

U.S. Department of Housing and Urban Development
Office of Inspector General



Semiannual Report to Congress
October 1, 2010, through March 31, 2011

Profile of Performance

Audit profile of performance for the period October 1, 2010, through March 31, 2011

Results	This reporting period
Recommendations that funds be put to better use ¹	\$767,733,003
Recommended questioned costs ¹	\$96,031,267
Collections from audits	\$25,821,283
Administrative sanctions	2

Investigation profile of performance for the period October 1, 2010, through March 31, 2011

Results	This reporting period
Funds put to better use	\$58,832,240
Recoveries/receivables	\$262,552,001
Arrests ²	767
Indictments/informations	693
Convictions/pleas/pretrial diversions	500
Civil actions	77
Administrative sanctions	405
Suspensions	79
Debarments	77
Limited denial of participation	3
Program or professional license suspensions	115
Evictions or removal from subsidy program	131
Search warrants	51
Subpoenas issued	845

Hotline profile of performance for the period October 1, 2010, through March 31, 2011

Results	This reporting period
Funds put to better use	\$799,973
Recoveries/receivables	\$48,202

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

² Included in the arrests is our focus on the nationwide Fugitive Felon Initiative which amounts to 60 arrests. For more information on the Fugitive Felon Initiative, see page 43.

A Message from the Deputy Inspector General



It is an honor to present to you the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress for the first half of fiscal year 2011. HUD OIG employees—auditors, agents, attorneys, and support staff—maintain a spirit of commitment in their mission on behalf of the taxpayers of the United States.

The scope and impact of HUD programs have always resulted in a robust agenda of OIG plenary oversight responsibilities. Over the past few years, these responsibilities have significantly expanded as the result of legislation and of Administration and departmental initiatives. Likewise, OIG's investigative, audit, evaluative, and legal activities have evolved at a remarkable pace.

During this reporting period, we had \$767.7 million in funds put to better use, questioned costs of \$96 million, and \$262.5 million in recoveries and receivables while issuing 78 audits. We also had 693 indictments and informations, 500 convictions, and 767 arrests during this reporting period. This exceptional work has had a dramatic effect in reducing fraud and the misuse of taxpayer dollars.

Our high profile audits and investigations continue to complement the Department's strategic initiatives, with the health of the Federal Housing Administration's (FHA) mortgage insurance fund receiving particular attention. HUD OIG staff continues to work with the Department to improve HUD's effectiveness and as a result, has developed and implemented better and more effective audit recommendations.

Some of our key investigations this reporting period include the case against Taylor, Bean & Whitaker Mortgage Corporation (Taylor, Bean & Whitaker), a former FHA-approved direct endorsement lender and Government National Mortgage Association (Ginnie Mae) issuer. Former Colonial Bank employees Catherine Kissick and Teresa Kelly each pled guilty in U.S. District Court, Alexandria, VA, to committing a conspiracy to commit bank, wire, and securities fraud or making false statements to Federal agents. Between 2002 and August 2009, Kissick and Kelly conspired with other individuals and provided funding to Taylor, Bean & Whitaker for phony or previously pledged loans, and Bowman, Ragland, Brown, and other individuals conspired and sold phony and previously pledged loans to investors in the secondary mortgage market. Their actions and those of other coconspirators caused Taylor, Bean & Whitaker to submit false statements to HUD, Ginnie Mae, and other financial entities. HUD, Ginnie Mae, and other financial entities realized losses in excess of \$1.9 billion.

In the area of public housing, Elias Castellanos, a former Housing Authority of New Orleans contract chief financial officer, was sentenced in U.S. District Court, New Orleans, LA, to 46 months incarceration and 36 months probation, ordered to pay the Authority \$225,889 in restitution, and fined \$75,000 for his earlier guilty plea to committing embezzlement. From September 2006 to June 2009, Castellanos submitted false billings for accounting services and fraudulently obtained \$900,927 in Authority funds.

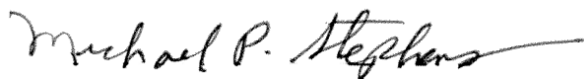
In the area of Community Development Block Grants (CDBG), Kwame Kilpatrick, the former mayor of Detroit, MI; Bobby Ferguson, doing business as Ferguson Enterprises; and other individuals were each

charged in U.S. District Court, Detroit, MI, with allegedly obstructing justice and committing bribery, extortion, Federal income tax evasion, an organized scheme to defraud, and mail and wire fraud. From 2003 to 2004, Kilpatrick, Ferguson, and other individuals allegedly planned fraudulent activities and attempted to obtain \$18 million in HUD CDBG loan guarantees for demolition work at the Book Cadillac Hotel.

We audited the underwriting of a \$45.6 million mortgage loan that was acquired by Deutsche Bank Berkshire Mortgage, Inc., Bethesda, MD (lender), to rehabilitate Wingate Towers and Garden Apartments. The lender acquired and became responsible for the loan origination activities, personnel, books, and records related to this loan from Berkshire Mortgage Finance Limited Partnership (underwriter) in October 2004. The FHA-insured loan went into default in October 2009, and in May 2010, HUD paid a \$44.3 million insurance claim to the lender. HUD sold the property in a note sale in September 2010 for \$14.5 million, resulting in a loss of \$29.8 million. The underwriter failed to properly assess the financial resources and the construction capabilities of the owner and the general contractor.

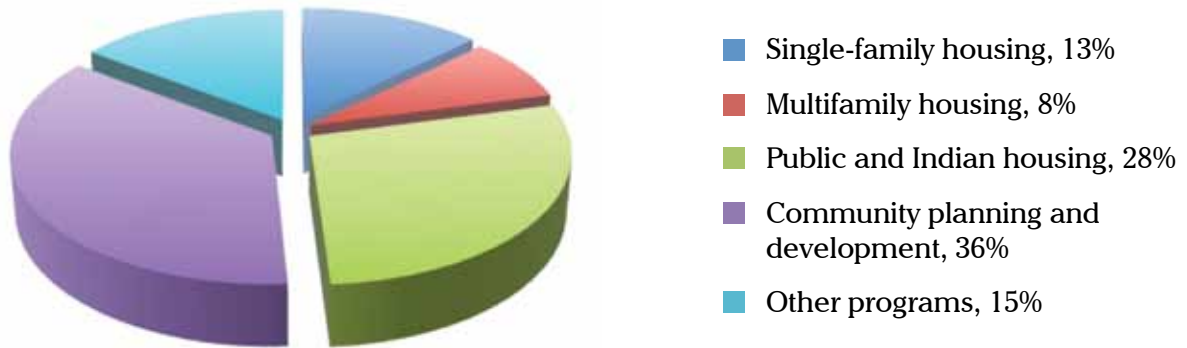
We audited the District of Columbia's administration of its HOME Investment Partnerships Program (HOME) and found that the grantee did not administer its program in accordance with Federal requirements. The grantee also accumulated funds that it could have used to improve its administration of its HOME program or fund additional eligible HOME projects. We recommended that HUD require the grantee to recover more than \$1.6 million that it spent on ineligible expenses and provide support for nearly \$6.5 million in expenses or repay that amount to the HOME program. In addition, the grantee should use nearly \$1.6 million in accumulated funds to improve its administration of the program or fund additional eligible HOME projects.

As we address an expanding mission to protect HUD's vital programs, I would once again like to express my appreciation to Congress and to the Department for their sustained commitment to supporting the important work of our office. Also, I would also like to commend Secretary Donovan for his leadership and tireless efforts in these challenging times.

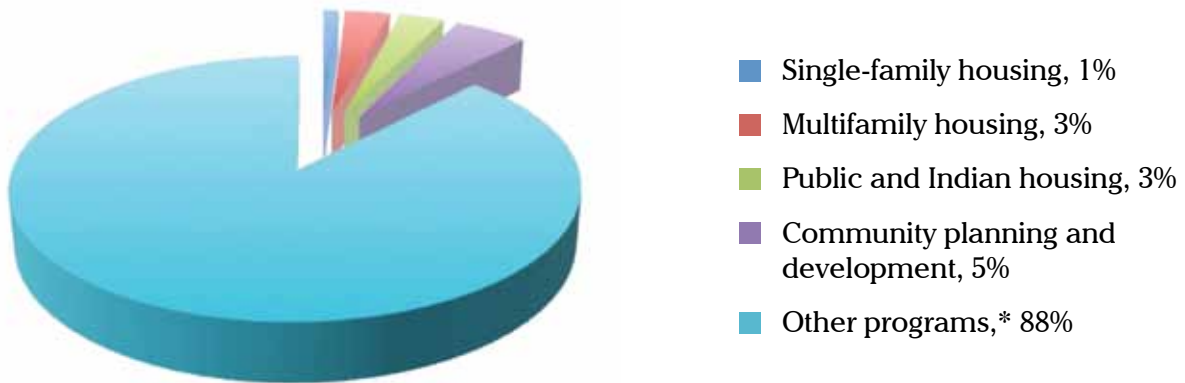


Michael P. Stephens
Deputy Inspector General

Audit reports issued by program

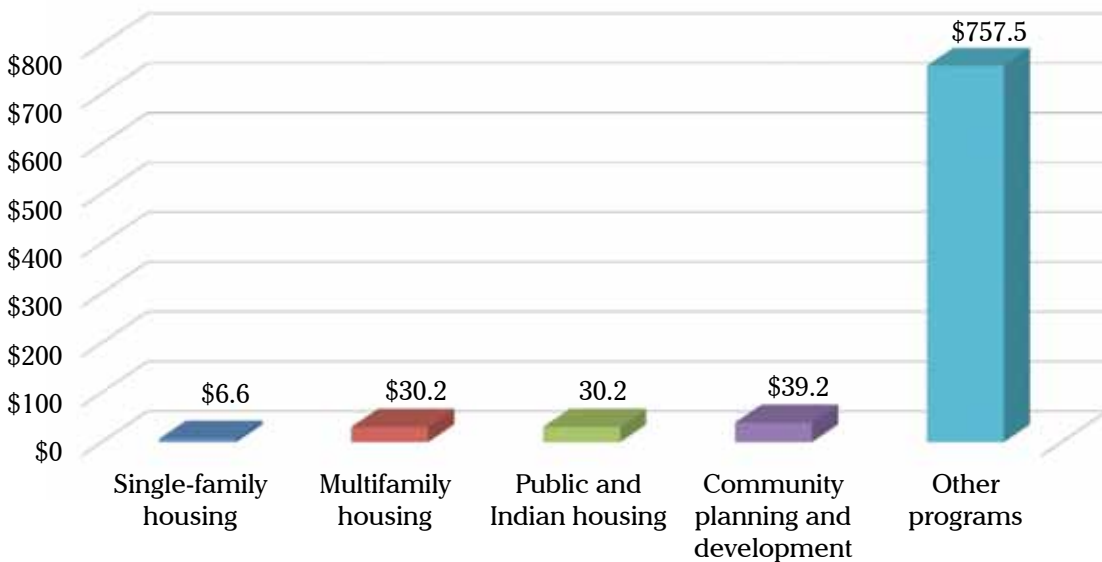


Audit monetary benefits identified by program



* Other programs include financial and information system audits.

Audit monetary benefits identified in millions of dollars

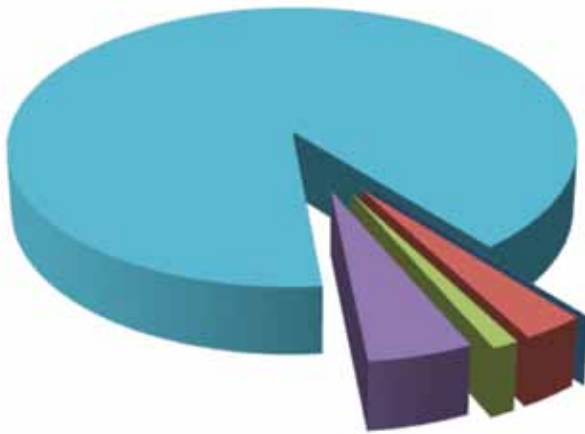


Investigative cases opened by program area (total: 796)



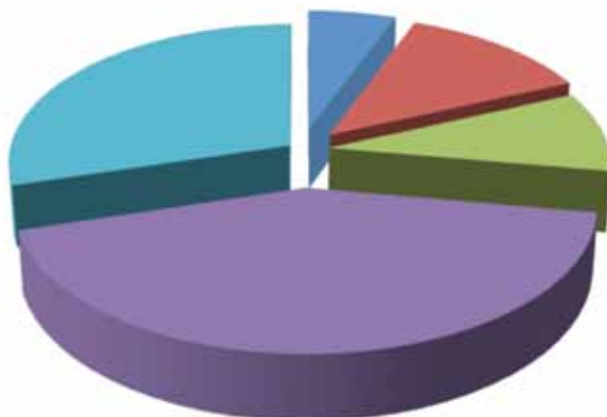
- Single-family housing, 32% (260)
- Public and Indian housing, 43% (341)
- Multifamily housing, 8% (64)
- Community planning and development, 12% (93)
- Other, 5% (38)

Investigative recoveries by program area (total: \$262,552,001.10)



- Single-family housing, 91% (\$237,664,629.96)
- Public and Indian housing, 5% (\$13,496,929.49)
- Multifamily housing, 1% (\$3,382,319.18)
- Community planning and development, 3% (\$7,912,335.14)
- Other, 0% (\$95,787.33)


Investigative cases closed by program area (total: 524)



- Single-family housing, 29% (155)
- Public and Indian housing, 43% (224)
- Multifamily housing, 9% (49)
- Community planning and development, 13% (66)
- Other, 6% (30)

Acronyms List

AIGI	Assistant Inspector General for Investigation
ARIGA	Assistant Regional Inspector General for Audit
ARRA	American Recovery and Reinvestment Act of 2009
ASAC	Assistant Special Agent in Charge
CDBG	Community Development Block Grant
CHDO	Community Housing Development Organization
CFFP	Capital Fund Financing Program
CFR	Code of Federal Regulations
CPD	Office of Community Planning and Development
FEMA	Federal Emergency Management Agency
FFI	Fugitive Felon Initiative
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FTE	Full time equivalent
FY	fiscal year
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
HECM	home equity conversion mortgage
HERA	Housing and Economic Recovery Act of 2008
HOME	HOME Investment Partnerships Program
HPRP	Homelessness Prevention and Rapid Re-Housing Program
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
IED	Inspections and Evaluations Division
IRS	Internal Revenue Service
IT	information technology
MAP	Multifamily Accelerated Processing
NAHRO	National Association of Housing and Redevelopment Officials
NSP	Neighborhood Stabilization Program
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	public housing agency
RIGA	Regional Inspector General for Audit
SA	Special Agent



SAC	Special Agent in Charge
SHP	Supportive Housing Program
SSA	Social Security Administration
SSN	Social Security number
TCAP	Tax Credit Assistance Program
U.S.C.	United States Code
USDA	United States Department of Agriculture
USPS	United States Postal Service

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Reporting Requirements

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

Source/Requirement	pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	124
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-107, 124
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-107
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report on which corrective action has not been completed.	Appendix 3, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	7-107
Section 5(a)(5)-summary of reports made on instances in which 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 2
Section 5(a)(7)-summary of each particularly significant report and the total dollar value of questioned and unsupported costs.	7-107
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 3, 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 3, 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 3, Table A
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	130
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	131
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	132

Executive Highlights



Strategic Initiative 1

HUD Strategic Goal: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers

Office of Inspector General (OIG) Strategy: Contribute to the increase of effectiveness in the single-family insurance programs through

- Audits uncovering single-family and loan origination abuse
- Audits of the U.S. Department of Housing and Urban Development's (HUD) internal policies to determine whether controls are adequate
- A strategy for civil fraud initiatives
- A national strategy for single-family mortgage fraud task forces
- Outreach to industry and consumer groups and the Department
- Review of Federal Housing Administration's (FHA) and Government National Mortgage Association's (Ginnie Mae) ability and capacity to oversee their expanding market share
- Proactive enforcement measures through the use of real estate-owned (REO) properties in partnership with HUD

Highlights: Results or impact of significant OIG work

- Audits of five FHA single-family mortgage lenders found that lenders did not follow HUD requirements when underwriting loans and performing quality control procedures.
- HUD OIG summarized systemic issues identified from the Operation Watchdog initiative, which consisted of a review of the underwriting process of 15 direct endorsement lenders to determine whether loans were processed in accordance with FHA requirements.
- HUD OIG audited a selection of management and marketing contractors for single-family properties owned by HUD to assess allegations of mismanagement, political influence, and possible violations of law.
- HUD OIG special agents are participating in 70 mortgage fraud working groups and task forces throughout the country.
- HUD OIG chaired the Mortgage Fraud Working Group's (MFWG) Policy Committee and was instrumental in marshalling law enforcement support for the Financial Crimes Enforcement Network's (FinCEN) notice of proposed rule making to include nonbank mortgage lenders and originators within the definition of financial institutions for purposes of the Bank Secrecy Act.
- During the reporting period, special agents gave dozens of presentations to mortgage industry partners. In January 2011, special agents from HUD OIG and FinCEN, together with the Federal Bureau of Investigation, gave presentations on mortgage fraud and fraud schemes.
- A systemic implication report (SIR) was prepared and presented to HUD in relation to a home equity conversion mortgage (HECM) investigation of "fraudsters" who were duping seniors into purchasing homes using HECM mortgages and not advising them of certain important requirements.

Emerging Issues: Areas of OIG interest

- Dramatic increase in lenders/brokers/issuers seeking to do business with FHA and Ginnie Mae
- FHA's and Ginnie Mae's ability and capacity to oversee their expanded market share
- Effectiveness of loan modification programs in the prevention of foreclosures
- Review of mortgage servicers' processing of foreclosures
- Continued concerns for the health and soundness of the FHA fund
- Short sale frauds and foreclosure rescue schemes
- Impact of appraisers in mortgage fraud

Strategic Initiative 2

HUD Strategic Goal: Meet the Need for Quality Affordable Rental Homes

OIG Strategy: Contribute to the reduction of erroneous payments in rental assistance programs through

- Focus on grantees' administration of American Recovery and Reinvestment Act (ARRA) funds
- Reducing erroneous payments
- Contributing to improving the performance of entities managing rental assistance programs
- Investigative initiatives involving corruption in the management of troubled public housing agencies (PHA), multifamily developments, and those in receivership
- Public and departmentwide outreach initiatives

Highlights: Results or impact of significant OIG work

- HUD OIG audited HUD's oversight of PHAs' Section 8 Project-Based Voucher programs to determine whether HUD had adequate oversight of PHAs' programs to ensure that program funds were used in accordance with HUD's requirements.
- HUD OIG audited the Philadelphia, PA, Housing Authority to determine whether the Authority's payments to outside legal firms could be supported and complied with HUD regulations and other applicable requirements.
- The Office of Investigation (OI) has coordinated efforts with housing authorities and local law enforcement throughout the country to target erroneous rental assistance payments for the benefit of program participants who fraudulently underreported household income, failed to report household composition, or allowed registered sex offenders to reside in public housing units.
- Special agents gave dozens of presentations to industry partners and organizations on ARRA, the Neighborhood Stabilization Program (NSP), and rental assistance fraud schemes and investigations.
- OI has focused investigative efforts on housing authority officials and public officials, including but not limited to investigations of bribery, embezzlement, bid rigging, and theft.
- HUD OIG completed 19 ARRA-related reviews of how HUD is administering the program and/or how the grantees are administering the ARRA-related funds.

Emerging Issues: Areas of OIG interest

- Rental assistance fraud initiatives targeting PHAs in receivership or on HUD's list of "troubled" housing authorities
- Eligibility of grantee expenditures, particularly ARRA
- HUD's oversight of grantee ARRA expenditures
- Review and analysis of management of rural housing authorities

Strategic Initiative 3

HUD Strategic Goal: Build Inclusive and Sustainable Communities Free From Discrimination

OIG Strategy:

- **Promote integrity, efficiency, and effectiveness of programs**
- **Contribute to the reduction of fraud, waste, and abuse**
- ARRA – focus on grantees’ execution and administration of NSP2 and Community Development Block Grant (CDBG) grantees
- Audits of the CDBG, Supportive Housing, and HOME Investment Partnerships (HOME) programs
- Audits of disaster activities
- Investigative initiative to fight corruption in the administration of State or local community grant recipients
- Disaster relief fraud in HUD CDBG-funded programs
- Public dissemination of HUD OIG activities and outreach activities with State and local government agencies and other community affairs agencies

Highlights: Results or impact of significant OIG work

- HUD OIG reviewed several CDBG recipients to determine whether the grant funds were administered for eligible activities and that the auditee met program objectives.
- HUD OIG audited the District of Columbia’s administration of its HOME program and found that the grantee did not administer its program in accordance with Federal requirements.
- HUD OIG conducted several NSPI reviews during the period to determine whether the grantees were properly obligating NSPI funds in accordance with the Housing and Economic Recovery Act of 2008.
- HUD OIG conducted audits of grantees receiving ARRA funding for NSP2, the Tax Credit Assistance Program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP).
- During the current reporting period, OI has made 15 outreach presentations to government and industry partners and to partner law enforcement agencies regarding risks and fraud trends relating to ARRA, NSP, CDBG, and HOME funds.
- OI has targeted frauds against HUD programs, including but not limited to HPRP.
- OI continues to focus investigative efforts on disaster relief frauds in the Gulf States impacted by Hurricanes Katrina and Rita that received disaster relief funding.

