG asked the Assistant Secretary for Housing to refer the lender to the Mortgagee

Review Board for civil money penalties for the violations cited for the loans in question, and we are still awaiting a reply. OIG followed up with more correspondence on February 8, 2006, with notification that none of the targeted action dates have been met for the recommendations in the July 9, 2004, audit report. As of March 31, 2006, none of the borrowers have received refunds and no civil money penalties have been assessed to the lender. The maximum civil money penalty assessment is $6,500 per violation up to a limit of $1.25 million for all violations committed during any 1-year period. (Report No. 2004-LA-1005)

United States Veterans Initiative, Inc. – Supportive Housing Program Grantee – Inglewood, CA

Issued September 27, 2004. United States Veterans Initiative, Inc. – Supportive Housing Program Grantee

Issued September 27, 2004. Contrary to Federal regulations and grant requirements, U.S. Veterans Initiative was unable to support that it met cash matching funds requirements for any of the $7,222,590 in Supportive Housing Program (SHP) grant funds expended during the audit period. U.S. Veterans Initiative also spent at least $633,348 in SHP funds for ineligible ($498,248) and unsupported ($135,100) salaries and other expenses. We also found that U.S. Veterans Initiative did not administer its SHP grants in accordance with requirements because it failed to (1) develop an adequate financial management system, (2) comply with procurement and contract administration requirements, (3) establish and implement indirect cost rates as required, and (4) close out expired grants. OIG recommended that HUD require U.S. Veterans Initiative and/or its continuums Los Angeles Homeless Services Authority and City of Long Beach to (1) repay HUD from nonfederal funds for the $6,589,242 in SHP grant expenditures that did not have the required matching funds unless it can provide the supporting documentation, (2) comply with Federal requirements in carrying out its SHP grant activities, (3) reimburse the SHP grants and/or repay HUD from nonfederal funds for the $633,348 in ineligible and unsupported expenses, (4) revise U.S. Veterans Initiative's financial management system, (5) competitively procure the services in the business services agreement, (6) develop and/or update the indirect cost rates, and (7) submit financial closeout reports for expired grants.

On April 4, 2005, the Deputy Secretary made final management decisions[1] for this audit and the Office Community Planning and Development (CPD) agreed to complete final actions by March 17, 2006. As part of the management decision for finding 1, CPD agreed to contact the U.S. Department of Labor (DOL), the U.S Department of Veterans Affairs (VA), and Americorp to determine whether their funds can be used as match for the SHP. If the funds can be used, CPD agreed to request a legal opinion from HUD's Office of General Counsel (OGC) regarding (1) the definition of "budget line item" and (2) whether match may be applied project to project or used based on budget line item or must be applied to the lower accounting level. If the funds cannot be used as match, $1,254,570 will be disallowed. With regard to finding 2, CPD agreed to request a legal opinion from OGC to determine whether approval can be granted after the fact for expenditures that were not included as budget line items but were SHP eligible. Regarding finding 3, CPD agreed to suspend the processing of

[1] In our Semiannual Report to the Congress covering the period October 1, 2004, through March 31, 2005, we reported our disagreement with the Deputy Secretary's final management decision on this audit.

any new grant agreements until the audit issues have been resolved. The Deputy Secretary also determined that grant renewals, subsequent to those awarded under the 2004 Continuum of Care competition, will not be funded until management decisions from the audit are resolved. Final action was scheduled to be completed for findings 1 and 2 by January 4, 2006, and for finding 3 by March 17, 2006.

On February 7, 2006, CPD sent a memorandum to provide a status update and request revisions to the management decisions and attached a December 19, 2005, legal opinion from OGC. With regard to finding 1, CPD had not yet determined whether funds from DOL, VA, and Americorp could be used as match for the SHP. CPD explained that it had received inconsistent responses from the agencies; therefore, on December 13, 2005, it had requested opinions from the agencies' counsels and is currently waiting for their responses. CPD requested an extension until June 30, 2006, to complete final action. With regard to finding 2, OGC ruled that CPD could grant approval for grant expenditures that were not included as budget line items but were SHP eligible. Based on this opinion, CPD requested a revised management decision to revise the disallowed amounts and request our concurrence to allow U.S. veterans to repay the disallowed costs through (1) a repayment plan, (2) recovery through offsets on active grants, and (3) recovery through property in lieu of cash. On finding 3, CPD requested concurrence to close the recommendation based on the receipt of the OGC legal opinion.

On February 22, 2006, OIG responded to CPD's memorandum and advised that for finding 1, OIG cannot extend the final action target date since there was no change in the management decision. Therefore, final action is considered past due after March 31, 2006. With regard to finding 2, OIG requested supporting documentation to determine the appropriateness of the course of action for these recommendations. In addition, OIG advised CPD to obtain a written legal opinion from OGC to determine the allowability of the debt repayment proposal to allow some of the debt to repaid with payment in kind to a third party grantee and whether such payments in kind, in the absence of a reduction by an equal amount of HUD's liability to the third party grantee, constitute an augmentation of HUD's appropriation or violation of the HUD Reform Act. Regarding finding 3, we advised that the management decision required all the audit issues to be resolved before the corrective action can be considered complete. Therefore, final action was past due as of March 31, 2006. *(Report No. 2004-LA-1008)*

Significant Management Decision with Which the OIG Disagrees

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

Idaho Housing and Finance Association – Boise, ID

Issued September 16, 2005. Idaho Housing and Finance (Idaho Housing), Boise, ID, did not follow Federal regulations and HUD guidelines when it allowed 10 project owners to prepay project mortgages. According to the Housing Assistance Payment (HAP) contracts for these projects, the prepayment of the projects' permanent financing cancels the HAP contracts. However, Idaho Housing did not enforce the HAP contract termination, causing HUD to pay more than $8.5 million in rent subsidies in excess of fair market rents.

OIG found no documentation showing Idaho Housing informed HUD of the prepayments for 7 of the 10 projects it reviewed. As a result, Idaho Housing did not give HUD the opportunity to offer any options regarding the rent subsidies. Idaho Housing's failure to notify HUD of these prepayments is a violation of HUD regulations at 24 CFR 883.307(b)(2) and a breach of its annual contributions contract, which requires compliance with the U.S. Housing Act of 1937 and all applicable regulations and requirements.