Emerging Issues: Areas of OIG interest

- Audits and investigations of ARRA funding and NSP
- Review of Green Retrofit Program activities
- Focus on infrastructure projects
- Emergency Shelter Grants and programs

Strategic Initiative 4

HUD Strategic Goal: Transform the Way HUD Does Business

OIG Strategy:

- **Be a relevant and problem-solving advisor to the Department**
- **Contribute to improving HUD's execution of and accountability for fiscal responsibilities through**
 - Referring audits and investigations to the Departmental Enforcement Center and other management officials to ensure the accountability of individuals and firms committing fraud
 - Referring audits and investigations to the U.S. Department of Justice for civil enforcement
 - Audits of HUD's financial statements
 - Audits of HUD's information systems and security management
 - Participating in the U.S. Department of Justice Financial Fraud Enforcement Task Force (FFETF) and Procurement Fraud Task Force

Highlights: Results or impact of significant OIG work

- HUD OIG audited the underwriting of a \$45.6 million mortgage loan that was acquired by Deutsche Bank Berkshire Mortgage, Inc., in Bethesda, MD, to rehabilitate Wingate Towers and Garden Apartments.
- HUD OIG audited HUD's, FHA's, and Ginnie Mae's financial statements and reported on significant deficiencies and instances of noncompliance with laws and regulations.
- HUD OIG audited ACORN Associates, Inc., regarding its use of its fiscal years 2004 and 2005 Lead Elimination Action Program grant funds to determine whether Associates expended program funds in accordance with HUD's requirements.
- HUD OIG is cochair of FFETF MFWG, and HUD OIG chaired MFWG's Policy Committee and Metrics Group.
- HUD OIG attended monthly meetings with the Mortgagee Review Board on all proposed actions.
- HUD OIG special agents have conducted 6 outreach/training sessions for HUD employees who oversee government contracts at the request of the Office of Chief Procurement Officer. Sessions are conducted during regularly scheduled ethics training sessions for HUD employees and have been offered in Washington, DC, Colorado, Georgia, and California.
- During this current reporting period, HUD OIG special agents submitted three SIRs to HUD. The most recent suggested that each page of the form HUD-1 should be signed or initialed by all parties involved in the transaction, including the buyer, seller, and settlement agent.
- OI's Inspections and Evaluations Division (IED) completed two reports, one memorandum report, and four research memorandums during the most recent reporting period. Among the reports, IED looked at the Departmental Enforcement Center and its practices of processing referrals for action from HUD OIG.

Emerging Issues: Areas of OIG interest

- Issuer accountability in loan portfolio defaults in the Ginnie Mae Mortgage-Backed Securities program
- Continued modernization and enhancement of HUD's information systems
- Contracts and procurement acquisition
- HUD's method for contracting and monitoring of REO properties due to the increase in foreclosures
- Outreach and training to HUD's Office of Procurements and Contracts on the procurement fund

Chapter 1 - Single-Family Housing Programs



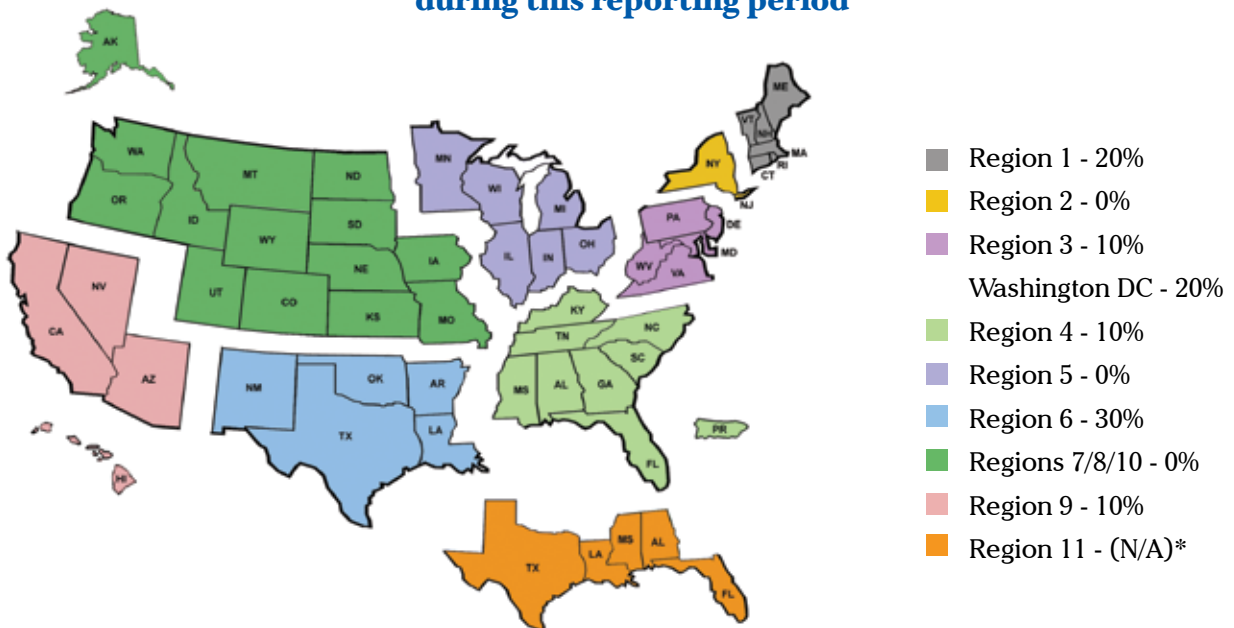
The Federal Housing Administration’s (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, or construct homes. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted a number of outreach efforts (see chapter 8, page 110).

Audit

Strategic Initiative 1: Contribute to the reduction of fraud in single-family insurance programs

Key program results		Questioned costs	Funds put to better use
Audit	10 audits	\$600,000	\$6 million
Our focus	<ul style="list-style-type: none"> Page 9 • Underwriting review of 15 FHA lenders Page 9 • Review of management and marketing contractors for single-family properties Page 10 • Mortgagees, loan correspondents, and direct endorsement lenders Page 12 • Review of housing counseling services 		

Chart 1.1: Percentage of OIG single-family housing audit reports during this reporting period



* This does not include disaster relief audits. See chapter 6 for these reviews.

Underwriting Review of 15 FHA Lenders

In January 2010, HUD OIG began Operation Watchdog, an initiative to review the underwriting of 15 Federal Housing Administration (FHA) direct endorsement lenders having default and claim rates indicating lender performance problems. The objective was to determine whether each lender underwrote its respective loans in accordance with FHA requirements.

OIG reviewed between 12 and 20 FHA loans underwritten by each of the 15 lenders that resulted in claims against the FHA insurance fund and reported the results in individual memorandums to HUD.

OIG recommended in each of the 15 memorandums that HUD pursue appropriate remedies under the Program Fraud Civil Remedies Act against each lender and/or its principals for incorrectly certifying to the integrity of the data or that due diligence was exercised during the underwriting of the 140 questioned loans. These loans resulted in actual losses or were expected to result in losses to the FHA insurance fund of more than \$11 million. Further, the lenders' improper certifications could result in affirmative civil enforcement actions of more than \$23 million. OIG recommended that HUD take appropriate administrative action against each lender and/or its principals.

Based on the overall results of the Operation Watchdog initiative and the systemic problems identified, OIG made an additional recommendation to HUD that (1) it develop and implement procedures for reviewing a statistical or risk-based selection of loans, for which FHA paid a claim on the mortgage insurance within the first 2 years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance and (2) these procedures include a requirement for HUD to seek appropriate civil and administrative remedies to recover losses incurred on loans not qualified for FHA insurance. (Audit Report: **2011-CF-1801**)

Review of Management and Marketing Contractors for Single-Family Properties

HUD OIG audited a selection of management and marketing contractors for single-family properties owned by HUD to determine whether allegations of mismanagement, political influence, and possible violations of law received in a hotline complaint were valid.

The allegation of mismanagement was credible; however, OIG did not find support to substantiate the allegations of political influence or violations of law. HUD did not have adequate controls to ensure that third generation management and marketing (M&M III) contracts were awarded in a timely and efficient manner. Specifically, key stakeholders were not included in the initial planning for these contracts, and acquisition plans were not developed in a timely manner. As a result, the M&M III contracts were delayed for nearly a year, and bridge contracts with an estimated cost of more than \$275 million had to be awarded to the existing contractors to avoid a lapse in the management and marketing services.

OIG recommended that HUD (1) develop controls to award contracts in a timely manner, thus avoiding unnecessary expenditures for extending contracts; (2) follow the established acquisition planning requirements and procurement acquisition lead time (PALT) guidance; (3) submit timely and complete performance work statements on all future contracts; (4) use in-house resources when forming the integrated program team for all significant acquisitions to avoid unnecessary expenditures such as

those paid to a contractor for writing performance work statements; (5) assign significant acquisitions to offices that have sufficient staff and expertise to avoid unnecessary expenditures such as those paid to an administrative support contractor; and (6) ensure that the PALT schedule is followed and require written justification when significant delays are encountered. (Audit Report: **2011-HA-0001**)

Mortgagees, Loan Correspondents, and Direct Endorsement Lenders

HUD OIG audited Nationwide Home Loans, Inc., an FHA-approved direct endorsement lender located in **Miami, FL**, to determine whether the lender followed HUD's requirements when (1) originating and underwriting loans and (2) implementing its quality control program.

Nationwide did not follow HUD requirements when it used at least 16 various independent loan officers to originate 41 loans. These loan officers were also employed by or owned businesses involved with mortgage lending or related fields such as real estate sales and mortgage processing. In addition, Nationwide did not follow HUD requirements when originating and underwriting loans for FHA insurance. It used inaccurate and unsupported information to qualify borrowers for five of six FHA loans reviewed. As a result, it approved loans that did not qualify for FHA insurance and unnecessarily placed the FHA insurance fund at risk.

Further, Nationwide did not conduct quality control reviews in compliance with requirements, and its written quality control plan did not contain the required provisions. As a result, Nationwide increased the risk to the FHA insurance fund because it did not have assurance regarding the accuracy, validity, and completeness of its loan origination and underwriting operations.

OIG recommended that HUD require Nationwide to indemnify it for the 46 ineligible FHA loans with an estimated potential loss of \$5 million. OIG also recommended that Nationwide be referred to the Mortgagee Review Board for consideration of imposing civil money penalties for the ineligible loans and taking appropriate administrative actions against the individuals and entities responsible. Finally, OIG recommended that Nationwide develop, implement, and enforce (1) written controls to ensure that loans are originated and underwritten in accordance with HUD requirements and (2) a quality control program that complies with HUD requirements. (Audit Report: **2011-AT-1001**)



HUD OIG audited WR Starkey Mortgage, LLP, an FHA direct endorsement lender in **Plano, TX**, to determine whether WR Starkey complied with HUD and FHA loan origination requirements for loans endorsed between April 1, 2008, and April 30, 2010.

WR Starkey did not follow HUD/FHA underwriting requirements in 13 of 14 loan originations reviewed. As a result, it improperly originated four loans that resulted in losses to FHA's insurance fund and nine loans that increased the risk to the insurance fund.

OIG recommended that HUD require WR Starkey to (1) reimburse the FHA insurance fund more than \$360,000 in actual losses on four loans and (2) indemnify nine loans that placed the FHA insurance fund at unnecessary risk with unpaid balances of nearly \$906,000, thereby putting more than \$543,000 in funds put to better use. (Audit Report: **2011-FW-1003**)



HUD OIG audited Semper Home Loans, Inc., in **Providence, RI**, an FHA lender approved to underwrite and close mortgage loans without prior FHA review or approval to determine whether (1) Semper acted



in a prudent manner and complied with HUD regulations, procedures, and instructions for the origination, underwriting, and closing of the FHA-insured single-family loans and (2) Semper's quality control plan, as implemented, fulfilled HUD's requirements.

Semper generally met HUD requirements for the origination of FHA-insured single-family loans. However, OIG identified several underwriting deficiencies that negatively affected the insurability of two loans for which Semper acted as the loan correspondent and for which the underwriting was performed by one of Semper's sponsors. The deficiencies consisted of qualifying ratios that exceeded HUD's benchmarks without significant compensating factors.

In addition, Semper did not fully implement its quality control plan. It failed to perform sufficient reviews, which prevented it from ensuring the accuracy, validity, and completeness of its loan origination operations. As a result, Semper may not have identified and corrected potential deficiencies in a timely manner, resulting in an unnecessary risk to the FHA insurance fund.

Semper was also incorrectly listed as the holding lender for 34 active loans and the servicing lender for 11 active loans. HUD will not pay a claim for insurance benefits for which the information on the claim and HUD's FHA insurance system does not agree.

OIG recommended that HUD require the sponsor(s) of the respective loans to (1) reimburse the FHA insurance fund \$169,000 in actual losses on one loan and (2) indemnify HUD for a potential loss of more than \$179,000 that may be incurred related to one loan that did not meet FHA insurance requirements. OIG also recommended that HUD direct Semper to (1) implement its quality control plan as required and follow up with the lender in 9 months to ensure its compliance and (2) update its remaining mortgage records in HUD's system to reflect the appropriate mortgage holder and implement procedures to ensure the timely submission of mortgage record changes for future loans sold to investing lenders. (Audit Report: **2011-BO-1005**)




HUD OIG audited Gold Financial Services, Inc., in **San Antonio, TX**, an FHA direct endorsement lender and a branch of AmericaHomeKey, Inc., to determine whether Gold Financial complied with HUD/FHA loan origination requirements.

Gold Financial did not follow HUD/FHA underwriting requirements in two of seven loan originations reviewed. Its underwriter did not require two borrowers to explain recent poor credit. As a result, it originated two ineligible loans that resulted in a loss to HUD of more than \$71,000 and an increased risk to the FHA insurance fund of nearly \$87,000. It originated a third loan that did not violate HUD/FHA underwriting requirements but did violate its own internal controls concerning borrowers with poor credit. Specifically, the underwriter did not require the borrower to have 3 months' reserves in accordance with Gold Financial's closing instructions.

OIG recommended that HUD require Gold Financial to (1) indemnify it for one ineligible loan with an unpaid principal balance of nearly \$145,000 and (2) reimburse the FHA insurance fund for losses incurred on one loan. (Audit Report: **2011-FW-1002**)



HUD OIG audited NFM, Inc., in **Linthicum, MD**, a nonsupervised lender approved to originate FHA single-family mortgage loans, to determine whether NFM complied with HUD requirements in the origination and quality control review of FHA loans.



NFM generally complied with HUD requirements in the origination of FHA loans. However, it had not implemented certain aspects of its quality control plan in accordance with HUD requirements. It did not perform routine quality control reviews within the timeframe required by HUD or review all loans that defaulted within the first six payments in a reasonable and timely manner. Consequently, the effectiveness of the plan, which was designed to ensure accuracy, validity, and completeness in the loan underwriting process, was lessened.

OIG recommended that HUD direct NFM to fully implement its quality control functions as required and follow up in 9 months to ensure the lender's compliance. (Audit Report: **2011-PH-1004**)

Review of Housing Counseling Services

HUD OIG audited the Neighborhood Assistance Corporation of America (NACA) in **Jamaica Plains, MA**, a HUD-approved organization providing housing counseling services to qualified home buyers or homeowners with unaffordable mortgage payments, to determine whether NACA properly administered its HUD grants used for housing counseling activities in accordance with HUD requirements. Specifically, OIG wanted to determine whether (1) NACA provided counseling services in accordance with the HUD grants and properly addressed client complaints, (2) HUD funds were properly accounted for and used to pay only counselor salaries, (3) NACA's process for documenting and reporting program results/outcomes complied with HUD grant requirements, (4) NACA staff was adequately trained and experienced in housing counseling and management staff adequately monitored the work of the counselors, and (5) NACA complied with HUD disclosure and conflict-of-interest requirements.

NACA generally administered its HUD grants used for housing counseling activities in accordance with HUD requirements. With respect to HUD's conflict-of-interest disclosure requirements, NACA adequately informed its counseling clients of its relationships with major industry partners. However, it needs to resolve issues raised by HUD with respect to how it discloses relationships that its local offices may have with local industry partners, such as lenders and realtors.

OIG made no recommendations because HUD had already asked NACA to identify every industry partner with which it had a financial relationship and amend its disclosures to fully disclose these arrangements. Therefore, no further action is necessary. (Audit Report: **2011-BO-1004**)



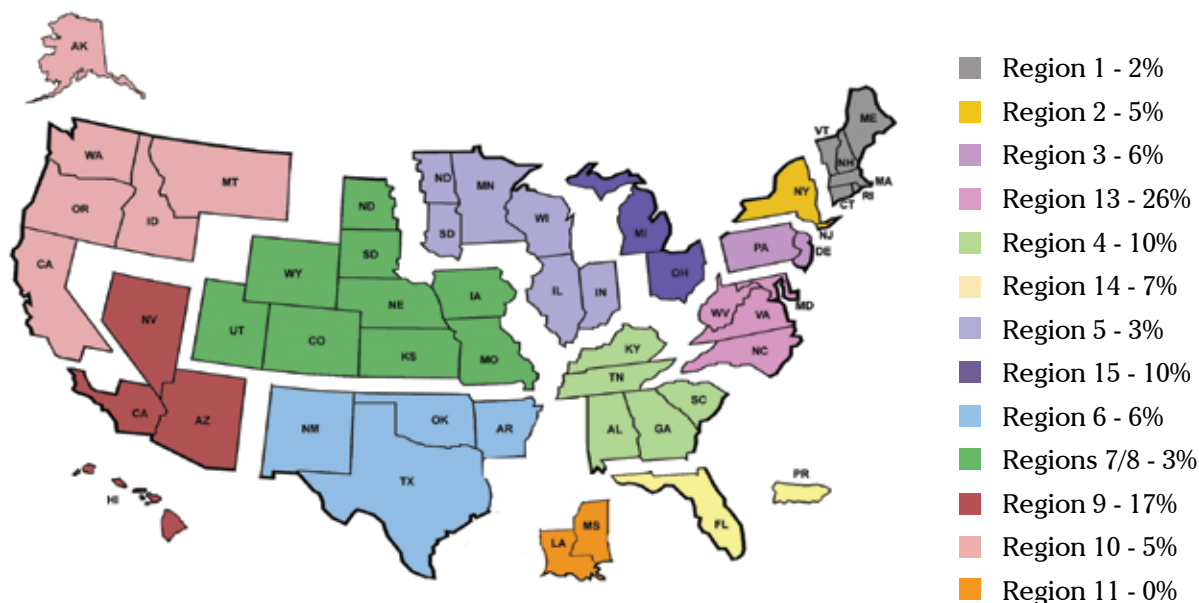
Investigations

Some investigations discussed in this report were generated from leads provided by HUD single-family housing program staff and conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

Strategic Initiative 1: Contribute to the reduction of fraud in single-family insurance programs

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	155	\$237,664,630	152	156
Our focus	Page 14	• Loan origination fraud		
	Page 20	• Home Equity Conversion Mortgage program fraud		
	Page 20	• Civil and administrative actions		
	Page 22	• Other single-family fraud		

Chart 1.2: Percentage of OIG single-family housing closed investigation cases during this reporting period



Loan Origination Fraud

Michael McGrath, Jr., the former president of U.S. Mortgage Corporation (U.S. Mortgage) and CU Nations Mortgage, LLC; Frank Corallo and Jerry Carti, former loan officers for U.S. Mortgage; Renford Davis, a property manager for Renhops Management, LLC; William Ottaviano, an appraiser for Equity Appraisal Services, LLC (Equity Appraisal); Equity Appraisal; and eight additional individuals were collectively sentenced in U.S. District Court, **Newark, NJ**, to 357 months incarceration, 54 months home confinement, and 432 months supervised release; ordered to pay a number of victims more than \$72.4 million in restitution and forfeit more than \$140.7 million; and fined \$5,800 for their earlier conviction of or guilty pleas to committing a conspiracy to commit money laundering or mail and wire fraud or making false statements in a Federal income tax return. From January 2004 to February 2009, McGrath conspired with others, fraudulently sold credit union mortgage loans to the Federal National Mortgage Association (Fannie Mae), and used more than \$139 million in illicit proceeds to fund personal and business investments and U.S. Mortgage operations. In addition, between December 1998 and 2007, the above defendants and other individuals inflated home values, provided false information or fraudulent appraisals and other documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages, and placed the fraudulent conventional mortgaged properties into the Paterson Housing Authority or the City of Paterson, NJ, Section 8 programs. HUD realized losses of \$2.7 million after 100 mortgages defaulted.



Reyes Quintero, a former loan officer for American Residential Funding, was sentenced in U.S. District Court, **Riverside, CA**, to 5 years probation and ordered to pay HUD more than \$1.6 million in restitution for his earlier guilty plea to committing a conspiracy. From 1997 to 2001, Quintero and other individuals conspired and caused the submission of fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$1.6 million after 38 mortgages defaulted.



Maria Contreras, a loan officer for Atlantic Pacific Mortgage Company, doing business as America's First Mortgage, was sentenced in U.S. District Court, **Fort Meyers, FL**, to 18 months incarceration and 3 years probation for her earlier guilty plea to committing loan application fraud. From June 2006 to July 2007, Contreras created and submitted false information and fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of more than \$1 million after six mortgages defaulted.



Eric Wendlandt, the owner of Pricise Mortgage, and Roni Watkins each pled guilty in U.S. District Court, **Grand Rapids, MI**, to making false statements to HUD or committing a conspiracy. From February 2008 to April 2010, Wendlandt, Watkins, and other individuals produced or provided fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$553,000 after six mortgages defaulted.



Harold Meza, a former real estate agent for JLF Properties, was sentenced in U.S. District Court, **Riverside, CA**, to 3 years incarceration and 3 years probation and ordered to pay victims that have not yet been identified \$486,474 in restitution for his earlier guilty plea to committing a conspiracy. From 2002 to 2005, Meza and other individuals created fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$486,474 after 16 mortgages defaulted.



Henry and Elizabeth Robertson, the former owners of Elohim, Inc., were collectively sentenced in U.S. District Court, **Chicago, IL**, to 104 months incarceration and 60 months probation and ordered to pay HUD \$459,000 and others \$283,832 in restitution for their earlier guilty pleas to committing bank and wire fraud. From February 1997 to June 1999, Henry and Elizabeth Robertson provided fraudulent documents and downpayment funds used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$459,000 after 20 mortgages defaulted.



Olu Campbell, the owner of Metropolitan Housing Associates, LLC, was sentenced in U.S. District Court, **Baltimore, MD**, to 54 months incarceration and 3 years supervised release for his earlier conviction of committing aggravated identity theft, wire fraud, and aiding and abetting. From August 2008 to January 2010, Campbell used the identities of other individuals to purchase properties, recruited straw borrowers, and provided or submitted false information and fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$395,000 after one mortgage defaulted.



Timothy Johnson, Tamiko Davis, and former Social Security Administration (SSA) employee Pamela Terrell were collectively sentenced in U.S. District Court, **Birmingham, AL**, to 78 months, 14 days, and 1 hour incarceration and 120 months probation, and Johnson was ordered to forfeit more than \$2.5 million for their earlier guilty pleas to making false statements or committing mail fraud. Between 2007 and December 2009, Johnson created and mailed fictitious SSA award letters, assisted unqualified borrowers who fraudulently obtained FHA-insured and conventional mortgages, and provided false statements when questioned by Federal investigators; Davis created fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages; and Terrell used a fake SSA income award document to obtain and later default on an FHA-insured mortgage. HUD realized losses of \$384,357 after four mortgages defaulted.

Man gets 6½ years in mortgage fraud

By **KENT FAULK**
News staff writer

A Bessemer man described by federal prosecutors as the leader of a multi-million-dollar mortgage fraud ring was sentenced by a judge Wednesday to serve 6½ years in prison.