OIG recommended that HUD require Idaho Housing to reimburse HUD for the $8.5 million in excessive subsidy payments for the projects without valid HAP contracts. OIG also recommended that HUD renegotiate the terminated HAP contracts with the owners and Idaho Housing, taking into consideration the projects' condition and fair market rents. The Office of Multifamily Housing disagreed with both recommendations. Subsequently, OIG held discussions with the Deputy Assistant Secretary for Multifamily Housing to discuss issues relating to HUD's policy on extending HAP contracts upon contract termination due to prepayment.

Regarding the issue of prepaid projects, the Office of Multifamily Housing stated that HUD's practice since 2002 is to offer owners who contact HUD the options of (1) extending the term of the HAP contract to the originally scheduled maturity date of the permanent financing, (2) renewing the HAP contract under the provisions of the Multifamily Assisted Housing Reform Act (MAHRA), or (3) opting out of the Section 8 program. According to the Office of Multifamily Housing, it would have allowed the HAP contract extensions using existing terms if Idaho Housing had (1) recognized the termination provision at the time of the refinancing and (2) sought and received, on behalf of the owners, HUD's written approval to prepay.

OIG believes the Office of Multifamily Housing's policy of allowing the owners of noninsured subsidized projects to unilaterally choose one of the three options does not protect HUD's interests and comply with amendments made to Section 524 of MAHRA, effective September 30, 2001.

The HAP contract termination for the 10 projects in OIG's report is covered under MAHRA Sections 524(b)(1) and 524 (b)(2). Therefore, by statute, HUD can only offer the HAP renewal option stated in Section 524(b)(1). Due to the application of an annual adjustment factor through March 1995, the 10 prepaid Idaho Housing projects in OIG's report had subsidized rents that were as much as 191 percent of applicable fair market rents. OIG estimates that HUD would save more than $1.3 million in excess section 8 subsidy payments over the next year if it renegotiated the HAP contracts in conformance with MAHRA.

Initially, OIG agreed to modify its two recommendations and eliminate $8.5 million in ineligible costs if the Office of Multifamily Housing would commit to changing its policy of allowing project owners to unilaterally choose the option of extending HAP contracts that terminated due to prepayment. OIG stated that any new policy must be in conformance with the applicable provisions of MAHRA. On March 14, 2006, the Assistant Inspector General for Audit referred the issue to the Assistant Secretary for Housing because OIG could not reach an agreement with the Office of Multifamily Housing on the two recommendations within established timeframes.

On March 31, 2006, the Inspector General received a memorandum from the Deputy Secretary stating that he agreed with the Office of Housing's proposed management decision. This decision states that the Office of Housing will not require

Idaho Housing to reimburse HUD for the excessive subsidy payments and renegotiate the subsidy contracts with the 10 project owners. OIG disagrees with the Deputy Secretary's management decision and question HUD's reluctance to commit to changing its policy on prepaid, noninsured multifamily housing projects to conform to MAHRA. OIG has asked for a formal Office of General Counsel legal opinion on this issue. (Report No. 2005-SE-1008)

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 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 2 of its 44 financial management systems were not in substantial compliance with FFMIA. These two systems are Loan Accounting System(LAS), and Facilities Integrated Resources Management System (FIRMS). HUD is in the process of replacing LAS with a commercial off-the-shelf software package in the second quarter of 2006. HUD reported FIRMS as noncompliant in its 2005 self-assessment.

Appendix 1
Audit Reports Issued

Internal Reports

11 Audit Reports

Chief Financial Officer (2 Reports)

2006-DP-0001	HUD Compliance with Joint Financial Management Improvement Program, Core Financial System Requirements for Cost Management, 10/07/2005.
2006-FO-0003	Additional Details to Supplement Our Reports on HUD's FY 2005 and 2004 Financial Statements, 11/15/2005. Better Use: $377,593,323.

Chief Information Officer (4 Reports)

2006-DP-0002	Security Configuration of FHA Unix Operating System, 10/31/2005.
2006-DP-0003	Vulnerability Assessment of HUD's Computer Network, 01/31/2006.
2006-DP-0004	Review of HUD's Information Security Program, 02/14/2006. Better Use: $9,980,000.
2006-DP-0801	OIG Response to Questions From the OMB Under the Federal Information System Management Act of 2002, 10/04/2005.

Government National Mortgage Association (1 Report)

2006-FO-0001	GNMA Financial Statements for FY 2005 and 2004, 11/07/2005.

Housing (2 Reports)

2006-FO-0002	FHA Financial Statements for FY 2005 and 2004, 11/07/2005.
2006-KC-0001	The HUD Office of Affordable Housing Preservation Appropriately Approved the Mark-to-Market Eligibility and Exception Rents, and Assessed the Physical Condition of Evergreen Terrace I, Joliet, IL, 02/09/2006.

Lead Hazard Control (1 Report)

2006-PH-0001	HUD Did Not Properly Award FY 2004 Healthy Homes and Lead Hazard Control Grants, 12/07/2005. Questioned: $3,000,000; Better Use: $20,496,000.

Public and Indian Housing (1 Report)

2006-CH-0001	Real Estate Assessment Center's Physical Condition Assessment Was Compromised, Washington, DC, 11/30/2005.

External Reports

66 Audit Reports

Community Planning and Development (8 Reports)

2006-BO-1001	The Division of Grants Management, City of Hartford, CT, Paid $1,039,296 for Ineligible CDBG Activities, 10/07/2005. Questioned: $981,461; Unsupported: $85,581; Better Use: $1,127,861.
2006-BO-1003	The City of Malden Working to Ensure Appropriate Use of CDBG and HOME Program Administrative Funds, Malden, MA, 01/23/2006.
2006-CH-1001	HUD's Interest in More Than $220,000 in Economic Development Initiative-Special Purpose Grant Funds Awarded to the City of St. Ignace, MI, Was Not Secured, 11/10/2005. Better Use: $223,537.
2006-CH-1003	HUD's Interest in $47,668 in Economic Development Initiative-Special Purpose Grant Funds Awarded to the City of Rhinelander, WI, Was Not Secured, 12/05/2005. Better Use: $47,668.
2006-CH-1006	Northstar Community Development Corporation Inappropriately Used More Than $120,000 in Economic Development Initiative-Special Purpose Grant Funds and HUD's Interest in More Than $180,000 in Grant Funds Was Not Secured, Detroit, MI, 12/30/2005. Questioned: $125,342; Unsupported: $1,970; Better Use: $184,871.
2006-LA-1009	Fontana Native American Indian Center Did Not Adequately Administer Its Supportive Housing Program Grant, Fontana, CA, 03/03/2006. Questioned: $194,541; Unsupported: $55,776.
2006-NY-1002	WomenRising, Inc., Did Not Always Comply with HUD's Supportive Housing Program, Jersey City, NJ, 01/31/2006. Questioned: $94,759; Unsupported: $94,759.
2006-NY-1006	Lower Manhattan Development Corporation, CDBG Disaster Recovery Assistance Fund, New York, NY, 03/31/2006. Questioned: $266,802.