Prosecutors say such

schemes result in abandoned properties that hurt communities already grappling with high foreclosure rates.

Besides the prison sentence, Timothy Wayne Johnson, 45, also was ordered by U.S. District Judge Inge P. Johnson to forfeit \$2.5 million as proceeds of illegal activity, according to

court records. Johnson had pleaded guilty to two counts of making false statements on a loan application, two counts of mail fraud against a financial institution and one count of false statements to federal agents.

Johnson is to report to a federal prison in February to begin

servicing his term, according to his attorney.

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Six individuals were each indicted in Dallas County District Court, **Dallas, TX**, for allegedly securing the execution of documents by deception. In addition, Jose Torres was sentenced to 6 months deferred adjudication and fined \$500 for his earlier guilty plea to securing the execution of a document by deception. Between March 2002 and October 2004, Torres admittedly and the remaining defendants allegedly used false Social Security numbers (SSN) to obtain FHA-insured mortgages. HUD realized losses of \$380,855 after seven mortgages defaulted.



Ephrain Harris, the owner of Can Do Accounting; Darrell Booker, the owner of Boo Boo Wireless; and Tamiko Alston, the former owner of Above All Title & Escrow, were collectively sentenced in U.S. District Court, **Norfolk, VA**, to 87 months incarceration and 156 months supervised release and ordered to pay HUD \$165,373, Fannie Mae \$167,857, and First Horizon Home Loans \$207,898 in restitution for their earlier guilty pleas to committing a conspiracy to commit mail and wire fraud. Between September 2007 and June 2008, Harris, Booker, Alston, and other individuals conspired and provided closing funds, false information, or fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. In addition, Alston created fraudulent HUD-1 settlement statements that failed to accurately report the receipt and disbursement of settlement funds. HUD realized losses of \$275,271 after two mortgages defaulted.



Derrick Boamah was sentenced in U.S. District Court, **Worcester, MA**, to 12 months home confinement and 60 months probation and ordered to pay FHA and CitiMortgage \$280,315 in restitution for his earlier guilty plea to making false statements. In September 2006, Boamah provided false income, employment, and other information to obtain an FHA-insured mortgage. HUD realized a loss of \$257,095 after his mortgage defaulted.



A.J. Adewunmi, a former owner of Re/Max Associates Plus (Re/Max) and Cots Realty; Richard Rodawald, an unlicensed real estate closer for Dedicated Closing; and former Re/Max real estate agent Christian Juan each pled guilty in U.S. District Court, **St. Louis, MO**, to making false statements to HUD or committing mail fraud. Between 2003 and 2010, Adewunmi and Juan assisted unqualified borrowers who obtained FHA-insured mortgages, and Rodawald created about 1,100 fraudulent HUD-1 settlement statements for FHA-insured and conventional mortgage loans that included about \$98,000 in inflated and illegal fees and disbursements. HUD realized losses of about \$200,000 after four mortgages defaulted.



Dhia Abdulridha and Falah Tamimi were each indicted in U.S. District Court, **St. Louis, MO**, for allegedly committing bank fraud and a conspiracy to commit bank fraud. From March 2004 to September 2009, Abdulridha and Tamimi allegedly conspired and provided fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of about \$150,000 after three mortgages defaulted.




Meggan and David Alexander were each convicted in U.S. District Court, **Cedar Rapids, IA**, of making false statements. In April 2007, Meggan Alexander provided false information when she obtained an FHA-insured mortgage, and in September 2007, Meggan and David Alexander provided false information when they attempted to avoid foreclosure. HUD realized a loss of \$110,772 after their mortgage defaulted.



Joseph Dintino was indicted in U.S. District Court, **Kansas City, KS**, for allegedly committing bank and wire fraud and money laundering. From March 2005 to April 2006, Dintino allegedly provided false Federal income tax returns when he obtained an FHA-insured mortgage and other consumer loans. HUD realized a loss of \$82,404 after his mortgage defaulted.





Nathan Russo, a former vice president of Action Mortgage Corporation, and five additional individuals each pled guilty in U.S. District Court, **Hartford, CT**, to making false statements or committing a conspiracy, mail and wire fraud, or a conspiracy to commit wire fraud. Between February 2007 and April 2010, the above defendants conspired and resold properties at inflated values or provided false information and fraudulent documents used by themselves or other unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized a loss of \$75,000 after one mortgage defaulted.



Kamal Hosn pled guilty in Maricopa County Superior Court, **Phoenix, AZ**, to committing residential mortgage fraud and attempted fraudulent schemes and artifices. Between February and May 2008, Hosn provided or submitted false information and fraudulent documents when he obtained an FHA-insured mortgage. HUD realized a loss of \$73,160 after his mortgage defaulted.



Juan Goytia and Maria Ponce were each charged in Colorado State Court, **Yuma, CO**, with allegedly committing identity theft, criminal impersonation, and forgery. In June 2005, Goytia and Ponce allegedly used a false SSN and resident alien card when they obtained an FHA-insured mortgage. HUD realized a loss of \$48,465 after their mortgage defaulted.



Michael Conley pled guilty in U.S. District Court, **Roanoke, VA**, to making false statements. In October 2005, Conley provided false information and fraudulent documents when he obtained an FHA-insured mortgage. HUD realized a loss of about \$38,000 after his mortgage defaulted. .



LeeAnn Bible was sentenced in U.S. District Court, **Fort Worth, TX**, to 3 years probation and ordered to pay HUD \$18,277 in restitution for her earlier guilty plea to making false statements to HUD. In October 2002, Bible provided fraudulent documents when she obtained an FHA-insured mortgage. HUD realized a loss of \$18,277 after her mortgage defaulted.



Raquel Berger, a realtor for Exit Dream Home Realty, Inc.; Rui Talaia, a former real estate agent and broker for an unnamed business; Rosa Damasceno; and Jairo Nunes each pled guilty in U.S. District Court, **Newark, NJ**, to committing a conspiracy to commit wire fraud or attempting to commit wire fraud. In addition, Edivaldo Dos Santos, a former loan officer for Celebrity Mortgage; Maria Lourdes Sousa; and Ricardo Muniz were collectively sentenced to 23 months incarceration and 84 months supervised release for their earlier guilty pleas to committing a conspiracy to commit wire fraud. Dos Santos was also suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. From June 2008 to May 2010, the above defendants and other individuals conspired and created or provided fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD losses have not yet been determined.



Edgar Argotte, a real estate agent for Millennium Real Estate Company, was arrested and charged in U.S. District Court, **Brooklyn, NY**, with allegedly committing a conspiracy to commit wire fraud. In addition, Lauro Gutierrez, the owner of Lauro G. Home Improvement, pled guilty to committing a conspiracy to commit wire fraud. From October 2005 to January 2007, Argotte and other individuals allegedly and Gutierrez admittedly provided false information or fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD losses have not yet been determined.



David Vickers, a general contractor with J & G Homes, Inc., was convicted in U.S. District Court, **Jacksonville, FL**, of committing a conspiracy to commit wire, mail, and bank fraud. From December 2006 to September 2009, Vickers and other individuals provided downpayment funds and assisted unqualified borrowers who obtained FHA-insured mortgages. HUD losses have not yet been determined.

Vickers guilty in mortgage fraud case

Former contractor is facing 30 years in federal prison.

By **DAVID BAUERLEIN**
The Times-Union

Former contractor David W. Vickers of Jacksonville was found guilty Thursday by a federal jury in a mortgage fraud trial, adding the possibility of prison time to a long list of earlier regulatory actions taken against him.

The jury determined Vickers, 48,

carried out a scheme in which he misled lenders so he could help borrowers qualify for the purchase of new and renovated homes on Jacksonville's Northside, according to the U.S. Attorney's Office.

Vickers faces a maximum penalty of 30 years in prison for conspiracy to commit mail, wire and bank fraud, the U.S. attorney said. He faces up to 20 years for each of another 18 counts on which he was found guilty.

In separate investigations, the state Department of Business and Profes-

sional Regulation fielded dozens of complaints from customers about Vickers since 2001. He has not been a licensed general contractor since 2006.

But from December 2006 through September 2009, Vickers was a partner in a business that bought residential property on the Northside, according to prosecutors.

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Daniel Nichter, a former licensed appraiser, loan originator for Preferred Mortgage Consultants, Hilliard City councilmember, and Franklin County development director, was indicted in Franklin County Court of Common Pleas, **Columbus, OH**, for allegedly committing theft and identity theft, engaging in a pattern of corrupt activity, and receiving stolen property. From February 2009 to December 2010, Nichter allegedly conducted and submitted 14 appraisals for FHA-insured mortgage loan approvals that contained false information and inflated property values. HUD losses have not yet been determined.



Frederick Noland was charged in U.S. District Court, **St. Louis, MO**, with allegedly making false statements to HUD. In November 2008, Noland allegedly provided false documents used by an unqualified borrower who obtained and later defaulted on an FHA-insured mortgage. HUD losses have not yet been determined.



Tillamook man admits forgery

Attorney General John Kroger has announced a guilty plea by Pablito Diaz Quinon in a case investigated and prosecuted by the Oregon Department of Justice's Mortgage Fraud Task Force.

He pled guilty in Tillamook County Circuit Court on Monday afternoon to one count of first-degree aggravated theft.

Quinon took possession of a residence at 2302 Ninth St. in Tillamook by mortgage fraud. He also used someone else's Social Security number to file his tax returns. He has been in jail since July 13.

Quinon was sentenced to probation, and will be turned over to the custody of Immigration and Customs Enforcement.

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Elena Ramirez and Pablito Diaz-Quinon were collectively sentenced in Tillamook County Circuit Court, **Tillamook, OR**, to 6 months incarceration and 108 months supervised probation for their earlier guilty pleas to committing forgery, aggravated or identity thefts, or a conspiracy to commit aggravated and identity thefts. Ramirez, Diaz-Quinon, and other individuals conspired and provided a false SSN used by Ramirez to obtain an FHA-insured mortgage. HUD losses have not yet been determined.



Patricia Chmura, a former mortgage processor for Aurora Financial Group, pled guilty in U.S. District Court, **Scranton, PA**, to committing a fraudulent FHA transaction. In November 2007, Chmura forged a document that was used to fraudulently originate an FHA-insured mortgage. HUD losses have not yet been determined.



Curtis Poore, Fermin Bergouingnan, and William Alonso, loan officers for Great Country Mortgage Bankers, were collectively sentenced in U.S. District Court, **Miami, FL**, to 90 months incarceration and 36 months supervised release for their earlier guilty pleas to committing a conspiracy to commit wire fraud. In addition, Jose Cazas, a developer for Cedar Pointe Condominiums who was previously sentenced for his earlier guilty plea to committing a conspiracy to commit wire fraud, was ordered to pay Bank of America and Citibank more than \$1.8 million in restitution. From April 2007 to January 2008, the above defendants and other individuals conspired and submitted false information and fraudulent documents used by unqualified borrowers who obtained more than \$2.5 million in FHA-insured mortgages at Cedars Pointe condominiums. Since the City of Miami condemned the buildings and the units cannot convey, HUD paid no claims and realized no losses.



Charles Schmalzried, a builder and partial owner of the Hull Prairie Development Company, was charged in Wood County Court of Common Pleas, **Perrysburg, OH**, with allegedly committing theft and complicity in defrauding creditors and securing writings by deception. Schmalzried allegedly concealed secondary loans he made with FHA-insured borrowers and caused erroneous HUD-1 settlement statements.



Former Rhode Island State Senator Christopher Maselli was sentenced in U.S. District Court, **Providence, RI**, to 27 months incarceration and 3 years supervised release for his earlier guilty plea to committing bank fraud. From December 2007 to March 2009, Maselli provided false information and documents and fraudulently obtained four FHA-insured mortgages and other consumer loans.

Home Equity Conversion Mortgage Program Fraud

Mhilton Rimolo was sentenced in Kings County Criminal Court, **Brooklyn, NY**, to 1 to 3 years incarceration for his earlier guilty plea to making a false statement; offering a false instrument for filing; falsifying business records; and committing a conspiracy, grand larceny, criminal possession of a forged instrument, forgery, and criminal impersonation. From January 2003 to June of 2009, Rimolo and other individuals conspired and created or provided fraudulent documents used to obtain a \$300,000 HUD home equity conversion mortgage (HECM) in the name of a deceased individual and \$44,579 in SSA benefits.



Carmen Szumilas and Melody Zuniga were each arrested and charged in Kings County Criminal Court, **Manhattan, NY**, with allegedly committing residential mortgage fraud and grand larceny, criminal possession of a forged instrument, and falsifying business records. In August 2010, Szumilas and Zuniga allegedly created, provided, and used a fraudulent document to obtain \$369,670 in HUD HECM funds without authorization from the homeowner.



Benjamin Okeke, a former loan officer for Beli Commercial Mortgage, entered into a pretrial diversion filed in Davidson County General Sessions Court, **Nashville, TN**, and agreed to perform an undetermined amount of community service and pay a victim \$3,493 in restitution. In February 2010, an unnamed HUD HECM program applicant provided Okeke with \$3,494 to settle a credit card debt before his loan closing, but Okeke stole and personally used these funds.

Civil and Administrative Actions

Mitchell Cohen, president of Buy a Home, LLC, and Buy a Home, LLC, were each named in a civil complaint filed in U.S. District Court, **Manhattan, NY**, and issued a preliminary injunction that prohibits them from originating FHA-insured loans. From 2007 to January 2011, Cohen, Buy a Home, LLC, and other individuals allegedly conspired and provided closing funds or fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages on properties with inflated values. HUD losses have not yet been determined.



The Phoenix Housing Group (Phoenix Housing) entered into a consent judgment filed in Wake County Superior Court, **Raleigh, NC**, and agreed to the removal of Phoenix Housing officers, the appointment of a receiver to liquidate Phoenix Housing assets, the forfeiture of any proceeds, and the payment of \$50,000 in restitution to a number of victims. From 2007 to 2008, Phoenix Housing employees or agents allegedly engaged in unfair and deceptive practices involving the sale and financing of manufactured and modular homes and provided false information used by unqualified borrowers to obtain FHA-insured, U.S. Department of Agriculture-guaranteed, or conventional mortgages. HUD losses have not yet been determined.



Antonio Vitale, also known as Tony Vitale, a former Sterling Capital Mortgage Company loan officer who was previously convicted in Adams County District Court, **Brighton, CO**, of attempting to influence a public servant and offering a false instrument for recording, and Louis Luevano, also known as Ray

Luevano, a former Harvest Realty real estate agent who was previously convicted of offering a false instrument for recording and committing theft, forgery, a conspiracy, and other crimes, were each debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 3 years. Between July 2003 and September 2005, Vitale, Luevano, and other individuals provided false SSNs and fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$378,045 after five mortgages defaulted.



Julie Weaver, a former Alliance Guaranty Mortgage Corporation loan officer who previously pled guilty in Denver County District Court, **Denver, CO**, to committing theft; Xochilt Alamillo, also known as Xochilt Campos, a former Frontier GMAC Real Estate Company real estate agent who previously pled guilty to offering a false instrument for recording; and Macarena Javalera, also known as Macarena Villalobos, a former Prestige Capital Funding loan officer who previously pled guilty to committing forgery, were each debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 3 years. In addition, former Alliance Mortgage Capital loan officer Kenya Hedges, also known as Kenya Ramos, who previously pled guilty to committing compounding, was debarred for 2 years. In March 2006, Weaver fraudulently signed closing documents for a straw buyer and stole \$24,310 in FHA-insured mortgage loan proceeds, and between October 2000 and December 2004, the remaining defendants and other individuals assisted undocumented immigrants who used fraudulent SSNs or other documents to obtain FHA-insured mortgages. HUD realized losses of \$372,195 after three mortgages defaulted.



Kenneth Lagonie, the president of Quality Homes Are Us, doing business as Quality Homes R Us and Quality Land Development Corporation, and closing attorney Anthony Natale, both previously sentenced in U.S. District Court, **Newark, NJ**, for their earlier guilty pleas to committing a conspiracy to commit wire fraud, were each debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for an indefinite period. From August 2003 to September 2005, Lagonie, Natale, and other individuals provided false information to lure investors or submitted fraudulent appraisals and other documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$327,839 after three mortgages defaulted.



Scott Hinkley, a former ABK Mortgage Company loan officer who previously pled guilty in Adams County District Court, **Aurora, CO**, to committing forgery and violating the Colorado Organized Crime Control Act, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for an indefinite period. In addition, Idara Ekiko, who previously pled guilty to committing computer crimes, was debarred for 3 years. Between April 2004 and January 2007, Hinkley, Ekiko, and other individuals provided false information or fraudulent documents used by themselves or other unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$153,814 after three mortgages defaulted.



John Morrison, a loan officer and previously approved FHA appraiser who pled guilty in U.S. District Court, **Baltimore, MD**, to committing mail fraud, was suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. Between 2005 and June 2006, Morrison

sold property to an elderly home buyer at an inflated value and submitted a fraudulent appraisal for mortgage loan approval.

Other Single-Family Fraud

Ray Bowman, Sean Ragland, and Desiree Brown, a former executive, accounting supervisor, and treasurer for Taylor, Bean & Whitaker Mortgage Corporation (Taylor, Bean & Whitaker), a former FHA-approved direct endorsement lender and Government National Mortgage Association (Ginnie Mae) issuer, and former Colonial Bank employees Catherine Kissick and Teresa Kelly each pled guilty in U.S. District Court, **Alexandria, VA**, to committing a conspiracy to commit bank, wire, and securities fraud or making false statements to Federal agents. Between 2002 and August 2009, Kissick and Kelly conspired with other individuals and provided funding to Taylor, Bean & Whitaker for phony or previously pledged loans, and Bowman, Ragland, Brown, and other individuals conspired and sold phony and previously pledged loans to investors in the secondary mortgage market and caused Taylor, Bean & Whitaker to submit false statements to HUD, Ginnie Mae, and other financial entities. HUD, Ginnie Mae, and other financial entities realized losses in excess of \$1.9 billion.

Former Taylor, Bean exec admits to fraud

Times staff

The former president of Ocala's Taylor, Bean & Whitaker on Monday became the latest manager of the mortgage giant to plead guilty to fraud, Bloomberg News reported.

In federal court in Alexandria, Va., Raymond E. Bowman admitted to one count of conspiracy to commit wire fraud, bank fraud and securities fraud and one count of making false statements. Bowman, 45, also agreed to cooperate with prosecutors'

inquiry into the company.

Federal prosecutors filed a criminal case against Bowman last week before U.S. District Judge Leonie Brinkema, who has presided over cases resulting from an alleged scheme to defraud the government's Troubled Asset Relief Program. Prosecutors said the scheme contributed to the failure of Alabama-based Colonial Bank.

Bowman is set to be sentenced on June 10 and faces a maximum of five years in prison

on the two counts, plus a fine of as much as \$500,000 and full restitution to victims, Bloomberg said. Two other Taylor, Bean executives, including former chairman Lee Farkas, also were accused of deceiving financial firms and TARP by covering up shortfalls at Taylor, Bean.

Taylor, Bean was once the largest nondepository mortgage lender in the nation, according to the Securities and Exchange Commission. Farkas' trial on 16 counts is set for April 4.

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Stanley Miller, a registered agent for Canyon View Escrow, was sentenced in U.S. District Court, **Salt Lake City, UT**, to 30 months incarceration and 36 months supervised release and ordered to pay HUD \$321,000 in restitution for his earlier guilty plea to committing wire fraud. From July 2002 to December 2004, Miller and other individuals identified distressed properties in a number of States, posed as bankruptcy court or financial institution representatives and secured quit claim deeds from the property owners, rented about 300 properties and collected rents but failed to remit mortgage loan payments, and used the rents collected for personal expenditures. HUD realized losses of about \$1.6 million after 45 mortgages defaulted.



Kenneth Perkins, a realtor for Virtual Realty Funding Company, pled guilty in U.S. District Court, **Phoenix, AZ**, to committing a misprision of a felony. From June 2003 to September 2004, Perkins failed to report that

an unnamed investor acted as a straw borrower and fraudulently obtained and resold HUD real estate-owned properties. HUD realized losses of \$440,000 after 20 mortgages defaulted.



Paul Hariston, doing business as Pro-Fund Property Management, Ltd., Pro-Team Property Management, or Platinum Lending, was sentenced in Franklin County Court of Common Pleas, **Columbus, OH**, to 48 months incarceration and 3 years supervised release for his earlier guilty plea to committing theft, securing writings by deception, and engaging in a pattern of corrupt activity. From March 2002 to January 2004, Hariston obtained the deeds to six distressed FHA-insured properties and collected the mortgage payments from the homeowners but failed to pay the mortgages as promised and filed fraudulent bankruptcies in the names of the homeowners to delay foreclosure proceedings. HUD realized losses of about \$127,000 after six mortgages defaulted.



Kenyuano Jones, a HUD Good Neighbor Next Door program participant and assistant principal for the Detroit Public School System, was charged in Wayne County Circuit Court, **Detroit, MI**, with allegedly committing larceny by false pretenses and filing false State income tax returns. In March 2005, Jones obtained a HUD-owned property and received a \$22,500 discount, but Jones allegedly failed to reside in the property or report his nonresidency on HUD certifications. In addition, Jones allegedly filed false State income tax returns.



John Murphy, the former President of Alliance Mortgage Banking Corporation (Alliance Mortgage), a HUD-approved direct endorsement lender, was sentenced in U.S. District Court, **Central Islip, NY**, to 20 months incarceration and 5 years probation and ordered to pay the Federal Deposit Insurance Corporation more than \$3.3 million in restitution for his earlier guilty plea to committing bank fraud. From January to August 2007, Murphy fraudulently used Alliance Mortgage warehouse line-of-credit funds for Alliance Mortgage operations. HUD losses have not yet been determined.



John Westbrook and Cynthia Thornsberry, former real estate agents for New Century Real Estate Group and Ultima Realty Service; William Dunham, a former real estate agent for Hilton Properties, LTD; and Clayton Aynesworth each pled guilty in U.S. District Court, **Austin, TX**, to making false statements to HUD or committing a conspiracy to commit wire fraud. Between 2004 and 2009, the above defendants provided false occupancy statements or conspired with other individuals and fraudulently obtained about 26 HUD real estate-owned properties. HUD losses have not yet been determined.



Quincy Harrington, the owner of Lunar Mortgage Services; Julila Allen, the owner of Allen Home Construction; Edward Rogers; Willis McMurrin; and Sharetha Jackson were each indicted in U.S. District Court, **Plano, TX**, for allegedly making false statements or committing fee splitting or a conspiracy to commit money laundering. In addition, Rogers was arrested after his indictment. Between February 2006 and May 2007, the above individuals and others allegedly conspired and assisted with property sales at inflated values to straw borrowers, obtained kickbacks without lender knowledge, caused the falsification of HUD-1 settlement statements, violated the Real Estate Settlement Procedures Act of 1974, or lied to Federal agents when questioned. HUD losses have not yet been determined.



William Huston, Jr., a former owner of All-Star Mortgage, was charged in Madison County Superior Court, **Anderson, IN**, with allegedly committing theft, felony fraud on a financial institution, and conversion or misappropriation of money received or held in a title insurance escrow account. In July 2008, Huston originated a \$217,700 FHA-insured refinance loan on behalf of a borrower but allegedly failed to pay off the first mortgage and diverted \$217,700 into his personal accounts.



Lawrence Lockett, the chief executive officer of Home Mortgage, Inc., a HUD-approved lender, was sentenced in U.S. District Court, **Chicago, IL**, to 24 months incarceration and 5 years probation and ordered to pay GMAC Bank \$15 million in restitution for his earlier guilty plea to committing bank fraud. From August 2007 to March 2008, Lockett obtained fictitious mortgages on properties with outstanding mortgage loans, including properties with FHA-insured mortgages.



Jennifer Wise, a former closing processor for an unnamed title company, was sentenced in U.S. District Court, **Nashville, TN**, to 8 months home detention and 3 years probation and ordered to pay a number of victims \$64,019 in restitution for her earlier guilty plea to committing wire fraud. From August 2006 to May 2009, Wise prepared and provided fraudulent HUD-1 settlement statements relating to 78 FHA-insured and conventional mortgage loans and embezzled more than \$64,000 in inflated closing fees.



John Hemphill, doing business as United States Mortgage Release Corporation (Mortgage Release), was sentenced in U.S. District Court, **Chicago, IL**, to 90 months incarceration and 3 years probation and ordered to pay a number of victims \$166,910 in restitution for his earlier conviction of committing mail fraud and impersonating an officer, agent, or employee acting under the authority of the United States. From May to October 2009, Hemphill filed fictitious deeds and transferred the ownership of properties belonging to other individuals, including a HUD real estate-owned property, and posed as a Federal receiver to prospective buyers.




Orlando Watson, the president of Woodstock Enterprises, was sentenced in U.S. District Court, **Memphis, TN**, to 51 months incarceration and 3 years probation for his earlier guilty plea to committing wire and mail fraud. From July 2004 to November 2006, Watson fraudulently obtained HUD real estate-owned properties, flipped the properties to straw buyers at inflated values, and provided or submitted fraudulent loan documents used by unqualified borrowers to obtain conventional mortgages.



Attorney John Farano was charged in a superseding indictment filed in U.S. District Court, **Chicago, IL**, with allegedly committing mail and wire fraud. From 2002 to 2004, Farano and other individuals allegedly purchased 19 HUD real estate-owned properties and fraudulently resold the HUD properties at inflated values to investors.



Kiya McNeal, a title agent for Lloyds and Handson Abstracts of Philadelphia (Lloyds and Handson), was sentenced in U.S. District Court, **Philadelphia, PA**, to 2 years incarceration and 3 years supervised



release and ordered to pay New Jersey Title Insurance Company \$159,397 in restitution for her earlier guilty plea to committing wire fraud. From May 2008 to January 2009, McNeal prepared false HUD-1 settlement statements and electronically diverted and personally use more than \$225,000 in Lloyds and Handson settlement funds, including settlement funds associated with an FHA-insured mortgage.



Chapter 2 - Public and Indian Housing Programs



The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to 4,100 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased 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. In addition to the audits and investigations described in this chapter, HUD's Office of Inspector General (OIG), has conducted a number of outreach efforts (see chapter 8, page 116).

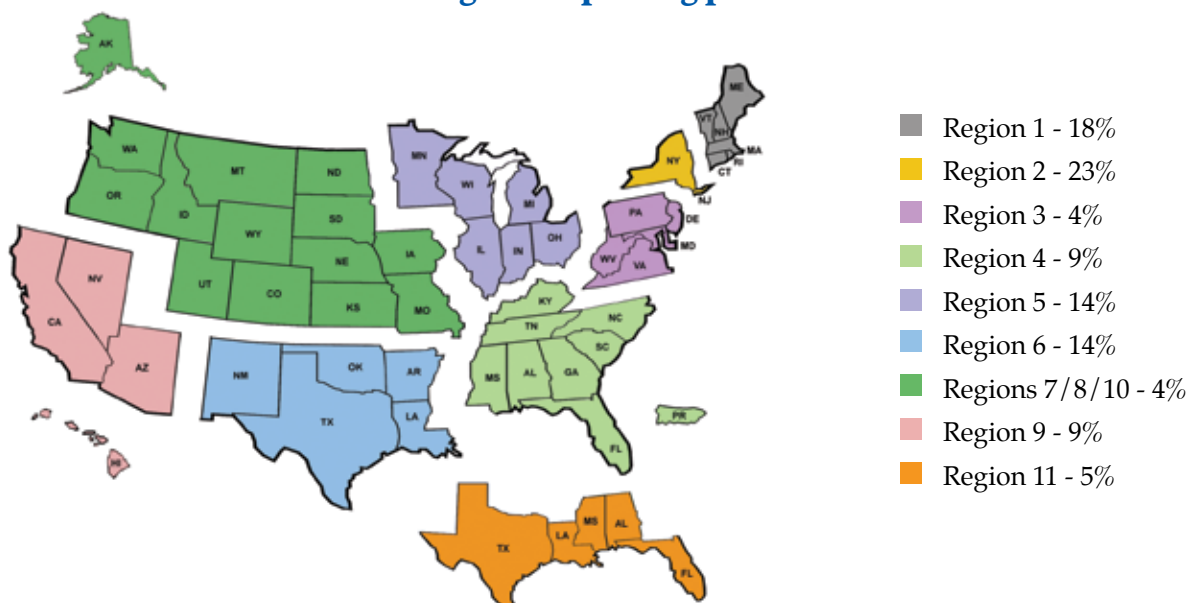
Audit

Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results		Questioned costs	Funds put to better use
Audit	22 audits*	\$28.2 million	\$2 million
Our focus	Page 29	• Section 8 Housing Choice Voucher	
	Page 31	• HUD's oversight of public housing agencies' Section 8 Project-Based Voucher programs	
	Page 32	• Review of Philadelphia housing authority's legal services	
	Page 33	• Public Housing Capital Fund programs	
	Page 34	• Public housing program activities	

* The total public and Indian housing audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (nine audits) type audits conducted in the public and Indian housing area. The writeups for these audits are shown separately in chapter 5 of this semiannual report.

Chart 2.1: Percentage of OIG public and Indian housing audit reports during this reporting period



During this reporting period, the Office of Inspector General (OIG) reviewed HUD's controls over the Section 8 Housing Choice Voucher and Project-Based Voucher programs, the Philadelphia Housing Authority's Legal Services, Public Housing Capital Fund (Capital Fund) programs, and public housing activities.

Section 8 Housing Choice Voucher

Audits of the Section 8 Housing Choice Voucher program continued to be a priority during this semiannual reporting period. PHAs were selected for audit based on risk analysis and/or hotline complaints. While OIG's objectives varied by auditee, the majority of reviews were to determine whether the units met housing quality standards, the PHA managed the program according to HUD requirements, and the eligibility of the tenants was correctly determined. The following section illustrates the audits conducted in the Section 8 Housing Choice Voucher program area.



HUD OIG audited the Section 8 Housing Choice Voucher program of the DuPage Housing Authority in **Wheaton, IL**, and found that the Authority (1) did not maintain adequate documentation to support the eligibility of its Section 8 Project-Based Voucher program projects, (2) executed housing assistance payments contracts with inappropriate contract rents, (3) did not properly select Section 8 Project-Based Voucher program households from waiting lists, (4) lacked controls over housing assistance and utility allowance payments, (5) did not appropriately manage its program funds, and (6) did not properly select Section 8 Housing Choice Voucher program households from its waiting list. As a result, HUD had no assurance that the Authority's resources were used to benefit low- and moderate-income individuals.


The Authority did not manage its program funds in accordance with HUD's requirements and its policies. It had unallowable and questionable transactions, did not correctly report its financial standing to HUD, did not maintain complete and accurate records, and miscalculated its net restricted assets. As a result, the Authority used more than \$2.3 million in program funds for transactions not related to its program and was unable to support the use of more than \$330,000 in program funds.

The Authority did not follow HUD's requirements and directives and its program administrative plan regarding the selection of program households. It did not properly select all program households from its waiting list. Instead, it admitted 146 households based on referrals. As a result, it inappropriately paid more than \$2.6 million in housing assistance to households that were inappropriately admitted to its program. In addition, it was unable to support that nearly \$70,000 in funds received from the City of Chicago was used toward housing assistance payments.

OIG recommended that HUD require the Authority to (1) reimburse its program from non-Federal funds for the improper use of nearly \$5.1 million in program funds, (2) provide documentation or reimburse its program from non-Federal funds for the unsupported use of more than \$400,000 in program funds, and (3) implement a detailed comprehensive plan to improve its programs.

OIG also recommended that HUD (1) take administrative action against the executive director and board of commissioners for failing to administer the Authority effectively and in accordance with HUD's and its own requirements and (2) review the Authority's household selections to ensure that they comply with HUD's requirements. If the Authority fails to comply with HUD's requirements, HUD should take appropriate action against the Authority and/or its applicable employee(s). (Audit Report: **2011-CH-1006**)





HUD OIG audited the **Hawthorne, CA**, Housing Authority's Section 8 program and found that the Authority and the City of Hawthorne failed to maintain an adequate financial management system to properly administer their Section 8 Housing Choice Voucher program according to HUD rules and regulations. Specifically, the Authority and City (1) did not properly document more than \$1.4 million in Section 8 investment and interfund activity, making the expended funds ineligible; (2) accumulated Section 8 deficits due partly to the City's failure to record portability receivables in its accounting system; and (3) failed to implement adequate internal controls to safeguard and minimize the risk of operating a Section 8 program.

OIG recommended that HUD require the City to repay the ineligible expenditures of Section 8 funds and implement adequate policies and procedures regarding its accounting for interfund activities and portability receivables. In addition, HUD should consider sanctions against the City for not complying with its annual contributions contract. (Audit Report: **2011-LA-1008**)



HUD OIG audited the Housing Choice Voucher program at the **Brockton, MA**, Housing Authority and found that the Authority generally administered the program efficiently and effectively and in compliance with its annual contributions contract and HUD regulations. However, it did not properly account for and report interprogram fund transactions between its Federal and State programs during fiscal years (FY) 2008 and 2009. During the audit, the Authority was able to reconcile its FY 2008 audited financial statement interprogram accounts of \$3.8 million between State and Federal programs. However, it did not properly account for and report the remaining FY 2009 interprogram fund transactions, resulting in unsupported transactions being recorded in its program accounts. In addition, the Authority could not provide support and justification for program contracts to show that the contracts were properly awarded/documented.


OIG recommended that HUD require the Authority to (1) provide support for more than \$885,000 in interprogram fund transactions between Federal and State programs and (2) provide support and justification for more than \$260,000 paid for contracts for inspection services and legal services or reimburse its operating funds from non-Federal funds for the applicable amounts. (Audit Report: **2011-BO-1002**)



HUD OIG audited the Housing Authority of the City of **Wilson, NC**'s Section 8 Housing Choice Voucher program and found that the Authority failed to comply with many of HUD's Section 8 program requirements. It mismanaged its program funds, improperly selected tenants for assistance, improperly terminated tenants, made improper housing assistance payments, and had other areas of noncompliance. Inspection of 23 units showed that none met minimum housing quality standards and 6 were in material noncompliance. The Authority also failed to ensure that quality control inspections were performed in accordance with HUD requirements. In addition, it mismanaged its Family Self-Sufficiency and home-ownership programs. It did not fully comply with HUD's administrative requirements for either program and did not maintain accurate accountability of participant funds for its Family Self-Sufficiency program.

OIG recommended that HUD require the Authority to follow its existing controls and develop and implement additional controls as needed to ensure that it complies with all Section 8 program requirements. The Authority must repay nearly \$110,000 in ineligible expenses from non-Federal funds and provide documentation showing that nearly \$15,000 in unsupported expenses was eligible or repay that amount from non-Federal funds. (Audit Report: **2011-AT-1003**)





HUD OIG audited the nonprofit development activities of the Housing Authority of the County of Cook in **Chicago, IL**, and found that the Authority's administration of its Section 8 Housing Choice Voucher program housing assistance payments to its nonprofit instrumentality, Turnstone Development's units was inadequate. The Authority failed to collect more than \$30,000 in housing assistance payments made to an incorrect program landlord. The Authority also miscalculated program housing assistance payments for its project-based vouchers allocated to 21 Turnstone units, resulting in the underpayment of more than \$10,000 in housing assistance to 21 households. Further, the Authority failed to recover housing assistance payments made for four program households after they were deceased, resulting in more than \$4,000 in overpayments to Turnstone units.

OIG recommended that HUD require the Authority to (1) reimburse its program more than \$30,000 from non-Federal funds for the housing assistance payments owed by an incorrect program landlord, (2) reimburse the 21 program households more than \$10,000 from program funds for the underpayment of housing assistance, and (3) reimburse its program more than \$4,000 from non-Federal funds for the housing assistance payments made for deceased households. (Audit Report: **2011-CH-1005**)



HUD OIG audited the **East Point, GA**, Housing Authority's Housing Choice Voucher program and found that the Authority generally computed accurate housing assistance payments. However, it made excessive payments of more than \$38,000 on behalf of a zero-income tenant who underreported her income and did not provide proof of financial assistance. Also, the Authority's physical inspection process did not accurately identify the deficiencies, its quality control inspections were not performed on a timely basis, and the results were not communicated to the inspector.

OIG recommended that HUD require the Authority to (1) reimburse the Housing Choice Voucher program for the ineligible housing assistance, (2) implement its policies and procedures to ensure that its program operates in compliance with HUD's requirements, (3) reinspect the units and ensure that all deficiencies identified have been corrected, (4) evaluate the inspector's workload and make the necessary adjustments to ensure that housing quality standards deficiencies are properly identified and corrected, (5) implement its policy and ensure that all quality control reviews are performed within the 3-month timeframe, and (6) establish and implement procedures to ensure that its quality control review deficiencies are communicated to the inspector. (Audit Report: **2011-AT-1002**)

HUD's Oversight of Public Housing Agencies' Section 8 Project-Based Voucher Programs

HUD OIG audited HUD's oversight of PHAs' Section 8 Project-Based Voucher programs to determine whether HUD had adequate oversight of PHAs' programs to ensure that program funds were used in accordance with HUD's requirements.

HUD lacked complete and accurate information with which to adequately monitor its program. It also did not adequately monitor the addition of new projects to its program or implement adequate procedures and controls to ensure that its program was operated according to its and the PHAs' requirements.

OIG recommended that HUD provide additional guidance to PHAs to ensure accurate reporting by agencies of their information in HUD's Public and Indian Housing Information Center, the Voucher Management System, and the agencies' plans. The reporting requirements should include requiring agencies to certify to the accuracy of their information reported to HUD. In addition, HUD should (1) issue specific guidance to its field offices so they can ensure that the program's reporting requirements are

adequately monitored and (2) implement adequate monitoring procedures and controls for the oversight of its program to ensure that PHAs select and adequately document only eligible projects and use program funds in accordance with program requirements. (Audit Report: 2011-CH-0001)

Review of Philadelphia Housing Authority's Legal Services

Another PHA audit is launched by HUD

This review will focus on ties between officials of the Phila. agency and contractors it hired.

By Jennifer Lin
INQUIRY STAFF WRITER

Auditors for the federal housing agency have launched another review of the Philadelphia Housing Authority, this time looking at possible conflicts of interest between PHA officials and contractors doing renovations of public housing.

The audit is the third review of PHA this year by the Inspector General's Office of

the U.S. Department of Housing and Urban Development.

The office recently issued a critical report on PHA's spending on outside legal fees and has finished, but not yet released, an audit of PHA's stand-alone houses, which are scattered across the city.

In that audit, the inspector general examined how PHA spent \$31.4 million to renovate 340 units, using econom-

ic-stimulus funding from the American Recovery and Reinvestment Act. The results are expected to be released soon, said Michael Zerega, a spokesman for the HUD inspector general.

The new audit expands on the earlier one and will focus on the relationship between PHA officials and contractors working on the houses.

The regional HUD inspector general, John P. Buck, said in a letter to PHA that the audit "may be expanded depending upon conditions observed during the audit."

He said the review would take about six weeks and would analyze PHA's operations and internal controls relating to the renovations.

Nichole Tillman, a PHA spokeswoman, said the authority would provide any requested documents "as quickly as possible" to the inspector general.

"We are every bit as committed as the OIG (Office of Inspector General) to find and resolve any outstanding issues," she said in a statement. "Independent of this audit, PHA has embarked on an agency-wide self-

assessment with a goal of taking corrective action wherever necessary."

PHA received more than \$126 million in stimulus funding, which it spent on nine projects. The authority finished the last of the scattered-site upgrades in December, soon after the termination of Executive Director Carl R. Greene. Greene was fired in September after PHA's board discovered that the agency had secretly settled three sexual-harassment complaints against him.

Multiple federal agencies, including the FBI, are investi-

gating aspects of the state-chartered agency. Separate from the inspector general's audits, HUD is conducting an ongoing forensic investigation.

PHA will receive \$371 million this year from HUD. The department has removed PHA's five commissioners and appointed HUD Chief Operating Officer Estelle Richman to act as its board for the next year.

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HUD OIG audited the **Philadelphia, PA**, Housing Authority to determine whether the Authority's payments to outside legal firms could be supported and complied with HUD regulations and other applicable requirements.

The Authority's payments to outside attorneys did not comply with HUD regulations and other applicable requirements. Specifically, the Authority did not adequately support \$4.5 million that it paid to outside attorneys during the period April 2007 to August 2010, nearly the entire amount reviewed. It made unreasonable and unnecessary payments of \$1.1 million to outside attorneys to obstruct the progress of HUD OIG audits. It also did not obtain required HUD written concurrence before accepting all settlement offers arising from its litigations and allowed an apparent conflict-of-interest situation to exist. Further, although a previous HUD OIG audit found similar problems with the Authority's payments to outside attorneys, the Authority failed to implement the recommendations made in the previous audit.

OIG recommended that HUD require the Authority to (1) provide adequate documentation to support \$4.5 million in unsupported costs or reimburse the applicable programs from non-Federal funds for any costs that it cannot support, (2) provide documentation to support the remaining \$26 million in payments to law firms not reviewed if the Authority cannot support the \$4.5 million or reimburse the applicable programs from non-Federal funds for any costs that it cannot support, (3) implement adequate procedures and controls to ensure that its payments for outside legal services comply with relevant laws and regulations, (4) develop and implement controls to ensure that invoices for legal services are adequately verified and payments are made in accordance with the terms of the related contracts, and (5) implement appropriate measures to prevent and resolve conflict-of-interest situations.

OIG recommended that the Authority (1) implement controls to ensure that HUD is notified of pending litigation and that HUD's written concurrence is obtained before accepting a settlement offer arising from litigation and that it implement controls to ensure that the use of attorneys is restricted on HUD OIG audits and other HUD oversight activities; (2) revise its contract provisions for future legal service contracts to reinstate sections that it removed, which required prior authorization for specific legal services, specifying work functions of various legal staff, and identifying activity descriptors needing additional explanation to be acceptable for payment; and (3) develop and implement a written policy and controls to ensure that contract requirements in its legal services contracts are enforced and have its OIG periodically audit a

sample of current and future legal contracts and payments to ensure that the responsible personnel enforce the requirements and only reimburse law firms for allowable expenses. (Audit Report: **2011-PH-1007**)

Public Housing Capital Fund Programs

HUD OIG audited the Jersey City Housing Authority in **Jersey City, NJ**, regarding the administration of its Capital Fund programs to determine whether the Authority (1) obligated and expended funds under the Capital Fund program and Capital Fund Financing Program (CFFP) in accordance with HUD regulations and (2) had a financial management system in place that complied with program requirements.

The Authority did not always comply with HUD regulations while obligating and expending capital funds, and its financial management system did not always comply with program requirements. Specifically, the Authority (1) inadequately used capital funds for a development that was subject to be converted to tenant-based assistance, (2) drew down capital funds without proper supporting documentation, (3) inappropriately obligated bond proceeds under the CFFP, (4) inadequately disbursed CFFP bond proceeds for preaward costs, and (5) lacked a plan for using force account labor. Further, there were control weaknesses in the Authority's financial management system. Specifically, accounting records and financial reports were not complete, accurate, and current, and the obligation of funds could not be effectively tracked and monitored.

OIG recommended that HUD instruct the Authority to (1) provide supporting documents for the more than \$3.3 million in capital funds spent on the Montgomery Gardens Development and for unsupported drawdowns and reimburse any costs determined to be ineligible; (2) conduct the required annual reviews to identify developments that should be converted to the tenant-based program; (3) deobligate more than \$338,000 obligated for contingencies under the CFFP; (4) reimburse more than \$53,000 in ineligible preaward costs to the CFFP bond proceeds from annual capital funds; (5) establish an adequate force account labor plan; and (6) develop procedures that will improve the accounting system and internal controls to ensure that accounting records and financial reports are accurate, current, complete, and adequately supported with source documents. OIG also recommended that HUD determine whether further administrative actions should be pursued regarding the Authority's failure to carry out the actions certified to in its 5-year plans in relation to the conversion of Montgomery Gardens. (Audit Report: **2011-NY-1001**)



HUD OIG audited the **Jersey City, NJ**, Housing Authority's administration of its Replacement Housing Factor (RHF) grants received under the Capital Fund program to determine whether the Authority obligated and expended its RHF grants in accordance with HUD regulations.

Authority officials did not always obligate or expend RHF funds in a timely manner. They failed to obligate at least 90 percent of the Authority's 2007 RHF grants within 24 months and disburse 100 percent of its 2004 RHF grants within 48 months of the date of availability of the funds. Consequently, nearly \$878,000 of the Authority's 2007 RHF funds was not obligated, and more than \$2.2 million of its 2004 RHF funds was not expended within the specified period according to HUD regulations. Therefore, not all needed capital improvements were accomplished within program time limits.