Housing (28 Reports)

2006-AT-1003	Certified Home Loans of Florida Did Not Always Comply with FHA Requirements, Miami, FL, 01/12/2006. Questioned: $728,479; Better Use: $660,699.
2006-BO-1004	Mount Saint Francis Health Center, Providence, RI, 03/03/2006. Questioned: $4,402,305; Unsupported: $2,743,728.
2006-BO-1006	Coventry Health Center, Providence, RI, 03/28/2006. Questioned: $1,858,100; Unsupported: $992,979.
2006-CH-1002	The General Partner of The Sanctuary of Geneva, OH, Improperly Used More Than $43,000 in Project Funds, 11/17/2005. Questioned: $43,484; Unsupported: $5,475.
2006-CH-1004	Trustcorp Mortgage Company, Non-Supervised Lender, Substantially Complied with Requirements Regarding Late Requests for Endorsements and Underwriting of Loans, South Bend, IN, 12/22/2005. Questioned: $2,889; Better Use: $102,02.
2006-CH-1007	Huntington National Bank, Supervised Lender, Generally Complied with Requirements Regarding Submission of Late Requests for Endorsement and Underwriting of Loans, Columbus, OH, 03/15/2006. Questioned: $1,325; Better Use: $2,702,616.

2006-CH-1008	US Bank NA, Supervised Lender, Did Not Always Comply with HUD's Requirements Regarding Late Requests for Endorsements and Underwriting of Loans, Minneapolis, MN, 03/31/2006. Questioned: $584,252; Unsupported: $129,686; Better Use: $2,957,090.
2006-DE-1001	First Magnus Financial Corporation Did Not Follow HUD Requirements in Underwriting 31 Insured Loans, Denver, CO, 12/20/2005. Questioned: $873,455; Unsupported: $638,618; Better Use: $1,936,792.
2006-DE-1002	American Title Services Did Not Comply with Contract Terms for Closing Sales of HUD Homes, Greenwood Village, CO, 02/01/2006. Questioned: $6,858.
2006-FW-1004	K Hovnanian American Mortgage, LLC, Violated Underwriting Requirements and Did Not Meet All Quality Control or Branch Requirements, Plano, TX, 01/26/2006. Questioned: $608,333; Better Use: $736,517.
2006-FW-1006	America's Mortgage Resource, Inc., Branch Manager Formed an Identity-of-Interest Entity That Provided Gift Funds; and Did Not Always Meet HUD Loan Origination and Quality Control Plan Requirements, Metairie, LA, 03/28/2006. Questioned: $708,258; Better Use: $6,904,509.
2006-FW-1007	BSM Financial LP Originated Loans on Overvalued Properties to Less Than Creditworthy Borrowers, Putting Borrowers and HUD at Risk, Allen, TX, 03/31/2006. Questioned: $1,989,588; Better Use: $3,084,886.
2006-KC-1002	First Magnus Financial Corporation Did Not Follow HUD Regulations When Underwriting 23 FHA Loans, Overland Park, KS, 12/12/2005. Questioned: $221,337; Better Use: $2,429,604.
2006-KC-1004	Major Mortgage Improperly Submitted Late Requests for Endorsement of FHA Loans, Cheyenne, WY, 01/20/2006. Questioned: $168,054; Unsupported: $132,562; Better Use: $1,098,180.
2006-KC-1005	Matrix Financial Services Corporation's St. Louis Branch Did Not Properly Underwrite and/or Close 40 FHA Loans, St. Louis, MO, 01/31/2006. Questioned: $234,122; Unsupported: $58,147; Better Use: $2,630,627.
2006-KC-1007	American Lending Group Did Not Properly Originate 9 Loans and Did Not Have Adequate Quality Control Procedures, St. Peters, MO, 03/15/2006. Questioned: $416,555; Unsupported: $364,198; Better Use: $646,907.
2006-LA-1001	Ryland Mortgage Company Did Not Follow HUD Requirements in the Origination of Insured Loans, Tempe, AZ, 10/31/2005. Questioned: $89,741; Better Use: $2,730,099.
2006-LA-1003	The Owners of The Avenue Misused More Than $32,000 in Project Funds, San Francisco, CA, 12/07/2005. Questioned: $32,851.
2006-LA-1005	The Villas at Camelback Crossing - Phase I Used Project Funds Totaling $1,039,034 for Ineligible or Undocumented Costs, Glendale, AZ, 12/13/2005. Questioned: $1,039,034; Unsupported: $165,051.
2006-LA-1006	The Villas at Camelback Crossing - Phase II Used Project Funds Totaling $1,008,215 for Ineligible or Undocumented Costs, Glendale, AZ, 12/13/2005. Questioned: $1,008,215; Unsupported: $182,595.

2006-LA-1007 The Villas at Augusta Ranch Used Project Funds Totaling $965,316 for Ineligible or Undocumented Costs, Mesa, AZ, 12/13/2005. Better Use: $17,710,686.

2006-LA-1010 The Owner and Agent of Holiday Apartments, LA PRO 30, and Two Worlds II Mismanaged Project Finances and Operations, Los Angeles, CA, 03/03/2006. Questioned: $3,097,469; Unsupported: $719,899; Better Use: $1,246,866.

2006-NY-1001 United Mortgage Corporation Did Not Always Comply with HUD/FHA Loan Origination Requirements, Hauppauge, NY, 11/18/2005. Questioned: $154,921; Better Use: $2,666,050.

2006-PH-1004 Homestead Funding Corp. Issued and Submitted for Endorsement Loans with an Increased Risk of Defaults and Claims, Allentown, PA, 12/02/2005. Questioned: $175,594; Unsupported: $175,594; Better Use: $95,107.

2006-PH-1006 Allied Mortgage Group Issued and Submitted for Endorsement Loans with an Increased Risk of Defaults and Claims, Bala Cynwyd, PA, 02/08/2006. Questioned: $205,164; Unsupported: $204,153; Better Use: $595,418.