OIG recommended that HUD (1) recapture more than \$3.1 million in RHF capital funds or reduce future capital funds by this amount because of the delayed obligation and expenditure of these funds and (2) direct Authority officials to establish and implement procedures to ensure that the Authority obligates and expends its capital fund grants within 24 and 48 months, respectively, from the date that funds become available to the Authority. (Audit Report: **2011-NY-1008**)



HUD OIG audited the **Irvington, NJ**, Housing Authority's Capital Fund programs to determine whether Authority officials obligated and expended capital funds in accordance with HUD regulations and had a financial management system in place that complied with program requirements and whether the allegations in an anonymous complaint could be substantiated.

Authority officials did not always administer the Capital Fund programs in accordance with HUD regulations. Specifically, (1) controls over procurements were not adequate, and (2) Capital Fund and CFFP funds were expended without adequate support and for ineligible items. As a result, goods and services were not obtained in the most economical or efficient manner, funds were not properly safeguarded as expenses were unsupported or ineligible, and funds disbursed were not properly recorded. Consequently, more than \$2.4 million in expenses was unsupported, and more than \$209,000 was ineligible. In addition, the Authority's financial management system did not always comply with program regulations. As a result, the Authority did not adequately account for and safeguard program funds, and more than \$132,000 was inappropriately charged to the Section 8 program. The allegations in the complaint regarding inadequate management controls appeared to be valid.

OIG recommended that HUD require Authority officials to (1) provide supporting documentation so that HUD can determine the eligibility of the questioned costs, (2) repay the ineligible disbursements along with any additional amounts determined to be ineligible, and (3) establish adequate controls to ensure compliance with program requirements. (Audit Report: **2011-NY-1003**)



HUD OIG audited the **East St. Louis, IL**, Housing Authority's Capital Fund program to determine whether the Authority had proper support for its capital fund draws.


The Authority drew down grant funds for ineligible items and without adequate support. Specifically, it made unsupported draws, excessive administration draws, draws for force account labor without prior approval, draws above the invoiced amount, and duplicate draws. As a result, HUD had no assurance that nearly \$172,000 in capital funds was properly spent.

OIG recommended that HUD require the Authority to (1) provide adequate support for the nearly \$91,000 drawn for unsupported costs or repay the funds, (2) repay the more than \$81,000 in ineligible draws and calculate and repay additional ineligible draws outside the audit period, and (3) develop and implement procedures for assembling and maintaining adequate documentation before submitting vouchers. (Audit Report: **2011-KC-1002**)

Public Housing Program Activities

HUD OIG audited HUD's oversight of PHAs' energy conservation procedures through energy performance contracting (EPC) in the **States of New York and New Jersey** to determine whether HUD had adequate controls to ensure that (1) the costs of EPC had been properly repaid from the savings from energy conservation and/or add-on subsidy incentives, (2) utility cost savings on measurement and verification (M&V) reports had been reported in a timely manner, (3) utility cost savings were accurately calculated and energy service companies guaranteed that utility cost savings were achieved, and (4) its EPC inventory data were accurate and complete.

HUD did not always adequately monitor the PHAs with EPC or verify reported information regarding energy cost savings. Specifically, HUD did not have adequate controls in place to ensure that (1) the costs of EPC had been properly repaid from the savings from energy conservation and/or add-on subsidy incentives, (2) utility cost savings had been reported on M&V reports in a timely manner, (3) utility savings had been



accurately calculated and guaranteed utility cost savings were achieved, and (4) its EPC inventory data were accurate and complete. Therefore, HUD may not have assurance that utility cost savings as guaranteed by the energy service companies was achieved. HUD officials were aware of the control weaknesses and had taken corrective actions including making organizational changes to provide additional training and technical support to field office staff and participating PHAs.

OIG recommended that HUD (1) establish and implement controls to ensure that the costs of EPC have been properly repaid from the savings from energy conservation and/or add-on subsidy incentives, (2) establish and implement controls to ensure that M&V reports are submitted in a timely manner and that data are verified for accuracy, (3) establish and implement controls to verify that actual energy cost savings achieved are equal to or greater than the energy service companies' guaranteed energy savings and/or the add-on subsidy incentive amount, (4) provide mandatory training to the appropriate headquarters and field office staff and participating PHAs to ensure that they comply with the current and upcoming regulations related to EPC, and (5) establish and implement necessary control procedures to ensure that the EPC database is complete and accurate. (Audit Report: **2011-NY-0001**)



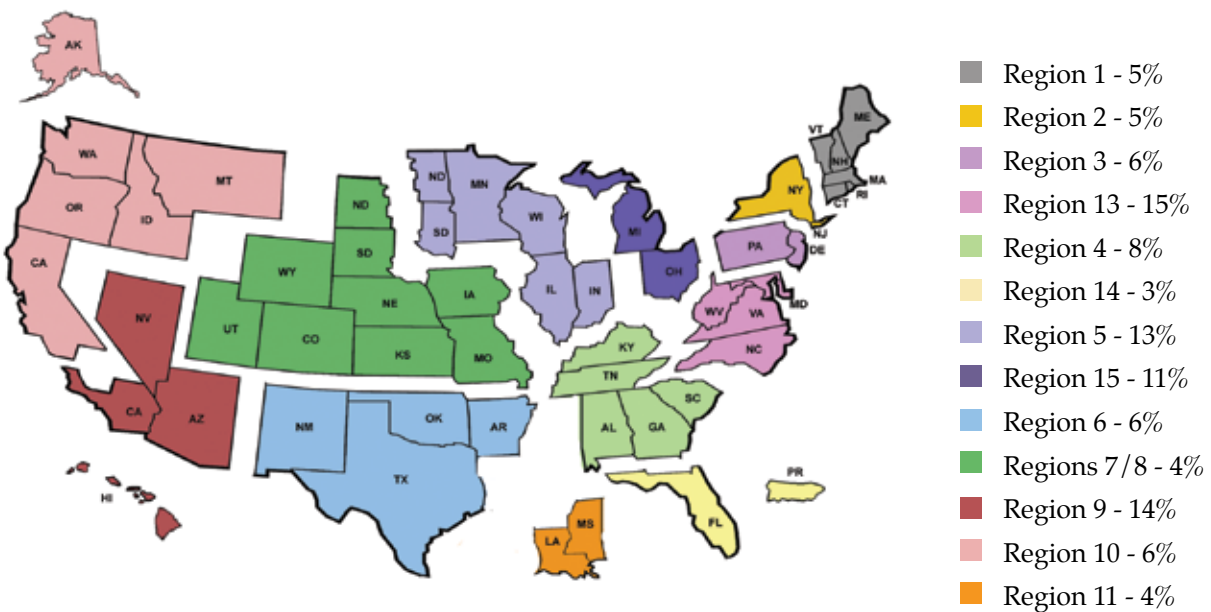
Investigations

Some investigations discussed in this report were generated from leads provided by HUD public and Indian housing program staff and conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	224	\$13,496,929	281	272
Our focus	<ul style="list-style-type: none"> Page 37 Page 39 Page 42 Page 43 Page 44 Page 45 	<ul style="list-style-type: none"> Public housing agency theft/embezzlement Rental assistance fraud FedRent Initiative Fugitive Felon Initiative Civil and administrative actions Other fraud/crimes 		

Chart 2.2: Percentage of OIG public and Indian housing closed investigation cases during this reporting period



Public Housing Agency Theft/Embezzlement

Terri Lucero, the former assistant executive director of the Alamosa Housing Authority (Alamosa), was sentenced in U.S. District Court, **Denver, CO**, to 1 year home confinement and 5 years probation and ordered to pay the Internal Revenue Service (IRS) \$45,279 in restitution for her earlier guilty plea to filing a false Federal income tax return. In addition, former Alamosa executive director Patricia Martinez, who was previously sentenced for her earlier guilty plea to committing theft of Federal program funds and money laundering, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government indefinitely. From April 1998 to October 2007, Lucero, Martinez, and other individuals embezzled more than \$1.3 million in Alamosa funds when they generated or negotiated unauthorized housing authority checks.

Alamosan receives probation sentence

Terri Lynn Lucero eludes prison time in embezzling case.

By **ROBERT BOCZKIEWICZ**
THE PUEBLO CHIEFTAIN

DENVER — A former Alamosa Housing Authority employee was sentenced Monday to five years of probation for filing false income tax returns that concealed money she embezzled from the authority.

Terri Lynn Lucero got a break from U.S. District Judge Marsha Krieger. Guidelines recommended a sentence of between one year and 1½ years in prison.

Lucero was the last of five people sentenced for roles related to embezzling from the housing agency at various times from 1998 to 2007, when authorities caught up with the conspiracy.

Lucero, 50, was the authority's coordinator of subsidized housing. She pleaded guilty in April, admitting she embezzled almost \$169,000 from 2001 to 2004 by preparing 96 checks from the housing authority, payable to her former husband, Steve Lucero.

Terri Lucero said she obtained cash when she deposited most of the checks into their account.

Steve Lucero estimated that \$36,000 of the nearly \$169,000 was legitimately paid for painting and cleaning housing units that he and his wife performed.

Terri Lucero admitted that most of the \$169,000 was embezzled by falsely claiming that the money was due to him for services he provided. Her position was that she aided and abetted the embezzlement.

All of the \$169,000, including the amounts embezzled, should have

been reported on their joint income tax returns, but wasn't.

The judge asked the prosecutor, Assistant U.S. Attorney Thomas O'Rourke, why Steve Lucero wasn't charged with embezzling, as the other defendants had been charged.

"It was impossible to determine which of the 96 checks were embezzled and which were not," O'Rourke said.

O'Rourke said another factor in determining what charge to file is that while Terri Lucero admitted she knew the money should have been reported on the tax returns, there would have been questions about the credibility of prosecution witnesses if she had been put on trial for embezzling.

In court Monday, Terri Lucero paid \$20,000 — purportedly from a retirement account — toward restitution of \$45,270 that

is due to the Internal Revenue Service.

Krieger cited that as good faith by Terri Lucero and said it was a reason the judge did not accept O'Rourke's request to put her in prison for a year. Another reason the judge cited is that Terri Lucero's motivation seemed to be to protect her family by "taking care of everybody else (but herself)."

Krieger ordered that Terri Lucero's whereabouts be monitored electronically for a year, during which time she is not to leave home except for purposes approved by a probation officer.

She also is required to file corrected tax returns and undergo mental health treatment.

After Alamosa police began the probe, IRS criminal investigator Patrick Hegarty and agents of the FBI and the Department of Housing and Urban Development picked up the case.

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Elias Castellanos, a former contract chief financial officer for the Housing Authority of New Orleans (New Orleans), was sentenced in U.S. District Court, **New Orleans, LA**, to 46 months incarceration and 36 months probation, ordered to pay New Orleans \$225,889 in restitution, and fined \$75,000 for his earlier guilty plea to committing embezzlement. From September 2006 to June 2009, Castellanos submitted false billings for accounting services and fraudulently obtained \$900,927 in New Orleans funds.



Joba Cotorreal and Damaris and Arielis Peralta, former New York City Housing Preservation and Development (Housing Preservation) employees, and five Housing Preservation housing recipients were collectively sentenced in Bronx Supreme Court, **Bronx, NY**, to 60 months incarceration and 194 months supervised release for their earlier guilty pleas to committing bribery or giving or receiving unlawful gratuities. From June 2003 to August 2006, Cotorreal, Damaris and Arielis Peralta, and other individuals fraudulently sold housing vouchers to unqualified housing applicants who obtained more than \$635,185 in housing assistance they were not entitled to receive.



Anthony Bandoh, a former accountant for the Syracuse Housing Authority (Syracuse), was sentenced in Onondaga County Court, **Syracuse, NY**, to 5 years probation and ordered to pay Syracuse \$176,000 in restitution for his earlier guilty plea to committing larceny. From 1986 to 2003, Bandoh stole about \$176,000 in Syracuse funds.



William Deatruck, the former director of facilities for the Brevard Family of Housing (Brevard), was sentenced in U.S. District Court, **Orlando, FL**, to 60 months incarceration and 3 years supervised release and ordered to pay HUD \$102,390 in restitution for his earlier guilty plea to committing a conspiracy to commit theft from a program receiving Federal funds. From August 2005 through October 2006, Deatruck solicited and accepted more than \$100,000 in bribes from previously sentenced Brevard contractor Derrick O'Neal in exchange for Brevard contracts.



Carlos Madrid, the former chairman of the board for the Bexar County Housing Authority (Bexar County), was sentenced in U.S. District Court, **San Antonio, TX**, to 18 months probation for his earlier guilty plea to committing mail fraud and deprivation of honest services. From July 2002 to September 2003, Madrid failed to disclose his involvement with or his receipt of more than \$100,000 from Southwest Housing Development, a construction company under contract with Bexar County.



Tonya Webber-Smith and Valerie Lewis, former Tallahassee Housing Authority employees, were each arrested and charged in the 11th Judicial Circuit Court, **Tallahassee, FL**, with allegedly committing grand theft, welfare management fraud, official misconduct, a scheme to defraud, or misuse of a public office. Between April 2008 to December 2009, Webber-Smith and Lewis allegedly provided housing vouchers to relatives and other unqualified housing applicants who obtained about \$68,112 in housing assistance they were not entitled to receive.



HANO
official
gets 46
months

*He stole nearly
\$1 million*

By Katy Hochstetler
Staff writer

Elias Castellanos, a Florida contractor who stole nearly \$1 million from the Housing Authority of New Orleans while serving as its chief financial officer, was sentenced Thursday to 46 months in federal prison.

During a short sentencing hearing before U.S. District Judge Mary Ann Vial Lemmon, a soft-spoken Castellanos said that he "deeply apologized" to the court, the citizens of New Orleans and his family.

Federal sentencing guidelines called for 37 to 46 months of prison time, although judges aren't bound to follow them. Last week,

prosecutors filed a motion asking Lemmon to depart from the guidelines and give Castellanos a harsher sentence.

Instead, Lemmon gave Castellanos the longest possible sentence within the guidelines. She also imposed a \$75,000 fine, the highest possible levied within the guidelines.



Elias Castellanos
Served as HANO's chief financial officer for three years

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Rosilyn Brown, the former executive director of the Narragansett Indian Wetuomuck Housing Authority (Wetuomuck), was charged in U.S. District Court, **Providence, RI**, with allegedly committing theft from a program receiving Federal funds. From October 2008 to June 2009, Brown allegedly embezzled more than \$100,000 in Wetuomuck funds for her personal use.

Ex-tribal official facing embezzlement charge

Rosilyn M. Brown has been indicted for allegedly stealing money meant for tribe's housing authority

By **KATIE MULVANEY**
JOURNAL STAFF WRITER

PROVIDENCE — A federal grand jury has indicted the former director of the Narragansett Indian tribe's housing program on a charge that she embezzled U.S. Department of Housing and Urban Development funds.

Rosilyn M. Brown is accused of stealing at least \$5,000 in HUD money that was intended for the tribe's housing authority between October 2008 and June 2009. Brown is the sister of Tribal Councilman Hiawatha Brown and Medicine Man-in-Training and former Councilman John Brown.

Narragansett Chief Sachem Matthew Thomas said he brought financial irregularities to the attention of the Tribal Council about a year and half ago and then alerted HUD authorities in Chicago to the suspected misuse of community block grant funds meant for home repairs and salaries.

"I saw things that didn't seem right to me," Thomas said.

He estimated about \$100,000 was in question and said that he did not know how it had been used.

Thomas said that he did not think the irregularities would compromise future HUD funding for the tribe, but added that the tribe would be willing to pay back money, if needed. Brown, he

said, was removed from her position as the director of the housing authority as soon as questions arose.

According to HUD spokeswoman Donna White, HUD has allotted \$3.8 million in housing money to the tribe since 2008. That sum includes \$2 million issued through the American Recovery and Reinvestment Act of 2009 for its long-stalled elderly-housing project, she said.

In order to access the \$2 million, however, the tribe must reach a memorandum of understanding with Charlestown about the project, White said.

The tribe and town have not been able to reach an agreement. Half the \$2 million must be used by September, or the money will have to be returned to the government, White said.

The Narragansett elderly housing project sits on 31 acres that were the subject of a U.S. Supreme Court case.

The high court found that the U.S. Department of Interior could not place the land in trust for the tribe because the Narragansetts were not under federal jurisdiction when Congress passed the Indian Reorganization Act in 1934. The Narragansetts gained federal recognition in 1983. There is an effort in Congress to enact legislation reversing that ruling.

Thomas said the sticking point in the agreement is that the town wants the tribe to agree to abide by state and local laws on the land, even if it were placed into federal trust. Federal trust would mean Indian and federal laws would rule on the property.

"We're not going to sign our rights away," Thomas said.

If the tribe doesn't make restitution for any misused funds, future funding could be reduced, White said, adding "We're not there, yet."

"I saw things that didn't seem right to me."

Matthew Thomas
Narragansett chief sachem

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LaToya Logan, a former DeKalb County Housing Authority (DeKalb) employee, was arrested and charged in Rockdale County Court, **Conyers, GA**, with allegedly committing forgery. From April 2009 to May 2010, Logan allegedly created and negotiated \$60,161 in DeKalb checks without authorization.



Preston Carmon, a St. Bernard Parish Housing and Redevelopment employee, and Gregory Kennedy, a Housing Authority of New Orleans employee, were each charged in Louisiana State Court, **St. Bernard, LA**, with allegedly committing theft. From January 2010 to February 2011, Carmon and Kennedy allegedly created a fictitious landlord and tenants and fraudulently obtained about \$45,000 in housing assistance payments.

Rental Assistance Fraud

Suzette Charles and Victorin Murat, Palm Beach County Housing Authority (Palm Beach County) Section 8 landlords, each entered into pretrial diversions filed in the 15th Judicial Circuit Court, **West Palm Beach, FL**, and agreed to collectively perform 100 hours of community service. In addition, 16 former Palm Beach County, West Palm Beach, or Pahokee Housing Authority (Pahokee) housing recipients were collectively sentenced to 396 days incarceration and 52 years supervised release and ordered to pay Palm Beach County or Pahokee \$669,206 and other agencies \$47,854 in restitution for their earlier convictions of or guilty pleas to committing grand theft or public assistance fraud. Between 2007

St. Bernard official booked on theft

Scam allegedly netted \$47,000 from feds



Preston Carmon
Worked as Section 8 housing specialist



Gregory Kennedy
Allegedly received fraudulent checks

St. Bernard bureau

A St. Bernard Parish government employee and a friend have been booked with 38 counts of felony theft involving \$47,000 of stolen federal money in false rental-assistance claims, the St. Bernard Parish Sheriff's Office said Thursday.

Preston Carmon, 37, of New Orleans, who has worked more than a year for parish government as a housing specialist dealing with the Section 8 program, and his friend Gregory Kennedy, 34, of New Orleans, were both booked with the felony theft, the sheriff's office said.

Carmon, arrested Wednesday, has been terminated from his parish job. He was released from St. Bernard Parish Prison on a \$50,000 bond Thursday afternoon. Kennedy, arrested Thursday, is still in jail until a judge can set his bond.

The Section 8 program, operated by the U.S. Department of Housing and Urban Development, authorizes the payment of rental housing assistance to private landlords on behalf of low-income renters.

According to Chief Deputy Sheriff James Pihlmann, Carmon falsely listed Kennedy as the landlord for numerous individuals at fictitious addresses in order to have government checks made out to Kennedy. The two men split the money received from HUD, Pihlmann said.

The scheme was carried out over a period from January 2010 to the end of February 2011, according to the sheriff's office.

Parish President Craig Taffaro's office issued a short statement saying that the St. Bernard Parish Housing and Redevelopment Office discovered what appeared to be suspect activity, and that "all information relative to this concern was turned over to the proper legal authorities and the Department of Housing and Urban Development."

The U.S. Office of Inspector General took part in the investigation.

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and 2009, Charles and Murat admittedly provided false information and obtained reduced property tax rates on their subsidized properties, and between December 2002 and August 2010, the remaining defendants failed to report income, accurate household compositions, or their prior criminal histories and collectively obtained \$669,206 in housing assistance they were not entitled to receive.



Eleven New York City Housing Authority (New York City) housing recipients and an unauthorized tenant were each arrested and charged in U.S. District or Brooklyn Criminal Courts, **Manhattan or Brooklyn, NY**, with allegedly making false statements; committing theft of government funds, a conspiracy to commit theft of government funds, or grand and petit larceny; falsifying business records; or possession of marijuana. In addition, New York City housing recipients Lashanda Navarro, Chris Santos, and Reina Brown and Section 8 landlord Jerry Melendez were collectively sentenced to 6 months home detention and 216 months supervised release and ordered to pay New York City \$222,914 in restitution for their earlier guilty pleas to conducting false transactions with HUD or committing theft of government funds. Between 1999 and February 2011, the above defendants allegedly and Navarro, Santos, Brown, and Melendez admittedly failed to report assets, income, unauthorized residents, familial relationships, dual housing subsidies, or their nonresidency in their subsidized units and collectively obtained about \$606,849 in housing assistance they were not entitled to receive.



Welthea Singleton, a former Metropolitan Boston Housing Partnership Section 8 tenant and landlord, was indicted in U.S. District Court, **Boston, MA**, for allegedly committing theft of public funds. From January 2001 to September 2010, Singleton allegedly used the identity of another individual and fraudulently obtained more than \$140,000 in housing assistance at the same time she claimed to be the Section 8 landlord.



Pennie Puckett and Laurie Price, current or former Yamhill County Housing Authority (Yamhill) Section 8 tenants, and home care providers Jessica Molash, Ellen Hanson, and Deanna Michael were each charged or indicted in U.S. District or Yamhill County Circuit Courts, **Portland or McMinnville, OR**, for allegedly making false statements or false claims for health care, committing theft, or unlawfully obtaining public assistance and food stamps. In addition, former Yamhill Section 8 tenants Crystal Lindsay and David Foster were collectively sentenced to 15 days incarceration and 5 years probation and ordered to pay Yamhill \$50,651 and others \$15,483 in restitution for their earlier guilty pleas to committing theft, attempting to fraudulently obtain other benefits, and aiding and abetting. Between February 2003 and February 2011, the above defendants allegedly and Lindsay and Foster admittedly failed to report income, assets, accurate household compositions, or their previous criminal histories or provided false medical information on housing and other certifications and collectively obtained about \$135,651 in housing and \$75,483 in other assistance they were not entitled to receive.



Tina Orji, a former Chicago Housing Authority (Chicago) Section 8 tenant, was indicted in Cook County Circuit Court, **Chicago, IL**, for allegedly committing theft by deception and forgery. In addition, former Chicago Section 8 tenant Katherine Jefferson pled guilty to committing theft, and former Chicago Section 8 tenants Calvin Early and Veronica Eason were collectively sentenced to 54 months probation and ordered to pay HUD \$118,060 in restitution for their earlier guilty pleas to committing theft by deception. Between July 2002 and June 2009, Orji allegedly and the remaining defendants admittedly failed to report income,

assets, or dual housing subsidies on housing and other certifications and collectively obtained \$135,345 in housing assistance and \$13,500 in Social Security Administration benefits they were not entitled to receive.



Lesandra Witherspoon, a former Michigan State Housing Development Authority (Michigan State) Section 8 tenant, was charged in Kent County District Court, **Grand Rapids, MI**, with allegedly obtaining housing assistance by false pretenses and committing welfare fraud. In addition, former Michigan State Section 8 tenants Ebony Betts and Shakira Miles each pled guilty to committing welfare fraud or obtaining housing assistance under false pretenses; former Michigan State housing recipients Rickelle Brown and Aguel Gaines were collectively sentenced to 360 days incarceration and 10 years probation and ordered to pay Michigan State \$28,755 and others \$19,382 in restitution for their earlier guilty pleas to committing housing assistance and welfare fraud; and former Michigan State Section 8 landlord and tenant Ellis and Donna Richardson each pled nolo contendere to committing false pretenses. Between 2004 and 2010, Witherspoon and Ellis and Donna Richardson allegedly and the remaining defendants admittedly failed to report income, assets, an accurate household composition or marital status, or their joint ownership interest in and the subsequent sale of their subsidized housing unit on housing certifications. Collectively, the above defendants obtained about \$125,294 in housing and about \$69,382 in other assistance they were not entitled to receive.



Jomarna Fuentes, a former Boston Housing Authority (Boston) Section 8 tenant, was charged in Boston Municipal Court, **Boston, MA**, with allegedly committing larceny over \$250 by a single scheme and making a false claim to a government agency. In addition, former Boston Section 8 tenant Harvey Johnson was sentenced to 2 years supervised probation and ordered to pay Boston \$34,826 in restitution for his earlier guilty plea to submitting a false claim to a government agency and committing larceny over \$250. Between 2001 and 2009, Fuentes allegedly and Johnson admittedly failed to report income on housing certifications and together obtained about \$107,085 in housing assistance they were not entitled to receive.



Sonny Vo and Denise Nguyen, a former Norwood Housing Authority (Norwood) Section 8 landlord and tenant, were collectively sentenced in U.S. District Court, **Boston, MA**, to 1 year intermittent community confinement, 12 months home confinement, and 6 years probation; ordered to pay HUD \$104,496 in restitution; and fined \$3,000 for their earlier guilty pleas to committing mail fraud. From August 2001 to September 2008, Vo and Nguyen failed to report their joint residency on housing certifications and together obtained \$104,496 in housing assistance they were not entitled to receive.



Five former Georgia Department of Community Affairs (Georgia Community Affairs) Section 8 tenants were each indicted in various **Georgia** Superior Courts for allegedly making false statements or committing theft by deception, public assistance fraud, or recidivism. In addition, former Georgia Community Affairs Section 8 tenant Andrea Travis was sentenced to 10 years probation and ordered to pay Georgia Community Affairs a not yet determined amount of restitution for her earlier guilty plea to committing theft by deception, and former Georgia Community Affairs Section 8 tenant Leslie Hinton was sentenced to 5 years probation and ordered to pay Community Affairs \$10,766 in restitution before her adjudication of guilt. Between August 2005 and December 2009, the above defendants allegedly and Travis admittedly failed to report income or an accurate marital status on housing certifications and collectively obtained about \$84,860 in housing assistance they were not entitled to receive.



Nine current or former Memphis or Shelby County Housing Authority Section 8 tenants were each arrested and charged in Shelby County Criminal Court, **Memphis, TN**, with allegedly committing forgery and theft. Between December 2003 and October 2010, the above defendants allegedly provided false information or failed to report income on housing certifications and collectively obtained about \$92,251 in housing assistance they were not entitled to receive.

Nine indicted on charges of defrauding HUD

Federal housing probe nets another 11 facing warrants

By JODY CALLAHAN
callahan@commercialappeal.com

Local authorities targeted several individuals Tuesday in an effort to cut down on scoundrels fraudulently obtaining federal money to subsidize housing.

In what officials were calling "Operation Clean Sweep," nine people were indicted for lying about their income or forging documents to obtain funding from Housing and Urban Development.

Also during the operation, 11 people using such funding were arrested on outstanding warrants ranging from traffic violations to aggravated robbery.

More are being sought in that aspect of the operation, Shelby County Sheriff Bill Oldham said in a news conference Tuesday.

"(This will) send a message to these people. We're going to find you and try to prosecute you to the fullest extent of the law," said Herschell Harvell, with the Housing and Urban Development's Inspector General's Office.

The nine who were indicted are

facing felony charges for the fraud, which totaled \$96,161, Shelby County Dist. Atty. Gen. Bill Gibbons said.

Five of those were taken into custody Tuesday: Armaad Raiford, Sheila Gray, Marene Pickett, Kluzeskesi Bernice Tucker and Tracie Jefferson. The other four are still being sought.

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Hadiyah Mcleod-Lambu, Jung Kim, and Aishah Bashir, Oakland Housing Authority (Oakland) Section 8 landlords and a tenant, were each charged in Alameda County Superior Court, **Oakland, CA**, with allegedly defrauding a housing authority, and Kim was arrested after she was charged. Between 2004 and November 2010, the above defendants allegedly failed to report their familial relationship or the nonresidency of their Section 8 tenants on housing certifications and collectively obtained more than \$82,000 in housing assistance they were not entitled to receive.


Fed Rent Initiative

HUD's most recent study estimates the combined gross improper rental housing assistance payments to have been more than \$1 billion in FY 2008. In an effort to combat administrative overpayments and tenant fraud, HUD and HUD OIG commenced "Operation FedRent," a joint effort to address rental assistance fraud involving Federal employees. Operation FedRent compares HUD tenant data to current and retired Federal employee information maintained by the U.S. Office of Personnel Management. After the data comparison, an income eligibility determination is made, and the Social Security numbers for family members 6 years of age and older are verified. If a discrepancy exists, an investigation is opened, and appropriate administrative or legal actions are initiated to collect any overpaid housing assistance. Results of Operation FedRent during this semiannual reporting period are described below.



Arvay Smith, a former Chicago Housing Authority public housing tenant and U.S. Postal Service (USPS) employee, was sentenced in U. S. District Court, **Chicago, IL**, to 5 years probation and ordered to pay HUD \$41,895 in restitution for her earlier guilty plea to committing theft of government funds. From 2000 to 2006, Smith failed to report income or assets on housing certifications and obtained \$41,895 in housing assistance she was not entitled to receive.





Birdie Toomes, a former Housing Authority for the City of Los Angeles (Los Angeles) Section 8 tenant and current U.S. Department of Veteran Affairs employee, was sentenced in U.S. District Court, **Los Angeles, CA**, to 1 year probation and ordered to pay Los Angeles \$41,022 in restitution for her earlier guilty plea to committing theft of government funds. From 2004 to 2008, Toomes failed to report income on housing certifications and obtained \$41,022 in housing assistance she was not entitled to receive.



Candace Morrow, a former Pilgrim Village Housing Authority Housing Choice Voucher program participant and IRS employee, was sentenced in U.S. District Court, **Buffalo, NY**, to 3 months incarceration and 2 years supervised release and ordered to pay HUD \$32,358 in restitution for her earlier guilty plea to committing theft of government funds. From 2005 to 2010, Morrow failed report income on housing certifications and obtained \$32,358 in housing assistance she was not entitled to receive.



Sheryl Prince, a former Housing Authority of the City of Los Angeles Section 8 tenant and current U.S. Department of Commerce employee, pled guilty in U.S. District Court, **Los Angeles, CA**, to making false statements. From 2004 to 2007, Prince failed to report income on housing certifications and obtained about \$27,622 in housing assistance she was not entitled to receive.



Lynette Harper-Green, a former Dupage Housing Authority (Dupage) Section 8 tenant and current USPS employee, was sentenced in U.S. District Court, **Chicago, IL**, to 3 years probation and ordered to pay Dupage \$12,863 in restitution for her earlier guilty plea to committing mail fraud. From December 2003 to November 2005, Harper-Green failed to report income on housing certifications and obtained \$12,863 in housing assistance she was not entitled to receive.



Adriane Smith, a former Prince Georges County Housing Authority (Prince Georges County) Section 8 tenant and current U.S. Department of Agriculture employee, was sentenced in Prince Georges County Circuit Court, **Upper Marlboro, MD**, to 2 years probation and ordered to pay Price Georges County \$5,327 in restitution for her earlier guilty plea to making a false statement. From September 2006 to March 2009, Smith failed to report income on housing certifications and obtained \$5,327 in housing assistance she was not entitled to receive.

Fugitive Felon Initiative

OIG supports a Fugitive Felon Initiative (FFI) by matching HUD housing assistance information with crime data from the National Crime Information Center, U.S. Marshals Service (Marshals), and other participating law enforcement data banks. In addition, OIG special agents actively participate in the Marshals' "Operation FALCON," a joint Federal, State, city, and county law enforcement effort to locate and apprehend fugitive felons wanted for violent crimes. Conducted in most major cities throughout the United States and its territories, Operation FALCON places a strong emphasis on apprehending fugitive felons involved in gangs, homicides, sexual assaults, or crimes against the elderly and children. Since the inception of OIG's FFI, hundreds of cases have been opened and closed, resulting in more than 8,801 arrests. OIG strongly supports Operation FALCON in an effort to make HUD public and assisted housing a safe place for families to live. Below are examples of FFI efforts.



Twenty-three Memphis and Chattanooga Housing Authority Section 8 tenants were each arrested on outstanding State or county warrants in **Memphis** and **Chattanooga, TN**, for allegedly committing theft, probation violations, possession of dangerous drugs or a prohibited weapon, or simple or domestic assaults or for failing to appear.



Seven Mississippi Regional Housing Authority VIII Housing Choice Voucher program participants were each arrested in **Gulfport, MS**, on outstanding State warrants for allegedly issuing bad checks, transferring a controlled substance, or committing embezzlement or probation violations.



Six Springfield, Westfield, and North Adams Housing Authorities or Massachusetts Department of Housing and Community Development authorized and unauthorized housing recipients were each arrested in **Springfield, MA**, on outstanding warrants issued by Massachusetts, Connecticut, and New York State Courts for allegedly failing to appear, committing an assault with a dangerous weapon or larceny, threatening to commit a crime, receiving stolen property, or making harassing communications.



Six Mississippi Regional Housing Authority Housing Choice Voucher program participants were each charged in Mississippi State Court, **Jackson, MS**, with allegedly possessing cocaine or committing statutory rape, aggravated assault, forgery, embezzlement, or fraud.



Gloria Jackson and Graylyn Russell, former Harris County Housing Authority housing recipients, were each arrested in **New Orleans, LA**, on outstanding Texas State warrants for allegedly committing felony theft.



Marnetta Allen, an East Baton Rouge Housing Authority Housing Choice Voucher program participant, was arrested in **Baton Rouge, LA**, on an outstanding warrant issued by Weld County Court, Weld County, CO, for allegedly committing theft between \$1,000 and \$20,000.



Kesha Thomas, a Tampa Housing Authority Housing Choice Voucher program participant, was arrested in **Tampa, FL**, for allegedly violating her probation.

Civil and Administrative Actions

Ronnie Faison, the former deputy director of the Englewood Housing Authority (Englewood), who was previously sentenced in U.S. District Court, **Newark, NJ**, for his earlier guilty plea to committing theft of government funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 36 months. From September 2006 to August 2007, Faison and previously sentenced Englewood bookkeeper Sergio Gonzalez fraudulently used about \$100,000 in Englewood funds for their personal gain.



Hector Claveria, a former commissioner of the Hoboken Housing Authority (Hoboken), who previously pled guilty in U.S. District Court, **Newark, NJ**, to committing official misconduct and bribery and accepting or receiving an unlawful benefit by a public servant for official behavior, was suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. From March to August 2009, Claveria accepted cash payments from a housing applicant in exchange for his efforts to circumvent the Hoboken housing waiting list. HUD losses have not yet been determined.

Other Fraud/Crimes

Rodney Burrell and Brian Dodds, doing business as R&R Heavy Haulers and D&R Earth Moving, each pled guilty in U.S. District Court, **Detroit, MI**, to committing a misprision of a felony. In February 2009, during testimony before a Federal grand jury, Burrell and Dodds provided incomplete and misleading information relating to HOPE VI contracts used in the rehabilitation of Gardenvue Estates, a Detroit Housing Commission property.



Nicholas DeRosa, a New Castle, PA, councilman, and Castle Realty Appraisal Services, Inc. (Castle Realty), were collectively sentenced in U.S. District Court, **Pittsburgh, PA**, to 41 months incarceration and 60 months probation and ordered to pay Lawrence County Housing Authority (Lawrence County) \$88,000 and First Commonwealth Bank \$224,159 in restitution for their earlier guilty pleas to committing bank and mail fraud and a conspiracy to commit money laundering. Between October and December 2005, DeRosa directed a Lawrence County employee and board members to facilitate the purchase of seven dilapidated properties that either DeRosa owned or were owned by his associates, and Castle Realty inflated the values of these properties that were later purchased by a nonprofit organization created and funded by Lawrence County.



Dwayne Benjamin and Yves Mathieu, fabricated Nassau County (Nassau) and Hempstead Housing Authority (Hempstead) Section 8 landlords, and 16 additional individuals were each arrested after their indictments in Nassau County Court, **Mineola, NY**, for allegedly filing false instruments; falsifying business records; and committing money laundering, grand larceny, and a corrupt business enterprise. From October 2004 to May 2009, the above individuals allegedly participated in a conventional mortgage fraud scheme and illegally obtained properties that Benjamin and Mathieu fraudulently placed into the Nassau and Hempstead Section 8 programs. HUD losses have not yet been determined.



Graeme Stinson, Darrick Jones, Yves Vaval, and Stephan Williams, Chicago Housing Authority Section 8 landlords, were each charged in U.S. District Court, **Chicago, IL**, with allegedly committing wire fraud. From January 2005 to September 2006, the above defendants allegedly provided false information and assisted unqualified borrowers who fraudulently obtained conventional mortgages for properties placed into the Chicago Housing Authority Section 8 program.



John O' Shea, the president and owner of Start Elevators, Inc., a New York City Housing Authority contractor, was arrested after his indictment in U.S. District Court, **Manhattan, NY**, for allegedly making



false statements and committing mail fraud. From December 2000 to November 2010, O'Shea allegedly submitted fraudulent certified payrolls to the New York City Housing Authority and violated the Davis-Bacon Wage Act.



Chapter 3 - Multifamily Housing Programs



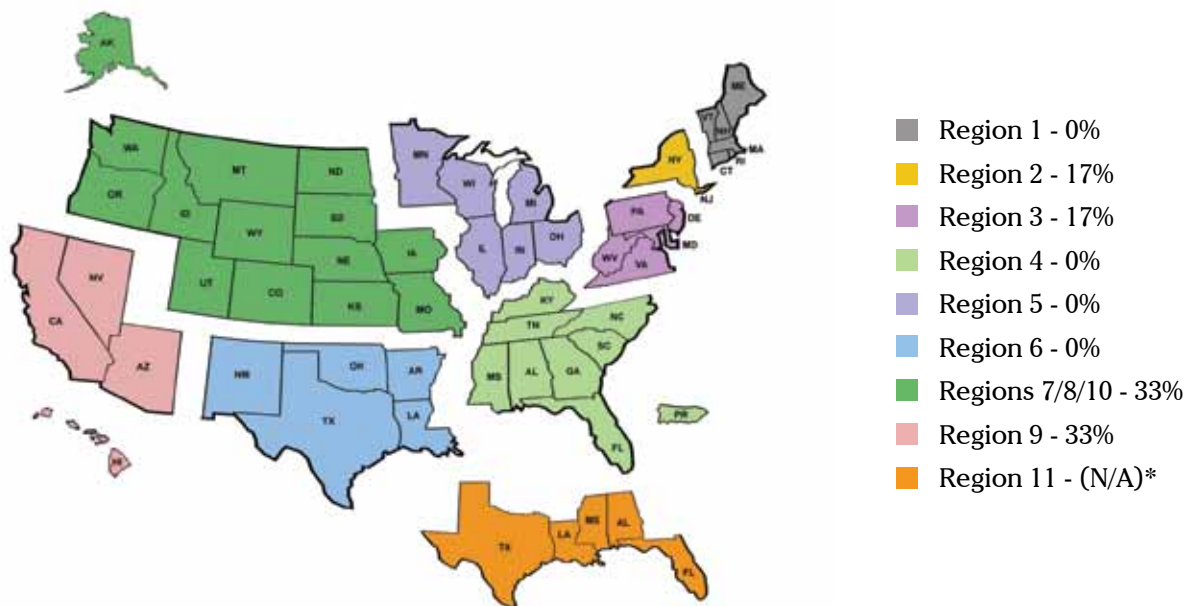
In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation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

Audit

Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results		Questioned costs	Funds put to better use
Audit	6 audits	\$30 million	---
Our focus	Page 49	• HUD's multifamily accelerated processing program	
	Page 49	• FHA-insured multifamily Section 231 project	
	Page 49	• Owner and management agent operations	
	Page 50	• Section 8 performance-based contract administration	

Chart 3.1: Percentage of OIG multifamily housing audit reports during this reporting period



* This does not include disaster relief audits. See chapter 6 for these reviews.

HUD's Multifamily Accelerated Processing Program

HUD OIG audited the underwriting of a \$45.6 million mortgage loan that was acquired by Deutsche Bank Berkshire Mortgage, Inc., **Bethesda, MD** (lender), to rehabilitate Wingate Towers and Garden Apartments. The lender acquired and became responsible for the loan origination activities, personnel, books, and records related to this loan from Berkshire Mortgage Finance Limited Partnership (underwriter) in October 2004. The Federal Housing Administration (FHA)-insured loan went into default in October 2009, and in May 2010, HUD paid a \$44.3 million insurance claim to the lender. HUD sold the property in a note sale in September 2010 for \$14.5 million, resulting in a loss of \$29.8 million. The audit objective was to determine whether the loan was underwritten in accordance with HUD requirements.

The loan was not underwritten in accordance with HUD requirements. The underwriter failed to properly assess the financial resources of the owner and general contractor or the construction capabilities of the general contractor. The underwriter also significantly understated the amount of repairs needed to bring the property up to marketable condition. Based on the underwriter's recommendation, HUD approved the project and the general contractor. The project failed.

OIG recommended that HUD perform a legal review of applicable documents to determine the responsible party that is liable for incorrectly certifying to the integrity of the data or that due diligence was exercised in the underwriting of the loan, which could result in affirmative civil enforcement action of more than \$118 million, and to pursue remedies under the False Claims Act against the responsible party if it is determined legally sufficient to do so. Additionally, OIG recommended that HUD take appropriate administrative action against the responsible party for the material underwriting deficiencies cited. (Audit Report: **2011-PH-1009**)

FHA-Insured Multifamily Section 231 Project

HUD OIG audited the Retreat at Santa Rita Springs, **Green Valley, AZ**, an FHA-insured multifamily property under Section 231 of the National Housing Act, in response to a congressional request from Representative Gabrielle Giffords of the 8th Congressional District of Arizona.

In November 2009, the owners of the community defaulted on its \$29.9 million HUD-insured loan less than 1 month after final endorsement. The community experienced huge operating shortfalls and eventually defaulted on the loan. As a result, the community's loan note was sold to an outside party for approximately \$9 million, or more than a \$20 million loss to HUD.

OIG recommended that HUD update its Multifamily Accelerated Processing (MAP) Guide to include rules and requirements for processing Section 231 loans and discontinue processing these types of loans until the MAP Guide is updated. OIG also recommended that HUD (1) ensure that all conditions for underwriting are met in processing Section 231 multifamily properties and that there are clear roles, responsibilities, and communication among the HUD offices when conducting reviews to minimize potential problems such as those identified and (2) improve the regional field office's property management and performance monitoring of Section 231 properties by beginning monitoring immediately upon occupancy to minimize potential financial, operational, and managerial problems related to the properties under the program. (Audit Report: **2011-LA-0001**)

Owner and Management Agent Operations

HUD OIG audited Westbeth Artists Houses in **New York, NY**, to assess the merits of a hotline complaint and determine whether project operations generally complied with HUD regulations pertaining to financial, procurement, and tenant certification processes.

The complaint had merit because the duties of the executive director position for which project funds were disbursed were not adequately supported. In addition, although tenant certifications were properly performed, the project's financial management and procurement processes did not always comply with HUD regulations. Specifically, project funds were used to pay expenses that were inadequately supported, deemed unnecessary and unreasonable, and ineligible. In addition, auditee officials did not always follow prudent procurement practices when executing contracts, resulting in a lack of assurance that services were obtained at the most economical price.

OIG recommended that HUD instruct auditee officials to (1) provide justification for the more than \$304,000 expended for the costs related to the executive director's position so that HUD can determine whether it is justified and provide documentation to substantiate more than \$28,000 in unsupported expenses, (2) reimburse more than \$7,000 in expenses deemed unnecessary and unreasonable along with the ineligible expenses of nearly \$38,000, and (3) ensure that controls over financial management and procurement processes are strengthened. (Audit Report: **2011-NY-1006**)



HUD OIG audited the Naomi Gardens housing project in **Arcadia, CA**, in response to a congressional request from Representative David Dreier of the 26th District of California, to determine whether the project was operated in accordance with HUD rules and regulations; specifically, whether HUD funds were misused.


The project's expenses were properly authorized and necessary for its operation; however, the project did not adequately support that it conducted procurement activities in accordance with HUD requirements. As a result, it did not ensure that it paid nearly \$171,000 to contractors and suppliers at a reasonable cost and in accordance with HUD rules and regulations. The project also did not properly maintain and administer its waiting list. It skipped over eligible applicants on its waiting list to accommodate other applicants without proper justification, allowed applicants to remain on the waiting list longer than HUD rules and regulations allowed, and improperly allowed household members to transfer to additional units. Therefore, the project provided no assurance that tenants were properly admitted to the project in a fair and equitable manner.

OIG recommended that HUD require the project to (1) implement additional procurement procedures and controls to ensure compliance with HUD handbook requirements, (2) follow and enforce its tenant selection plan and submit documentation to HUD showing that future waiting list pulls have been conducted according to its tenant selection plan, (3) maintain a transfer waiting list for current tenants, and (4) amend the tenant selection plan to clarify and address the transfer of household members into additional units. (Audit Report: **2011-LA-1003**)

Section 8 Performance-Based Contract Administration

HUD OIG audited the Section 8 Performance-Based Contract Administration program of the Alaska Housing Finance Corporation in **Anchorage, AK**, to determine whether the Corporation fulfilled its contractual responsibilities as a performance-based contract administrator of project-based Section 8 housing assistance payments contracts.