2006-PH-1007 The Loan Origination Process and Quality Control Plan of American Mortgage, Inc., Did Not Comply with HUD Regulations and Requirements, Cherry Hill, NJ, 02/15/2006. Questioned: $4,589; Better Use: $1,632,468.

2006-PH-1008 1st Preference Mortgage Corporation, York, PA, and Greenbelt, MD, Did Not Originate All FHA Loans in Accordance with HUD Requirements, York, PA, 03/23/2006.

2006-SE-1001 Idaho Housing and Finance Association Did Not Monitor Subsidized Multifamily Projects in Accordance with Regulations or Its Annual Contributions Contract with HUD, Boise, ID, 01/26/2006. Questioned: $4,050,085; Unsupported: $182,264; Better Use: $357,986.

Public and Indian Housing (30 Reports)

2006-AT-1001 Miami Dade Housing Agency Did Not Ensure Section 8 Assisted Units Met Housing Quality Standards, Miami, FL, 12/21/2005. Questioned: $7,300; Better Use: $25,971,988.

2006-AT-1002 The Housing Authority of the City of Prichard's Controls over the Sale of Affordable Housing Units, Use of Sales Proceeds, and Expenditure of Low-Income Funds Were Inadequate, Prichard, AL, 01/11/2006. Better Use: $15,444,527.

2006-AT-1004 The Housing Authority of the City of Prichard Did Not Ensure Section 8 Subsidy Payments Were for Eligible Units, Tenants, and Landlords, Prichard, AL, 01/13/2006. Questioned: $325,374; Better Use: $14,625,468.

2006-AT-1005 The Housing Authority of the City of Winston-Salem Did Not Ensure Section 8 Assisted Units Were Decent, Safe, and Sanitary, Winston-Salem, NC, 01/18/2006. Better Use: $6,435,360.

2006-AT-1006 The Municipality of San Juan Housing Authority Did Not Ensure Section 8 Assisted Units Were Decent, Safe, and Sanitary, San Juan, PR, 02/23/2006. Better Use: $5,834,496.

2006-AT-1007 The Housing Authority of the City of Winston-Salem Used More Than $4.9 Million in Operating Subsidies for Other Programs, Winston-Salem, NC, 03/30/2006. Questioned: $4,976,616; Better Use: $475,000.

2006-BO-1002	Review of Worcester Housing Authority Identified $1.9 million of Its Public Housing Operating Funds Used for Non-Program Purposes, Worcester, MA, 11/29/2005. Questioned: $1,943,662; Better Use: $1,011,733.
2006-BO-1005	Hartford Housing Authority Had Housing Choice Voucher Program Deficiencies Resulting in More Than $2.6 Million in Costs Exceptions, Hartford, CT, 03/10/2006. Questioned: $1,715,809; Better Use: $960,332.
2006-CH-1005	Fairfield Metropolitan Housing Authority Used Annual Contributions Contract Funds for Development Activities Outside Its Annual Contributions Contract, Lancaster, OH, 12/30/2005. Questioned: $543,483.
2006-DE-1003	The Housing Authority of the City and County of Denver Properly Assigned Section 8 Voucher Sizes But Made Errors on Nine Vouchers, Denver, CO, 03/15/2006. Better Use: $26,683.
2006-FW-1001	The Fort Worth Housing Authority Did Not Properly Apply Its Section 8 Subsidy Size Standards for Existing Tenants, Fort Worth, TX, 10/21/2005. Questioned: $180,618; Unsupported: $174,667; Better Use: $2,646,373.
2006-FW-1002	Baytown Housing Authority Improperly Advanced, Transferred, and Encumbered Its Public Housing Funds, Baytown, TX, 12/13/2005. Questioned: $2,030,233; Unsupported: $1,237,873; Better Use: $5,956,761.
2006-FW-1003	Palacios Housing Authority Did Not Fully Comply with HUD's Standards, Palacios, TX, 12/22/2005. Better Use: $44,657.
2006-FW-1005	Albuquerque Housing Services Generally Complied with HUD's Standards, Albuquerque, NM, 02/16/2006.
2006-KC-1001	The Columbia Housing Authority Is Unnecessarily Paying Housing Choice Voucher Program Funds for Overhoused Tenants, Columbia, MO, 11/30/2005. Questioned: $216,352; Better Use: $300,276.
2006-KC-1003	The Omaha Housing Authority of Omaha, NE, Does Not Have Adequate Controls Over Its Housing Quality Standards Process and Tenant Eligibility Verification Procedures, Omaha, NE, 01/12/2006. Questioned: $58,511.
2006-KC-1006	The Housing Authority of Kansas City Unnecessarily Paid Housing Choice Voucher Program Funds for Overhoused Tenants, Kansas City, MO, 03/03/2006. Questioned: $30,946; Better Use: $73,692.
2006-KC-1008	Housing Authority of St. Joseph Overhoused 16 Tenants Under the Section 8 Housing Choice Voucher Program, St. Joseph, MO, 03/30/2006. Questioned: $20,108; Better Use: $54,036.
2006-LA-1002	The Housing Authority of the City of Los Angeles Did Not Adequately Determine and Support Section 8 Rents, Los Angeles, CA, 11/07/2005. Questioned: $186,881; Unsupported: $186,881.
2006-LA-1004	Inglewood Housing Authority Did Not Adequately Administer Its Section 8 Housing Choice Voucher Program, Inglewood, CA, 12/07/2005. Better Use: $975,833.
2006-LA-1008	Housing Authority of the City of Los Angeles, CA, Did Not Adequately Administer and Maintain Its Section 8 Waiting List, 03/01/2006.