The Corporation generally fulfilled its responsibilities as a contract administrator. However, its management and occupancy reviews were not always as comprehensive as required by its annual contributions contract. OIG noted deficiencies that existed at the time of the Corporation's reviews but were either not identified or not reported. In addition, the Corporation did not always properly rate projects when deficiencies were identified.



OIG recommended that the Corporation improve its management occupancy reviews to make them more comprehensive and review the annual contributions contract to gain a greater understanding of its responsibilities in monitoring the project owners' compliance with their obligation to provide decent, safe, and sanitary housing to assisted residents. (Audit Report: **2011-SE-1001**)



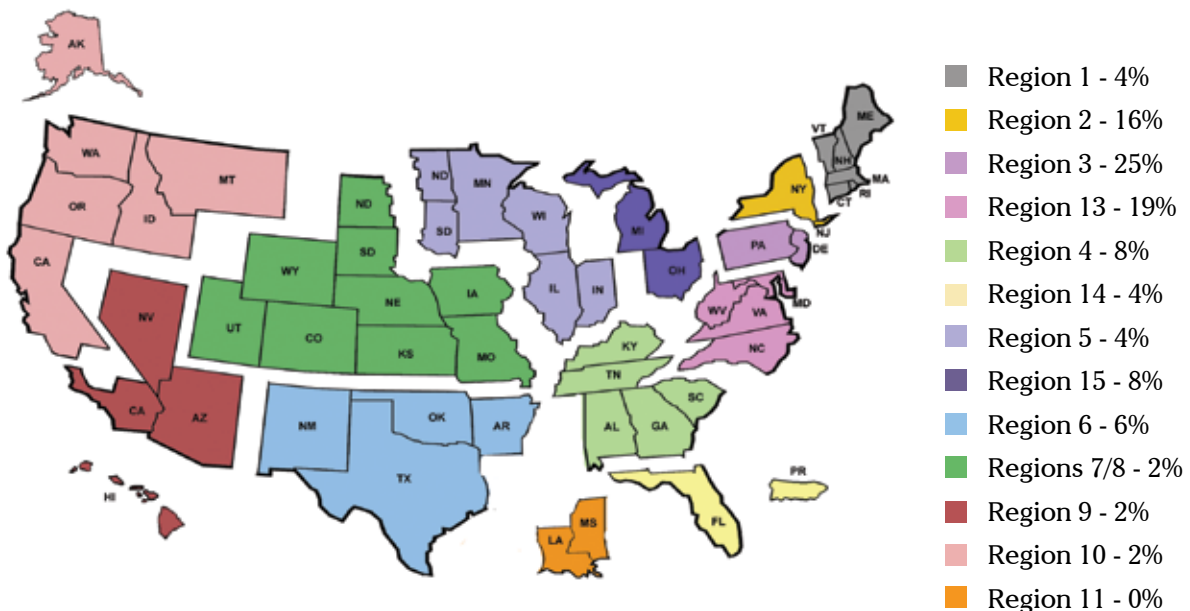
Investigations

Some investigations discussed in this report were generated from leads provided by HUD multifamily housing program staff and conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	49	\$3,382,319	37	29
Our focus	Page 53 Page 54 Page 55	<ul style="list-style-type: none"> • Theft/embezzlement • Rental assistance fraud • Other fraud/crimes 		

Chart 3.2: Percentage of OIG multifamily housing closed investigation cases during this reporting period



Theft/Embezzlement

Ann Edwards, a former employee of Associated Realty Services, Inc. (Associated Realty), a HUD-subsidized multifamily management contractor, was sentenced in U.S. District Court, **Memphis, TN**, to 42 months incarceration and 3 years probation and ordered to pay HUD more than \$1.3 million in restitution for her earlier guilty plea to committing bank fraud. From May 2004 to May 2008, Edwards embezzled more than \$1.3 million from Associated Realty bank accounts when she issued, forged, and negotiated about 500 unauthorized checks.

Bookkeeper to pay \$1.3M in restitution

By LAWRENCE BUSER
buser@commercialappeal.com

A former bookkeeper for a real estate firm was sentenced Monday to 3½ years in prison and ordered to repay \$1.3 million she stole to support her habits of drinking, gambling and being generous to strangers.

Ann Woods Edwards, 39, who worked for Associated Realty Services Inc., admitted to skimming the money by making out checks to herself, manipulating software programs and simply adding her name to existing bank accounts.

"It's very easy to be generous

with other people's money," said federal prosecutor Stephen Hall, who noted Edwards had stolen \$18,000 from a previous employer. "Most of it went to the casinos. She has shown repeated conduct of fraud."

The restitution ordered by U.S. Dist. Court Judge Bernice Donald is to be paid to the U.S. Department of Housing and Urban Development, which subsidized Section 8 housing units at some of the real estate company's properties.

"These funds are meant to assist some of the most vulnerable people in the community," said William Biggs, a HUD project

manager. "(The theft) makes it less likely that management companies can provide the kind of housing these people need."

According to court documents, between 2004 and 2008, Edwards created bogus checks to herself and forged signatures, accumulating extra pay of \$1,303,882.19.

Edwards' attorney, federal defender Doris Randle-Holt, questioned whether HUD was also going after the auditors who did not pick up on the scheme all those years.

Biggs replied that auditors can only test what's given to them.

"I am deeply apologetic for what I have done to ARS and to the peo-

ple on their properties," Edwards said. "I'm just really, really sorry."

Edwards, who was facing 41 to 51 months for bank fraud by Donald, who noted that such computer-assisted crimes seem to be "the crime du jour of this era."

Donald also banned Edwards from alcohol and gambling, telling her, "You've got a problem and it's your responsibility to deal with it."

Edwards remains free pending notification by the federal Bureau of Prisons where to begin serving her sentence.

— Lawrence Buser: 529-2385

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Patricia Goodwin, the former manager of Summerhill Cooperative (Summerhill), a HUD-subsidized elderly housing development, was sentenced in Hennepin County Court, **Eden Prairie, MN**, to 9 months incarceration and 5 years probation and ordered to pay Summerhill \$93,700 in restitution for her earlier guilty plea to committing theft by swindle. From July 2006 to February 2008, Goodwin forged authorized signatures on 142 Summerhill checks, altered accounting records, and embezzled \$93,700 in Summerhill funds.



Maria Matilla, a former property manager for Campbell Arms Apartments, a HUD-subsidized multifamily housing development, was arrested and charged in the 11th Judicial Circuit Court, **Miami, FL**, with allegedly committing grand theft. From September 2007 to January 2008, Matilla allegedly stole \$4,794 in Campbell Arms funds.



Christopher Grimsley, a former construction manager for AIMCO Apartment Management, a HUD-subsidized multifamily management contractor, was sentenced in U.S. District Court, **Kansas City, MO**, to 41 months incarceration and 36 months probation and ordered to pay his former employers \$538,340

in restitution for his earlier guilty plea to committing mail fraud. From May 2003 to May 2009, Grimsley solicited and obtained \$538,340 in kickbacks from a number of contractors in return for HUD-subsidized and other multifamily contracts. HUD losses have not yet been determined.

Rental Assistance Fraud

Eight former Section 8 tenants at HUD-subsidized multifamily housing developments were each arrested and charged in U.S. District or Manhattan Criminal Courts, **Manhattan, NY**, with allegedly making false statements; falsifying business records; or committing theft of government funds, a conspiracy to steal government funds, or grand larceny. In addition, former Section 8 tenant Robert Lujan pled guilty to making false statements to HUD and committing theft of government funds. Between October 2005 and October 2010, Lujan used the identity of another individual to obtain housing assistance, and the remaining defendants allegedly failed to report income or their receipt of dual housing subsidies on housing certifications. Collectively, the above defendants obtained more than \$337,136 in housing assistance they were not entitled to receive.



Ernestina Marimon, a New York City Housing Preservation and Development Housing Choice Voucher program participant, a New York City Housing Authority public housing tenant, and a Section 8 tenant at Charles Hill Houses, a HUD-subsidized multifamily housing development, was indicted in U.S. District Court, **Manhattan, NY**, for allegedly making false statements and committing theft of government funds. From March 2006 to December 2010, Marimon allegedly failed to report her simultaneous receipt of housing assistance for three subsidized housing units and obtained about \$161,183 in housing assistance she was not entitled to receive.




Thirteen Section 8 tenants at Haverstock Hills Apartments, a HUD-subsidized multifamily housing development, were each indicted in Harris County District Court, **Houston, TX**, for allegedly tampering with governmental records. Between October 2007 and October 2010, the above defendants allegedly failed to report their criminal histories on housing certifications and collectively obtained about \$156,644 in housing assistance they were not entitled to receive.



Patrice Smith, a former Section 8 tenant at Universal City and Parkways Apartments, HUD-subsidized multifamily housing developments, was indicted in Cook County Circuit Court, **Chicago, IL**, for allegedly committing theft by deception. From 2002 to 2010, Smith allegedly failed to report her receipt of dual housing subsidies on housing certifications and obtained more than \$100,000 in housing assistance she was not entitled to receive.



Ava Driver, a former Section 8 tenant at Central Gardens I Apartments (Central Gardens), a HUD-subsidized multifamily housing development, was indicted in Prince Georges County Circuit Court, **Upper Marlboro, MD**, for allegedly making false statements and committing theft. In addition, former Central Gardens Section 8 tenants Annette Rhue and Crystal Bailey were collectively sentenced to 20 years incarceration (suspended) and 10 years supervised probation and ordered to pay HUD \$8,514 and others \$34,131 in restitution for their earlier conviction of or guilty plea to committing theft, aggregate theft, or welfare fraud. Between January 2000 and June 2008, Driver allegedly failed to report an unauthorized



resident or his income, Rhue failed to report income on housing and other certifications, and Bailey was found guilty of failing to report an unauthorized resident or his registered sex offender status. Collectively, the above defendants obtained about \$66,260 in housing and about \$14,460 in other assistance they were not entitled to receive.



Five former Section 8 tenants at Woodlake Apartments, a HUD-subsidized multifamily housing development, were each indicted in Gloucester County Court, **Woodbury, NJ**, for allegedly making false statements or committing theft. Between March 2006 and September 2009, the above defendants allegedly failed to report income on housing certifications and collectively obtained about \$54,000 in housing assistance they were not entitled to receive.



Terri and Melanie Robinson, Jessica Johnson, and Ivoriet Drake, former Section 8 tenants at Isle Parkway Apartments, a HUD-subsidized multifamily housing development, were collectively sentenced in U.S. District Court, **Mobile, AL**, to 168 months probation and ordered to pay HUD \$41,624 in restitution for their earlier guilty pleas to committing theft of government funds. Between 2005 and 2009, the above defendants failed to report income on housing certifications and collectively obtained \$44,656 in housing assistance they were not entitled to receive.



Maria Martinez and Carmen Guzman, Section 8 tenants at HUD-subsidized multifamily housing developments, were each arrested and charged in Bronx Criminal Court, **Bronx, NY**, with allegedly committing grand larceny and offering a false instrument for filing. Between October 2006 and November 2008, Martinez and Guzman allegedly failed to report income on housing certifications and together obtained about \$43,764 in housing assistance they were not entitled to receive.



John Martinez, a former unauthorized tenant at San Juan Del Centro Apartments, a HUD-subsidized multifamily housing development, was convicted in Boulder District Court, **Boulder, CO**, of committing theft and forgery and obtaining a signature by deception. From January 2000 to March 2010, Martinez duped a mentally challenged individual to claim residency and provide annual housing certifications for the subsidized housing unit, but Martinez resided in the subsidized housing unit and fraudulently obtained more than \$40,500 in housing assistance he was not entitled to receive.

Other Fraud/Crimes

Joseph Driscoll, the maintenance director of ARCO Management, a former HUD management contractor who previously oversaw the management and maintenance of HUD-owned multifamily housing developments, pled guilty in U.S. District Court, **Brooklyn, NY**, to making false transactions with HUD. In May and June 2000, Driscoll created false bids that enabled another contractor to receive a HUD contract, and in return, the contractor fraudulently subcontracted work to companies owned and controlled by Driscoll.



Chapter 4 - 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. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted a number of outreach efforts (see chapter 8, page 118).

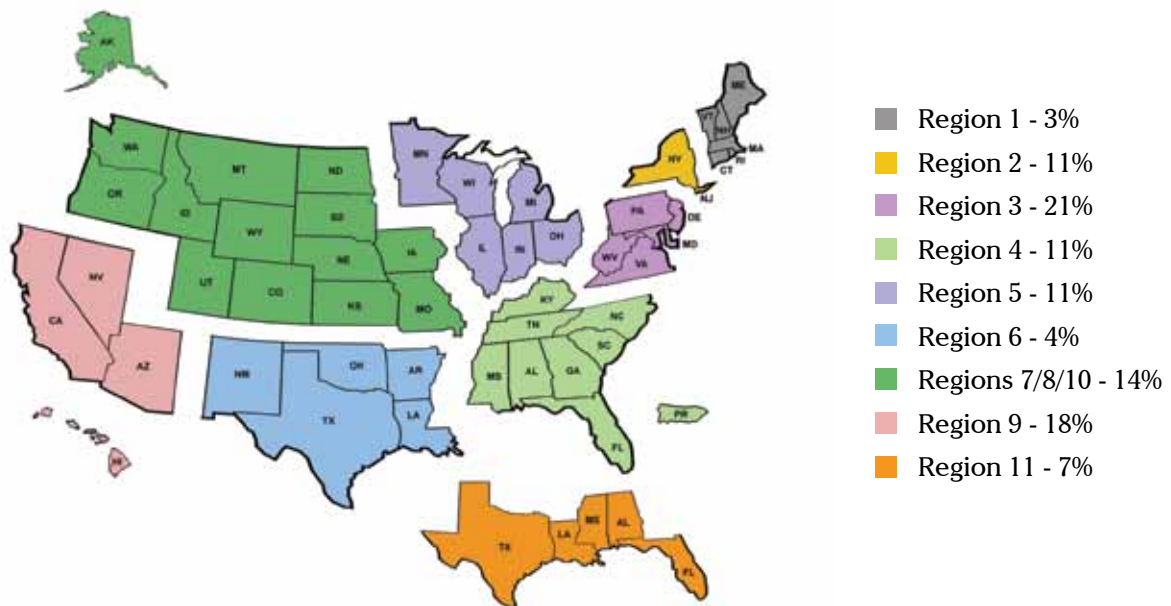
Audit


Strategic Initiative 3: Contribute to the strengthening of communities

Key program results		Questioned costs	Funds put to better use
Audit	28 audits*	\$33.4 million	\$3.9 million
Our focus	Page 59 Page 60 Page 64 Page 64	<ul style="list-style-type: none"> Community Development Block Grant programs HOME Investment Partnerships Program Neighborhood Stabilization Program Shelter Plus Care 	

* The total CPD audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (10 audits) and disaster recovery (4 audits) type audits conducted in the CPD area. The writeups for these audits are shown separately in chapters 5 and 6 of this semiannual report.

Chart 4.1: Percentage of OIG community planning and development audit reports during this reporting period





HUD OIG audited the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), the Neighborhood Stabilization Program (NSP), and the Shelter Plus Care Program. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the grant funds were administered for eligible activities and that the auditee met program objectives. The following section illustrates the audits conducted in the CPD area.

Community Development Block Grant Programs

HUD OIG audited the City of **Scranton, PA**'s CDBG program and found that the City failed to adequately administer its CDBG funds and could not demonstrate that it used more than \$11.7 million in CDBG funds in accordance with applicable HUD requirements. Specifically, it (1) failed to maintain adequate records identifying the source and application of funds for its HUD-sponsored activities, (2) did not maintain required documentation and budget controls demonstrating that its expenditures complied with program requirements, (3) did not use proper subrecipient agreements, and (4) failed to adequately monitor its subrecipients. Additionally, it did not ensure that its activities complied with program requirements and allowed an apparent conflict-of-interest situation to exist.

OIG recommended that HUD (1) perform additional monitoring and provide technical assistance to the City, as needed, to ensure that the City properly administers the CDBG funding in accordance with applicable requirements and (2) evaluate issues identified and if appropriate, initiate administrative action against responsible officials. OIG further recommended that HUD direct the City to (1) provide documentation to demonstrate that CDBG funds were used for eligible activities that met the intent of its HUD-approved budget line items or repay HUD from non-Federal funds and (2) improve its financial management system and implement improved accounting procedures to ensure that it meets the requirements of 24 CFR (Code of Federal Regulations) 85.20 and 570.506 and Office of Management and Budget Circular A-87. OIG also recommended that HUD direct the City to (1) develop and implement controls to ensure that it monitors its subrecipients as required and maintains adequate documentation to support its monitoring efforts and (2) revise its subrecipient agreement to comply with HUD requirements. (Audit Report: **2011-PH-1002**)



HUD OIG audited the operations of the City of **Binghamton, NY**, pertaining to its administration of its CDBG Section 108 Loan Guarantee program, and found that the City did not ensure that its Section 108 loans and related activities were administered effectively, efficiently, and economically in accordance with applicable rules and regulations and that loan proceeds were expended on eligible activities that met a national objective of the program. In addition, the City did not ensure that additional expenditures of CDBG funds for subsequent Section 108 loan repayments and other related costs were necessary, reasonable, and in accordance with all applicable contracts, agreements, and Federal regulations. Consequently, significant CDBG funds were disbursed for Section 108 debt repayments, and future CDBG funds will be required until the Section 108 debts have been fully paid. Therefore, the ability to provide program benefits to low- and moderate-income residents of the City has been diminished.

OIG recommended that HUD instruct the City to (1) establish a Section 108 repayment account and repay more than \$1.5 million in Regency Hotel sales proceeds that were used for City expenses from non-Federal funds; (2) transfer the nearly \$82,000 in hotel sales proceeds that remain in the City's trust account to the established Section 108 repayment account; (3) submit documentation to justify the use of more than \$2.4 million in CDBG funds to pay for hotel Section 108 debt so that HUD can make an eligibility determination; and (4) establish controls to ensure that Section 108 loan proceeds are at all times adequately safeguarded, collateral for Section 108 loans is continually protected until all loan funds have been repaid, the provisions

of all Section 108 loan contracts and agreements are followed and promptly enforced, and Section 108 loan activities meet a national objective of the program. (Audit Report: **2011-NY-1004**)



HUD OIG audited the City of **Bayonne, NJ**'s CDBG economic development activities and found that the City did not adequately administer its economic development program. Specifically, it (1) did not adequately monitor its subrecipient, (2) made disbursements for ineligible items, (3) made disbursements for technical assistance and salary costs that were not reasonable, (4) did not maintain documentation to support accomplishment of the CDBG national objectives, and (5) did not reprogram unused economic development funds in a timely manner when its loan program ended.

OIG recommended that HUD instruct the City to (1) strengthen procedures to monitor its subrecipients to ensure compliance with HUD rules and regulations; (2) repay from non-Federal funds the more than \$5,000 in ineligible costs charged to the CDBG economic development program; (3) strengthen controls to ensure that costs charged to the CDBG program are eligible according to HUD regulations; (4) provide documentation to support the eligibility of more than \$640,000 in unreasonable technical assistance costs, salaries, and payroll taxes charged to the economic development program so that HUD can make an eligibility determination; and (5) provide documentation to show that the City reprogrammed more than \$196,000 in remaining economic development funds so that these funds can be put to better use. (Audit Report: **2011-NY-1002**)



HUD OIG audited the City of **East St. Louis, IL**'s CDBG program and found that the City awarded more than \$1 million in CDBG funds for 124 of the 147 rehabilitation contracts reviewed without adequately ensuring that it complied with requirements and that the work was completed in an acceptable manner. Specifically, it (1) did not ensure that contractors completed all of the contracted work as required and at a reasonable cost, (2) created scopes of work for the rehabilitation contracts that were not detailed and specific in nature, and (3) did not comply with Federal procurement requirements and its own policies and procedures when it managed the rehabilitation contracts.

OIG recommended that HUD withhold \$400,000 in 2010 CDBG funding for the City's housing rehabilitation programs until it improves its controls and require the City to (1) collect more than \$127,000 paid to contractors for rehabilitation work not performed or improperly performed, (2) develop and implement adequate internal controls to ensure that all work is completed according to the scope of work, (3) update its inspection software, and (4) provide training to ensure future compliance. (Audit Report: **2011-KC-1001**)

HOME Investment Partnerships Program

HUD OIG audited the **District of Columbia**'s administration of its HOME program and found that the grantee did not administer its program in accordance with Federal requirements. It (1) obligated more than \$2.5 million in HOME funds for an activity/project that was significantly delayed and not completed, (2) did not properly manage funds that it drew for downpayment assistance and financing of home repairs, (3) committed and disbursed community housing development organization (CHDO) operating funds for an ineligible CHDO, and (4) did not properly account for program administrative funds. As a result, it charged ineligible costs to its HOME program and could not support costs charged to the program. The grantee also accumulated funds that it could have used to improve its administration of its HOME program and/or fund additional eligible HOME projects.

OIG recommended that HUD require the grantee to recover more than \$1.6 million that it spent on ineligible expenses and provide support for nearly \$6.5 million in expenses or repay that amount to the HOME program. In addition, the grantee should use nearly \$1.6 million in accumulated funds to improve its administration of the program and/or fund additional eligible HOME projects. Lastly, OIG recommended that the grantee create and implement procedures to ensure that HOME funds are disbursed and used in compliance with applicable requirements. (Audit Report: **2011-PH-1005**)

D.C.'s use of housing grants is questioned

HUD audit prompts return of \$1.6 million in federal funds

BY MIKE DEBONIS AND DEBBIE CENZIPER

A federal audit has questioned more than \$10 million in spending by the District's housing agency, prompting the return of \$1.6 million of Housing and Urban Development grant funds.

In a report released Dec. 23 after examining the city's financing of a long-delayed affordable housing project, its use of federal funds for home-renovation and down-payment assistance, and its transfers to community-based groups, HUD Regional Inspector General John P. Buck raised concerns about the city's oversight of federal funds.

The audit identified nearly \$1.7 million in costs that the D.C. Department of Housing and Community Development had improperly charged to the federal government, \$6.5 million in expenses that could not be justified to the auditors' satisfaction and \$1.9 million in funds that went unspent or were poorly spent.

A city official said in response that the audit raised several issues, particularly poor grant documentation, that had been identified and are being addressed.