2006-NY-1003	The Housing Authority of the City of Newark's Controls Over Bond Financing Activities, Obtaining Supporting Documentation, and Legal Settlements Require Improvement, Newark, NJ, 02/14/2006. Questioned: $7,228,933; Unsupported: $7,228,933; Better Use: $3,560,123.
2006-NY-1004	Mount Vernon Urban Renewal Agency, Section 8 Housing Choice Voucher Program Has Administrative and Financial Management Weaknesses, Mount Vernon, NY, 02/16/2006. Questioned: $1,893,134; Unsupported: $699,934; Better Use: $4,868,715.
2006-NY-1005	Utica Municipal Housing Authority, Operational and Administrative Weaknesses Have Resulted in Unsupported and Ineligible Expenditures, Utica, NY, 02/21/2006. Questioned: $758,087; Unsupported: $237,957; Better Use: $33,150.
2006-PH-1001	The Alexandria Redevelopment and Housing Authority Improperly Used Section 8 Funds to Support Its Other Programs, Alexandria, VA, 10/04/2005. Questioned: $462,214; Better Use: $462,214.
2006-PH-1002	The Suffolk Redevelopment and Housing Authority Did Not Always Follow HUD Requirements in Its Section 8 and Low-Rent Programs, Suffolk, VA, 10/17/2005. Questioned: $5,127.
2006-PH-1003	The Franklin Redevelopment and Housing Authority Did Not Adequately Administer Its Section 8 Program, Franklin, VA, 11/30/2005. Questioned: $9,662; Better Use: $1,520.
2006-PH-1005	The Housing Authority of the County of Butler Used HUD Assets Improperly to Develop and Support Its Nonfederal Entities, Butler, PA, 01/10/2006. Questioned: $205,875; Unsupported: $205,875; Better Use: $973,982.
2006-PH-1009	The Housing Authority of the City of Annapolis Did Not Adequately Administer Its Section 8 Waiting List, Annapolis, MD, 03/23/2006.
2006-SE-1002	Northeast Washington Housing Solutions Improperly Administered Housing Choice Vouchers, Spokane, WA, 02/27/2006. Questioned: $460,319; Unsupported: $460,319.

Appendix 2
Tables

Table A

Audit Reports Issued Prior to Start of Period with No Management Decision at March 31, 2006

** Significant Audit Reports Described in Previous Semiannual Reports*

Report Number & Title	Reason for Lack of Management Decision	Issue Date/Target for Management Decision
2005-FW-1010 Broad Street Mortgage Company, Subsidiary of Fieldstone Mortgage Company, San Antonio, TX	Management decision has not been reached on one of the three reported recommendations. The Inspector General referred the issue to the Deputy Secretary in January 2006 because agreement could not be reached with the Office of Housing. The recommendation relates to concerns that we have with this particular mortgagee's loan origination practices as they relate to the use of downpayment assistance from seller-funded nonprofit organizations. The concerns we have with these downpayment assistance transactions have been long-standing and are consistent with concerns reported by others, including the Government Accountability Office. Moreover, we have other mortgagee audit reports that have been issued or are in process that have similar issues with sellers increasing the original sales price to cover the buyer's required downpayment and the nonprofit downpayment assistance provider's fee. The Office of Housing has taken the position that, based on a 1998 legal opinion, if the gift of downpayment assistance is made by the nonprofit entity to the buyer before closing, and the seller's contribution to the nonprofit entity occurs after the closing, then the buyer has not received funds that can be traced to the seller's contribution. The OIG believes that HUD should establish specific standards regarding a borrower's investments in the mortgaged property when a gift is provided by a nonprofit organization. As a result of the impasse, we have asked the Deputy Secretary to provide a final management decision.	05/26/2005 11/22/2005

Report Number & Title	Reason for Lack of Management Decision	Issue Date/Target for Management Decision
2005-NY-1008 Lower Manhattan Development Corporation, Community Development Block Grant Program Disaster Assistance Fund New York, NY	Management decision has not been reached on one of the four reported recommendations. On March 31, 2006, the General Deputy Assistant Secretary for Community Planning and Development indicated that he agreed with the audit recommendation that the auditee consider additional action to recover $6 million in outstanding receivables from recipients of the Residential Grant Program. However, he did not agree that this amount should be shown as "funds to be put to better use" in our report. OIG maintains that while the auditee may not be able to collect this entire amount from the recipients, any amounts collected by the auditee would represent amounts that would be available for other eligible program purposes. Accordingly, we believe that some amount should be recorded as "funds to be put to better use." The Inspector General referred the issue to the Assistant Secretary, Community Planning and Development, on April 7, 2006.	09/27/2005 03/26/2006

Table B

Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of March 31, 2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
1997-CH-1010	Major Mortgage Corporation, Section 203(K) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	10/15/2006
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	12/31/2006
2001-FO-0002	FHA, FY 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	HUD FY 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
2002-SF-0001	Nonprofit Participation, HUD Single-Family Program	11/05/2001	08/30/2002	10/15/2006
2002-FO-0002	FHA, FY 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
2002-FO-0003	HUD, Financial Statements FY 2001 and 2000	02/27/2002	08/16/2002	11/15/2006
2002-PH-1001	Williamsport, PA, CDBG and HOME Investment Partnership Programs	03/19/2002	08/27/2002	09/01/2006
2002-BO-1003	Newport, RI, Resident Council, Inc.	04/30/2002	09/16/2002	01/15/2008
2002-AT-1002	Housing Authority of the City of Tupelo, MS, Housing Programs Operations	07/03/2002	10/31/2002	04/30/2010
2002-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-FW-1003	New Mexico Public Interest Education Fund, Outreach and Training Assistance Grant and Public Entity Grant, Albuquerque, NM	09/30/2002	03/31/2003	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	03/29/2007
2002-PH-1006	Legal Aid Bureau, Inc., Outreach and Training Assistance Grant Number FFOT0020MD, Baltimore, MD	09/30/2002	03/31/2003	Note 1
2002-PH-1007	Legal Aid Bureau, Inc., Outreach and Training Assistance Grant Number FFOT98012MD, Baltimore, MD	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	03/29/2007
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	03/29/2007
2003-AT-1001	Northwestern Regional Housing Authority, Public Housing Programs, Boone, NC	01/09/2003	06/02/2003	10/01/2006
2003-FO-0002	FHA, FY 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	12/31/2006
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-AT-1003	Faifield, AL, Housing Authority, Housing Programs	03/24/2003	07/22/2003	10/01/2006
2003-NY-1003	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	03/25/2003	07/16/2003	06/30/2006
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-BO-1003	City Of Bridgeport, CT, Home Investment Partnership Program	05/16/2003	09/16/2003	07/31/2006
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL	06/13/2003	10/10/2003	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-AO-0002	HUD Training Academy	07/15/2003	10/24/2003	Note 1
2003-NY-1005	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	09/30/2003	01/28/2004	03/31/2007
2003-BO-1002	Family Living Adult Care Center, Biddeford and Saco, ME	11/04/2003	03/04/2004	09/30/2006
2004-KC-1001	East Meyer Community Association, Kansas City, MO	11/24/2003	03/29/2004	04/14/2006
2004-CH-1001	Kankakee, IL, County Housing Authority, Section 8 Housing Program	11/26/2003	03/24/2004	Note 2
2004-DP-0001	FY 2003 Review of Information Systems Controls in Support of the Financial Statements Audit	12/01/2003	05/28/2004	12/31/2006
2004-BO-1004	Danbury, CT, Housing Authority, Capital Fund Program	12/05/2003	04/05/2004	12/01/2008
2004-FO-0003	HUD Financial Statements FY 2003 and 2002	12/19/2003	07/20/2004	11/15/2006
2004-AT-0001	Public Housing Agency Development Activities	01/13/2004	05/20/2004	05/13/2006
2004-AT-1001	Housing Authority of the City of Cuthbert, GA,	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-1003	City of New Orleans, LA, Section 108 Loan Program, Jazzland Theme Park	03/15/2004	09/07/2004	04/15/2006
2004-AT-1006	Puerto Rico Public Housing Administration, San Juan, PR	04/22/2004	07/12/2004	07/31/2006
2004-LA-1003	Homewide Lending Corporation, Nonsupervised Mortgagee, Los Angeles, CA	05/19/2004	09/01/2004	10/15/2006
2004-SE-1004	Seattle, WA, Housing Authority, MTW Demonstration Program	05/21/2004	09/20/2004	04/30/2006
2004-PH-1007	City of McKeesport, PA, CDBG Program	05/28/2004	09/24/2004	03/31/2009

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-PH-1008	Safe Haven Outreach Ministry, Inc., Washington, DC	06/03/2004	08/31/2004	06/02/2006
2004-FW-1007	City of New Orleans, LA, Desire Community Housing Corporation	06/22/2004	09/20/2004	04/15/2006
2004-LA-1005	Guild Mortgage Company DBA, Residential Mortgage Bankers, San Diego, CA	07/09/2004	11/06/2004	Note 2
2004-AT-0002	Effectiveness of the Departmental Enforcement Center	07/12/2004	12/13/2004	12/31/2006
2004-KC-1003	Wells Fargo Home Mortgage, Nonsupervised Direct Endorsement Lender, Des Moines, IA	07/16/2004	10/08/2004	Note 2
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-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	Note 2
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD	09/10/2004	01/06/2005	03/31/2007
2004-NY-1004	Lower Manhattan Development Corporation, CDBG Disaster Assistance Funds, New York, NY	09/15/2004	01/12/2005	06/30/2006
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR	09/17/2004	02/23/2005	Note 2
2004-LA-1007	Housing Authority of Maricopa County, Phoenix, AZ	09/22/2004	01/14/2005	Note 2
2004-LA-1008	United States Veterans Initiative, Inc., Inglewood, CA	09/27/2004	03/31/2005	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
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
2005-KC-1001	Karim Enterprises, DBA Prime Mortgage, Did Not Follow FHA Requirements, St. Charles, MO	10/04/2004	12/22/2004	06/30/2006
2005-BO-1001	Waterbury Housing Authority, Selected Programs, Waterbury, CT	10/31/2004	02/09/2005	12/31/2006
2005-DP-0001	FY 2004 Review of Information Systems Controls in Support of the Financial Statements Audit	10/19/2004	02/16/2005	08/30/2006
2005-SE-1001	Tulalip Tribes Housing Authority Cannot Account for Grant Funds, Marysville, WA	10/21/2004	02/02/2005	06/30/2006
2005-FW-1801	Highland Meadows Apartments, Dallas, TX	11/02/2004	02/24/2005	Note 2
2005-LA-1801	The Carmichael Rehabilitation Center, Carmichael, CA	11/04/2004	01/27/2005	Note 2
2005-FW-1001	City of New Orleans, Section 108 Program, Louisiana ArtWorks, New Orleans, LA	11/05/2004	03/02/2005	04/15/2006
2005-FO-0002	FHA's Financial Statements for FY 2004 and 2003	11/15/2004	11/15/2004	12/31/2006
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-CH-1003	Royal Oak Township Housing Commission, Public Housing Program, Ferndale, MI	11/29/2004	03/29/2005	10/31/2006
2005-PH-1003	The Town of Clifton, Single-Family Property Disposition Discount Sales Program, Clifton, VA	12/21/2004	04/19/2005	04/19/2006
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	10/07/2005	12/31/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-CH-1801	RVA Properties Inc., Multifamily Equity Skimming, Farmington Hills, MI	12/22/2004	12/26/2004	06/30/2006
2005-CH-1005	Wood Hills Assisted Living Facility, Multifamily Equity Skimming, Kalamazoo, MI	01/12/2005	10/07/2005	12/31/2006
2005-LA-1805	Housing Authority of the City of Los Angeles, CA	01/21/2005	04/05/2005	10/05/2006
2005-NY-1802	Arlington Arms, Jersey City, NJ	01/21/2005	04/11/2005	04/11/2006
2005-KC-1003	Leader Mortgage Company, Did Not Follow HUD Requirements When Processing Loans, Lenexa, KS	01/25/2005	04/08/2005	Note 2
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-AT-1006	The Jefferson County Housing Authority, Birmingham, AL	02/24/2005	05/31/2005	04/23/2006
2005-FW-1005	New Orleans African-American Museum Mismanaged its CDBG and Did Not Comply with its Grant Agreements, New Orleans, LA	02/25/2005	05/12/2005	04/15/2006
2005-DE-1002	Boulder County Housing Authority, Boulder, CO	03/09/2005	06/29/2005	12/31/2010
2005-PH-1007	Lehigh County Housing Authority Could Not Support All Costs and Used HUD Funds to Support its Nonfederal Entities, Emmaus, PA	03/09/2005	05/02/2005	01/30/2017
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, Nonsupervised Direct Endorsement Lender, Miami, FL	03/15/2005	08/04/2005	07/31/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-PH-1008	The Housing Authority of the City of Pittsburgh Did Not Effectively Implement its MTW Demonstration Program, Pittsburgh, PA	03/24/2005	07/13/2005	12/31/2006
2005-AT-1008	Trust America Mortgage, Inc., Nonsupervised Direct Endorsement Lender, Cape Coral, FL	03/25/2005	07/25/2005	04/30/2006
2005-CH-1007	RBC Mortgage Company, Nonsupervised Mortgagee, Houston, TX	03/29/2005	08/05/2005	04/06/2007
2005-PH-1001	Criteria Governing Local Government Participation in HUD's Single-Family Property Disposition Discount Sales Program	03/29/2005	07/27/2005	01/02/2007
2005-CH-1010	Kankakee County Housing Authority, Low-Rent Housing Program, Kankakee, IL	04/08/2005	08/05/2005	05/10/2006
2005-FW-1008	City of New Orleans, Did Not Contribute Approximately $3.6 Million in HOME Funds, New Orleans, LA	04/08/2005	05/26/2005	04/15/2006
2005-PH-1009	Richmond Development and Housing Authority Did Not Always Properly Use HUD Funds, Richmond, VA	04/08/2005	07/28/2005	10/31/2006
2005-SE-0001	Design and Implementation of the Public Housing/Section 8 MTW Demonstration Program	04/12/2005	04/12/2005	04/12/2006
2005-AT-1009	The Housing Authority of Fulton County, Atlanta, GA	04/21/2005	08/09/2005	04/30/2006
2005-BO-1003	Milford Housing Authority, Selected Programs, Milford, CT	04/25/2005	10/07/2005	12/31/2006
2005-DE-1003	Citywide Home Loans, Salt Lake City, UT	05/04/2005	09/01/2005	08/31/2006
2005-DE-1004	Aspen Home Loans, American Fork, UT	05/06/2005	08/31/2005	06/30/2006
2005-DE-0001	HUD's Control Over FHA Claims Payments	05/12/2005	09/09/2005	04/30/2006
2005-LA-1003	First Source Financial USA, Henderson, WV	05/12/2005	09/08/2005	11/30/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-KC-1006	Corinthian Mortgage Corporation Did Not Always Comply with FHA Requirements, Mission, KS	05/13/2005	09/09/2005	09/30/2006
2005-NY-1005	The Housing Authority of the City of Newark, Bond Financing Activities and Section 8 Housing Choice Voucher Administrative Fee Reserves, Newark, NJ	05/26/2005	09/23/2005	12/31/2006
2005-CH-1011	Stark Metropolitan Housing Authority, Nonprofit Development Activities, Canton, OH	05/31/2005	08/31/2005	05/10/2006
2005-PH-1012	The Lycoming County Housing Authority Risked HUD Assets for the Benefit of Its Affiliated Nonfederal Entity, Williamsport, PA	06/06/2005	07/12/2005	06/01/2006
2005-AT-1010	The Chattanooga Housing Authority Did Not Ensure Section 8 Assisted Units Were Decent, Safe, and Sanitary, Chattanooga, TN	06/09/2005	10/06/2005	06/30/2006
2005-AT-1011	The Housing Authority of High Point Did Not Properly Procure Goods and Services, High Point, NC	06/27/2005	10/24/2005	06/27/2006
2005-AT-1012	Crossville Housing Authority Improperly Used Public Housing Funds for Other Activities, Crossville, TN	07/06/2005	10/31/2005	10/31/2008
2005-LA-1005	Housing Authority of the City of Inglewood, CA	07/11/2005	09/09/2005	05/31/2006
2005-FW-1012	The Housing Authority of the City of Houston Did Not Follow Its Section 8 Abatement and Termination Policies and Procedures, Houston, TX	07/20/2005	10/05/2005	05/31/2006
2005-LA-1006	Maricopa Home Consortium Home Program, Mesa, AZ	07/28/2005	11/22/2005	08/31/2007
2005-BO-1004	Housing Choice Voucher and Low-Income Public Housing Program Deficiencies at the Bridgeport Housing Authority Resulted in $3.8 Million in Questioned Costs, Bridgeport, CT	03/09/2005	06/29/2005	12/31/2010

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-PH-1013	Review of the Commonwealth of Pennsylvania's HOME Investment Partnership Program, Harrisburg, PA	07/29/2005	11/22/2005	11/21/2006
2005-PH-1014	Review of the McKeesport Housing Authority's Section 8 and Public Housing Programs, McKeesport, PA	07/29/2005	11/21/2005	11/01/2006
2005-CH-1012	Savanna Trace Apartments, Multifamily Equity Skimming, Kalamazoo, MI	08/04/2005	12/28/2005	12/28/2006
2005-CH-1013	Ivan Woods Senior Apartments, Multifamily Equity Skimming, Lansing, MI	08/05/2005	12/28/2005	12/28/2006
2005-CH-1014	Kankakee County Housing Authority's Low-Rent Unit Conditions, Kankakee, IL	08/05/2005	12/28/2005	04/30/2006
2005-NY-1006	Syracuse Housing Authority, Section 8 Housing Choice Voucher Program, Syracuse, NY	08/10/2005	09/20/2005	05/31/2006
2005-LA-1007	KB Home Mortgage Company, Las Vegas, NV	08/12/2005	12/09/2005	12/31/2006
2005-BO-1005	Inappropriate Use of Federal Funds Led to $3.5 Million Deficit in HUD Programs Administered by Fall River Housing Authority, Fall River, MA	08/31/2005	12/29/2005	07/30/2006
2005-BO-1006	The Hartford Housing Authority Improperly Used $3.7 Million in Public Housing Operating Subsidies for Its State and Other Federal Programs, Hartford, CT	09/06/2005	01/03/2005	06/30/2006
2005-LA-1009	Housing Authority of the City of Inglewood, Housing Quality Standards, Inglewood, CA	09/07/2005	11/29/2005	07/01/2006
2005-LA-0001	Single-Family Preforeclosure Sale Program	09/13/2005	01/10/2005	09/30/2006
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance with HUD Requirements, San Juan, PR	09/15/2005	01/11/2005	11/30/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-AT-1014	National City Mortgage Company Did Not Comply with FHA Requirements, Miamisburg, OH	09/15/2005	11/14/2005	10/31/2006
2005-DE-1005	The Housing Authority of the County of Salt Lake Adequately Controlled Occupancy Functions but Inappropriately Loaned Funds, Salt Lake, UT	09/16/2005	11/22/2005	12/31/2006
2005-NY-1007	Security Atlantic Mortgage Company, Inc. Did Not Always Comply with HUD/FHA Loan Origination Requirements, Edison, NJ	09/16/2005	01/13/2006	01/31/2007
2005-SE-1007	City Bank, Puyallup, WA	09/16/2005	12/20/2005	06/30/2006
2005-SE-1008	Idaho Housing and Finance Association, Boise, ID	09/16/2005	12/13/2005	Note 3
2005-FW-1017	Allied Home Mortgage Corporation Did Not Follow HUD Requirements When Processing Four Loans, Houston, TX	09/22/2005	01/05/2006	06/30/2006
2005-CH-1017	Flint Housing Commission, Section 8 Housing Program, Flint, MI	09/23/2005	01/20/2006	01/20/2016
2005-LA-1010	First Magnus Financial Corporation, Las Vegas, NV	09/23/2005	01/19/2006	09/23/2006
2005-BO-1007	Fairfield Financial Mortgage Group, Inc., Did Not Always Comply with FHA Requirements, Danbury, CT	09/26/2005	01/20/2006	09/30/2006
2005-LA-1011	KB Home Mortgage Company Did Not Follow HUD Requirements When Originating Insured Loans, Phoenix, AZ	09/26/2005	01/23/2006	01/15/2007
2005-FW-1018	The Housing Authority of the City of Houston Violated HUD Regulations Concerning Section 8 Housing Choice Voucher Tenants and Units, Houston, TX	09/27/2005	01/24/2006	09/15/2006
2005-FW-1019	Wells Fargo Did Not Follow HUD Requirements When Processing 10 Loans, Des Moines, IA	09/28/2005	01/05/2006	06/30/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-NY-1009	Golden First Mortgage Corporation, Nonsupervised Direct Endorsement Lender, Great Neck, NY	09/28/2005	01/20/2006	10/15/2006
2005-AT-1015	The Municipality of San Juan Housing Authority Did Not Properly Administer Its Section 8 Housing Choice Voucher Program, San Juan, PR	09/29/2005	01/12/2006	12/29/2006
2005-CH-1020	Housing Authority of the City of Gary, Section 8 Housing Program, Gary, IN	09/29/2005	01/25/1006	12/31/2052
2005-BO-0002	HUD Did Not Conduct a Front-End Risk Assessment and, Therefore, Fully Implement Controls for the Public Housing Mortgages and Security Interest Program	09/30/2005	12/20/2005	10/01/2006
2005-KC-1009	Washington Mutual Bank Did Not Follow HUD Regulations When Underwriting Six Loans, Seattle, WA	09/30/2005	01/11/2006	09/30/2006

REPORTS EXCLUDED FROM TABLE:

28 audits under repayment plans

32 where HUD management cannot complete final action since recommended action is pending 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 at March 31, 2006

(Thousands)

Report s		Number of Audit Reports	Questioned Costs	Unsupported Costs
A1	For which no management decision had been made by the commencement of the reporting period	41	52,969	16,871
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	10	18,568	8,135
A3	For which additional costs were added to reports in beginning inventory	-	1,485	0
A4	For which costs were added to noncost reports	2	111	0
B1	Which were issued during the reporting period	53	50,627	17,365
B2	Which were reopened during the reporting period	0	0	0
	Subtotals (A + B)	106	123,760	42,371
C	For which a management decision was made during the reporting period	57[1]	58,627	16,022
	(1) Dollar value of disallowed costs			
	Due HUD	29[2]	11,810	2,428
	Due program participants	30	27,675	11,402
	(2) Dollar value of costs not disallowed	15[3]	19,142	2,192
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	19,113	9,667
E	For which no management decision had been made by the end of the reporting period	39 <113>[4]	46,020 <46,012>[4]	16,682 <16,682>[4]

[1] *36 audit reports also contain recommendations with funds to be put to better use.*

[2] *4 audit reports also contain recommendations with funds due program participants.*

[3] *13 audit reports also contain recommendations with funds agreed to by management.*

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

Table D

Inspector General Issued Report with Recommendations That Funds Be Put to Better Use at March 31, 2006

(Thousands)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	41	184,495
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	5	15,102
A3	For which additional costs were added to reports in beginning inventory	-	73,025
A4	For which costs were added to noncost reports	0	0
B1	Which were issued during the reporting period	49	553,315
B2	Which were reopened during the reporting period	0	0
	Subtotals (A + B)	95	825,937
C	For which a management decision was made during the reporting period	52[1]	549,804
	(1) Dollar value of recommendations that were agreed to by management		
	Due HUD	20	401,982
	Due program participants	26	125,484
	(2) Dollar value of recommendations that were not agreed to by management	14[2]	22,338
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	105,692
E	For which no management decision had been made by the end of the reporting period	36 <65>[3]	170,441 <168,413>[3]

[1] *36 audit reports also contain recommendations with questioned costs.*

[2] *8 audit reports also contain recommendations with funds due program participants.*

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

Explanations of Tables C and D

The Inspector General Act Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

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

HUD OIG Operations Telephone Listing

Office of Audit

Headquarters Office of Audit, Washington, DC		202-708-0364
Region 1	Boston, MA	617-994-8380
	Hartford, CT	860-240-4800
Region2	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
	Miami, FL	305-536-5387
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	Jacksonville, FL	904-232-1226
	Knoxville, TN	865-545-4369
	San Juan, PR	787-766-5202
Region 5	Chicago, IL	312-353-7832
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	Detroit, MI	313-226-6190
Region 6	Fort Worth, TX	817-978-9309
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	Oklahoma City, OK	405-609-8606
	San Antonio, TX	210-475-6895
Regions 7/8	Kansas City, KS	913-551-5870
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	Denver, CO	303-672-5452
Regions 9/10	Los Angeles, CA	312-894-8016
	Phoenix, AZ	602-379-7243
	San Francisco, CA	415-489-6400
	Seattle, WA	206-220-5360
Hurricane Recovery Oversight		504-589-7267

Office of Investigation

Headquarters Office of Investigation, Washington, DC		202-708-0390
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	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
	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	612-370-3130
Region 6	Arlington, TX	817-652-6980
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	Oklahoma City, OK	405-609-8601
	San Antonio, TX	210-475-6822
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	St. Louis, MO	314-539-6559
	Denver, CO	303-672-5350
	Billings, MT	406-247-4080
	Salt Lake City, UT	801-524-6090
Region 9/10	Los Angeles, CA	213-894-0219
	San Francisco, CA	415-489-6683
	Phoenix, AZ	602-379-7251
	Sacramento, CA	916-930-5693
	Las Vegas, NV	702-366-2144
	Seattle, WA	206-220-5380
Hurricane Recovery Oversight		202-708-0390

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Inspector General Hotline (GFI)
451 7th Street, SW
Washington, DC 20410

Emailing the OIG Hotline: hotline@hudoig.gov

Internet:
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All information is confidential, and you may remain anonymous.

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OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

EQUAL HOUSING OPPORTUNITY