"We knew that there were issues when I first started. There were things in the relationship with HUD that had to be worked on," said Leila Finucane Edmonds, DHCD's outgoing director. "We have moved the department to a very different place."

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HUD OIG audited the City of **Flint, MI**'s HOME program and found that the City did not comply with Federal requirements in its use of HOME funds for CHDOs' home-buyer projects. It (1) did not ensure that CHDOs entered into lease-purchase agreements or appropriate lease-purchase agreements with households, (2) failed to ensure that a CHDO transferred homes to home buyers within 42 months of project completion and did not convert the home-buyer projects to rental projects, (3) did not reimburse its HOME trust fund treasury account for terminated projects, (4) inappropriately used HOME funds for home-buyer project costs that were administrative expenses, (5) did not prevent a CHDO from entering into a land contract with a home buyer, (6) inappropriately used HOME CHDO reserve funds for an owner-occupied single-family rehabilitation project, (7) used HOME funds for unreasonable acquisition costs, and (8) did not decommit and reprogram HOME funds for a terminated project. As a result, the City drew down and disbursed nearly \$1.7 million in HOME funds for CHDOs' home-buyer projects that did not meet Federal requirements and inappropriately drew down and disbursed more than \$143,000 in additional HOME funds.

The City also did not comply with Federal requirements in its use of HOME funds for subrecipients' activities and inappropriately drew down and disbursed nearly \$427,000 in HOME funds and lacked sufficient documentation to support nearly \$65,000 in HOME funds. Further, the City did not accurately report program accomplishments in HUD's Integrated Disbursement and Information System (IDIS).

OIG recommended, among other things, that HUD require the City to revise lease agreements, convert home-buyer projects to rental projects, reimburse its program or treasury account or reprogram or decommit

various amounts identified in the audit, revise program accomplishments in IDIS as appropriate, and implement adequate procedures and controls to address the findings cited. (Audit Report: **2011-CH-1001**)



HUD OIG audited the **State of Indiana's** HOME program, administered by the Indiana Housing and Community Development Authority, and found that the Authority did not comply with HUD's requirements in its use of HOME and American Dream Downpayment Initiative funds to provide interest-free second mortgage loans to home buyers through the State's First Home/PLUS program and its use of recapture provisions for activities. It (1) lacked sufficient documentation to support that homes purchased under the First Home/PLUS program met HUD's property standards requirements, (2) did not implement appropriate recapture provisions for all of the activities reviewed, (3) did not ensure that the State's HOME program was reimbursed for HOME or Initiative funds used for activities in which the ownership of homes was later transferred through foreclosure, and (4) did not reimburse the State's HOME trust fund treasury account for HOME funds used for activities that were later terminated. As a result, (1) it was unable to support its use of more than \$803,000 in HOME or Initiative funds, (2) its HOME program was not reimbursed more than \$130,000 in HOME or Initiative funds used for 32 activities in which the ownership of the homes was later transferred through foreclosure, and (3) its treasury account was not reimbursed more than \$8,000 in HOME funds used for activities that were terminated. Further, the Authority is at risk of being required to reimburse the State's HOME program additional non-Federal funds if the ownership of additional homes acquired under the First Home/PLUS program is transferred through foreclosure.

OIG recommended that HUD require the State to (1) provide sufficient supporting documentation or reimburse its Program from non-Federal funds, (2) reimburse its HOME program from non-Federal funds for activities in which ownership of the homes was transferred through foreclosure, (3) reimburse its treasury account from non-Federal funds for the activities that were terminated, (4) revise its consolidated plan and action plan to include the recapture provisions the Authority uses for the First Home/PLUS program or require the Authority to revise the recapture provisions it uses for the First Home/PLUS program to comply with the recapture provisions in the State's consolidated plan and action plan, and (5) implement adequate procedures and controls to address the findings cited. These procedures and controls should help to ensure that over the next year, the State appropriately recaptures HOME and/or Initiative funds and/or reimburses its HOME program from non-Federal funds for nearly \$124,000 in HOME and/or Initiative funds used for homes acquired under its First Home/PLUS program of which ownership would be transferred due to foreclosure. (Audit Report: **2011-CH-1004**)



HUD OIG audited the **City of Cleveland's** HOME program and found that the City did not comply with HUD's requirements in its use of HOME and American Dream Downpayment Initiative funds to provide interest-free second mortgage loans to home buyers through its Afford-A-Home program and its use of recapture provisions for activities. It (1) provided assistance for ineligible activities; (2) lacked sufficient documentation to support that activities were eligible; (3) included inappropriate recapture provisions in its action plans for program years 2007 to 2008, 2008 to 2009, and 2009 to 2010; (4) did not implement appropriate recapture provisions for all of the activities reviewed; and (5) did not ensure that its HOME program was reimbursed for HOME funds used to assist home buyers in purchasing homes that were later sold through a sheriff's sale and ownership of the homes had been transferred. As a result, it inappropriately provided HOME funds to assist two households that were not income eligible and was unable to support its use of HOME and/or Initiative funds. Further, its HOME program was not reimbursed for HOME funds used for three homes that were sold through a sheriff's sale and ownership of the homes had been transferred. In addition, the City is at risk of being required to reimburse its HOME program additional

non-Federal funds if the ownership of additional homes acquired under its Afford-A-Home program is transferred through foreclosure.

OIG recommended that HUD require the City to (1) reimburse its HOME program from non-Federal funds for the \$20,000 in HOME funds inappropriately used to assist two activities, (2) provide supporting documentation or reimburse its HOME program \$760,000 from non-Federal funds, (3) reimburse its HOME program \$30,000 from non-Federal funds for the three homes that had been sold through a sheriff's sale and ownership of the homes had been transferred, and (4) implement adequate procedures and controls to address the findings identified. These procedures and controls should help to ensure that over the next year, the City appropriately recaptures HOME and/or Initiative funds and/or reimburses its HOME program from non-Federal funds for at least \$90,000 in HOME and/or Initiative funds used for homes acquired under its Afford-A-Home program of which ownership would be transferred due to foreclosure. (Audit Report: **2011-CH-1003**)



HUD OIG audited the Municipality of **Arecibo, PR's** HOME program and found that the Municipality committed and disbursed more than \$115,000 in HOME funds for the purchase of land that could not be used to provide housing for low- and very low-income families. The commitment and disbursement of HOME funds to acquire land not intended to provide affordable housing was not consistent with program requirements and was an ineligible use of program funds. In addition, the Municipality disbursed more than \$483,000 for the Bello Monte housing project, which reflected slow progress without assurance that the project was feasible. It executed an agreement in July 2006 with a CHDO for site acquisition and construction of the Bello Monte housing project. According to the agreement, the construction of the housing units should have started in July 2007, with a completion date of July 2011. However, as of November 2010, the construction had not started. According to HUD, the project had encountered problems in complying with environmental requirements of a local agency. The Municipality failed to ensure the timely completion of the activity. As a result, HUD had no assurance that this activity provided the intended benefits and met HOME objectives.

Further, HUD's system contained inaccurate information concerning the Bello Monte project. This information included incorrect funding amounts. The awarded amount shown in HUD's system was incorrect, resulting in an overstatement of HOME commitments of more than \$45,000. As a result, these funds were not available for use and to meet program objectives.

OIG recommended that HUD require the Municipality to repay more than \$52,000 in ineligible expenditures and reprogram and put to better use more than \$108,000 in unexpended funds obligated for ineligible purposes or that were overstated. HUD should also determine the eligibility of the more than \$431,000 disbursed for the Bello Monte housing project with signs of slow progress and reevaluate the feasibility of this activity. (Audit Report: **2011-AT-1802**)

Cleveland disputes \$900,000 figure HUD says may have been misspent

MARK GILLISPIE
Plain Dealer Reporter

Cleveland officials dispute that the city owes hundreds of thousands of dollars for sloppy oversight of a federally funded mortgage program.

An audit report released last month by the U.S. Department of Housing and Urban Development says the city lacked adequate controls over its Afford-A-Home program.

The report concludes that the city could owe as much as \$900,000 for failing to properly substantiate the income of borrowers, for making loans to people who were not eligible for the program and for not recovering loan proceeds after houses sold at sheriff's sale.

Cleveland has until the end of April to provide documentation to show why it does not owe the entire amount.

"It is our hope that we can work out most of these issues within the next 120 days," said Chris Warren, Mayor Frank Jackson's chief of regional development.

Warren said the city has agreed that it owes at least \$20,000 for loans given to people whose income exceeded HUD-established limits.

Afford-A-Home loans are second mortgages given to

low-income homebuyers. The loans, typically \$10,000, become interest-free after five years and are forgiven completely after 30 years if the borrower remains in the home that entire time.

The HUD audit was triggered in part by Plain Dealer articles in December 2009 that detailed problems in the city's Afford-A-Home program. The paper found that the program had wasted millions of federal dollars because it had helped too many people buy homes that were later lost to foreclosure.

The articles also prompted a criminal investigation of a home rehab company that sold hundreds of homes to buyers who received Afford-A-Home loans and a city employee who managed the program. The city is fully cooperating with that investigation, Warren said.

Under orders from Warren, the Department of Community Development subsequently tightened its oversight of the program, including procedures for approving loans.

Despite the past problems, Warren disagreed with the audit's contention that the city should repay the entire \$900,000.

Most of the money the city potentially owes resulted

from what HUD said were improper procedures for verifying income.

The audit, which was based on a review of 71 loans, said Cleveland should have gathered three months of pay stubs from applicants to verify income. The city instead asked for two pay stubs, W-2 forms and the previous year's federal tax return.

Warren said HUD officials said nothing about the city's income-verification procedures during monitoring visits in 2006, 2007 or 2008 and thought they were adequate. Cleveland has since changed its procedures to follow HUD rules.

The city also disputes HUD's contention that Cleveland owes money for houses sold at sheriff's sale. The report said mortgage documents did not include specific language that would limit how much the city could recover. Without the language, the report said, the city is on the hook for the loan money when a property sells at sheriff's sale.

Warren said city officials were unaware of the rule and have since added the language to promissory notes.

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Neighborhood Stabilization Program

We audited the City of **Mesa, AZ**'s NSP1 grant and found that the City's procedures for administering its NSP1 grant were not adequate to ensure that HUD's program requirements were met. The City (1) did not maintain adequate controls over construction contractor draw requests, (2) failed to ensure the eligibility of labor costs claimed by its subrecipient, (3) did not require payment and performance bonds for construction contracts as required, (4) charged unsupported employee salary costs to the NSP1 grant, and (5) failed to properly enforce the program's continued affordability requirements.

OIG recommended that HUD require the City to (1) implement procedures to ensure that NSP1 requirements are met and so that more than \$328,000 in grant funds can be put to better use and (2) repay more than \$22,000 in ineligible costs charged to the grant. (Audit Report: **2011-LA-1006**)



HUD OIG audited the Community Development Programs Center of **Nevada**'s NSP1 program and found that the Center did not always efficiently and effectively administer grant funds in compliance with Housing and Economic Recovery Act of 2008 and other applicable program requirements. Specifically, it violated HUD requirements and its developer agreement with the City of North Las Vegas when it entered into a conflict-of-interest contract with a company that is 50 percent owned by the Center's executive director. In addition, the Center was unable to support rehabilitation costs for two projects and did not check the debarred status of subcontractors.

OIG recommended that HUD require the grantee to ensure that the Center (1) stops awarding contracts to the general contractor that is 50 percent owned by its executive director unless granted a conflict-of-interest waiver as permitted in 24 CFR (Code of Federal Regulations) 570.611, (2) provides documentation to support nearly \$11,000 in rehabilitation costs billed to the City of North Las Vegas or submits a new request for payment that reflects only the supported costs, (3) updates its policies and procedures to ensure that future rehabilitation costs are properly supported and procured in a cost-effective manner, and (4) follows its recently developed procedures to check the debarred status of all subcontractors. (Audit Report: **2011-LA-1004**)




HUD OIG audited the City of **Columbus, GA**'s NSP1 program and found that the City demonstrated the capacity to properly obligate its entire \$3.1 million NSP1 grant by the September 5, 2010, statutory deadline. However, it (1) obligated nearly \$220,000 in acquisition, rehabilitation, and downpayment assistance costs for two properties that were improperly classified as locality set-asides; (2) could not locate the procurement records for the lead-based paint contract it awarded and obligated and paid nearly \$30,000 for lead-based paint abatement services provided by a contractor that was under contract with the City; and (3) did not maintain up-to-date NSP1 quarterly performance reports on its Web site.

Overall, the City's actions taken or planned regarding the issues indicated its willingness to make necessary improvements. Therefore, OIG made no recommendations, and no further action is required. (Audit Report: **2011-AT-1801**)

Shelter Plus Care

HUD OIG audited **Mecklenburg County, NC**'s administration of its Shelter Plus Care program to determine whether the County only paid for eligible program administrative expenses; housed its participants in decent, safe, and sanitary units; and properly documented its program participant files.



The County mismanaged its program. It paid program administration expenses without adequate supporting documentation; housed participants in units that were not decent, safe, and sanitary; and failed to ensure that participant files were properly documented in compliance with HUD's requirements. As a result, the County spent more than \$441,000 for unsupported program costs, more than \$11,000 for ineligible costs, and more than \$14,000 in housing assistance payments for units that were in material noncompliance with housing quality standards.

OIG recommended that HUD require the County to develop and implement an adequate system of internal controls to ensure that it complies with all program requirements. The County must also repay more than \$25,000 in ineligible expenses from non-Federal funds and provide documentation showing that the unsupported expenses were eligible or repay that amount from non-Federal funds. (Audit Report: **2011-AT-1004**)



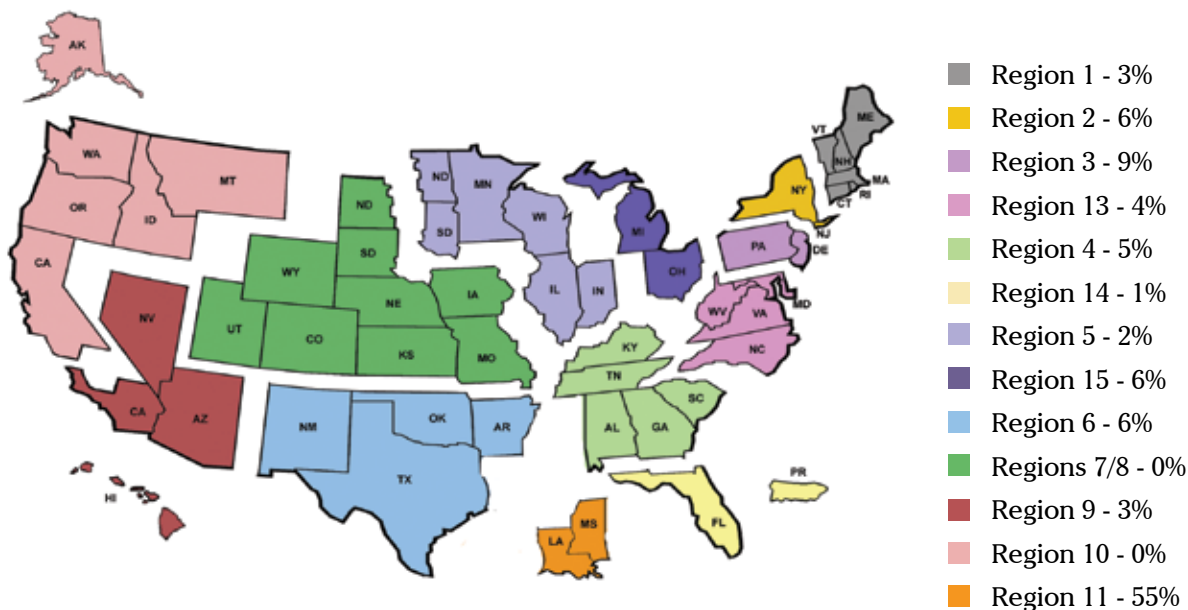
Investigations

Some investigations discussed in this report were generated from leads provided by HUD CPD program staff or conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

Strategic Initiative 3: Contribute to the strengthening of communities

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	66	\$7,912,335	22	22
Our focus	Page 67 Page 70 Page 71	<ul style="list-style-type: none"> • Theft/embezzlement • Civil and administrative actions • Other fraud/crimes 		

Chart 4.2: Percentage of OIG community planning and development closed investigation cases during this reporting period



Theft/Embezzlement

Kwame Kilpatrick, the former mayor of the City of Detroit, MI; Bobby Ferguson, doing business as Ferguson Enterprises; and other individuals were each charged in U.S. District Court, **Detroit, MI**, with allegedly obstructing justice and committing bribery, extortion, Federal income tax evasion, an organized scheme to defraud, and mail and wire fraud. From 2003 to 2004, Kilpatrick, Ferguson, and other individuals allegedly planned fraudulent activities and attempted to obtain \$18 million in HUD CDBG loan guarantees for demolition work at the Book Cadillac Hotel.



Henry Humphrey, the chief executive officer of the Shiloh Baptist Church Community Renewal Center, an organization that received HUD Economic Development Initiative grants, was sentenced in U.S. District Court, **Louisville, KY**, to 24 months incarceration and ordered to pay HUD \$831,745 in restitution for his earlier guilty plea to making false statements and committing a conspiracy, wire fraud, embezzlement, and money laundering. From February 1998 to November 2005, Humphrey and other individuals applied for and received more than \$1.2 million in HUD funding to convert an existing building into low-income elderly housing but failed to complete the project and fraudulently used HUD funds for other purposes or their personal gain.



Eugene Telfair, the former president of the Florida Agriculture and Mechanical University Federal Credit Union (A&M Credit Union), and former A&M Credit Union grant administrator Robert Nixon were collectively sentenced in U.S. District Court, **Tallahassee, FL**, to 57 months incarceration and 10 years supervised release and ordered to pay A&M Credit Union \$134,253 in restitution for their earlier convictions of committing theft of government funds, a conspiracy to steal or misapply Federal funds and commit wire fraud, and aiding and abetting. Between January 2002 and August 2009, Telfair and Nixon provided false consulting and administrative billings and embezzled \$134,253 in HUD Historically Black College grant funds through the A&M Credit Union.

DETROIT SHAKEDOWN:

Ex-mayor, pals took millions, charges say

CHARGES BLASTED:

Kilpatrick's lawyer predicts exoneration

By M.L. ELBRICK, TRESA BALDAS, DAVID ASHENFELTER, JIM SCHAEFER and JOE SWICKARD
FREE PRESS STAFF WRITERS

In the severest blow yet to what once was Detroit's most powerful political family, a federal grand jury charged ex-Mayor Kwame Kilpatrick, his father and three associates with turning city hall into the hub of a criminal enterprise that extorted millions from contractors.

"We are hopeful that this case and this indictment brings closure to this chapter in the city's history, and we hope ... the culture of corruption is over," U.S. Attorney Barbara McQuade said after releasing the 88-count indictment Wednesday.

The 89-page document accuses Kwame and Bernard Kilpatrick, top mayoral aide Derrick Miller, contractor Bobby Ferguson and former water department boss Victor Mercado of perverting the city's contracting process by forcing contractors to pay Ferguson millions of dollars — sometimes for work he did not perform. The indictment alleges that the shakedowns continued up to Kwame Kilpatrick's last three weeks in office.

Miller and Ferguson are both longtime pals of Kilpatrick. If convicted, each of the five men faces up to 30 years in prison.

Lawyers for the Kilpatricks, Miller and Mercado predicted exoneration. Ferguson's lawyer said he needed time to review the charges.

"I think there's a perception in the public that if you worked in the Kwame Kilpatrick administration, then you're a crook" said Miller's attorney, Leon Weiss. "But, of course, that's not the case here."

The indictment is the culmination of a six-year investigation that traces its roots to a Free Press report from Kilpatrick's first run for mayor, in 2001. That story revealed that Kilpatrick wrote a letter endorsing a homeless shelter's bid for a multimillion-dollar county contract after his nonprofit civic fund received a \$50,000 contribution from the shelter's owner.

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Telfair, Nixon get 2 years in prison

They were also ordered to pay back \$134,000 in stolen federal grant money

By Jennifer Portman
DEMOCRAT SENIOR WRITER

The former president of the FAMU Credit Union and a Florida A&M University policy institute director were both sentenced to more than two years in federal prison Thursday and ordered to pay back \$134,000 in

federal grant money they were found guilty of stealing.

U.S. District Judge Robert Hinkle sentenced credit union president Eugene Telfair to a 30-month prison term. Robert Nixon, the former director of Florida A&M University's Institute on Urban Policy and

Commerce, received a sentence of 27 months. Each were convicted last year on three charges of conspiracy, embezzlement and theft. They were directed to report to prison March 28.

During their four-day trial, Assistant U.S. Attorney Karen Rhew-Miller led

jurors through an array of documents and contracts showing how Telfair and Nixon created a paperwork trail to steal and cover up the theft of federal grant money given to FAMU for small business loans.

"This was plainly money that Mr. Telfair and Mr. Nixon were not entitled

to and they took," Hinkle said during the sentencing hearing.

In a sentencing memorandum, Rhew-Miller wrote: "The nature of the offense can be summed up in a single word: greed."

The men have 10 days to submit notice of an appeal.



Democrat files
Eugene Telfair, left, and Robert Nixon are to report to prison March 28.

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Seth Butterfield, the former CDBG grant administrator for the City of Layton, UT, a municipality that receives HUD CDBG funds, was indicted in U.S. District Court, **Salt Lake City, UT**, for allegedly committing theft from a program receiving Federal funds, money laundering, and wire fraud. Between October 2002 and July 2006, Butterfield, while employed as the Layton CDBG grant administrator, allegedly created a community development based organization (CDBO) and became the CDBO's executive director, awarded Layton CDBG contracts to fund the CDBO, and fraudulently obtained more than \$116,000 in salary payments as the CDBO's executive director at the same time he received salary payments from the City of Layton.

Federal fraud in Layton?

Former employee from Ogden faces 6 counts, prison time

By LORETTA PARK
Standard-Examiner Davis Bureau
lpark@standard.net

SALT LAKE CITY — Those who know Seth J. Butterfield are shocked to hear he could be facing years in a federal prison.

Butterfield, 77, of Ogden, is accused of taking federal funds to pay his salary as executive director of the nonprofit company Affordable Land Lease Homes Inc., while employed as the grant administrator for Layton.

A federal grand jury indicted him Wednesday in U.S. District Court on two counts of wire fraud, two counts of theft from a program receiving federal program funds and two counts of money laundering.

If convicted, Butterfield could be sentenced to serve up to 20 years in a federal prison on each of the money-laundering counts, and up to 10 years on each of the wire fraud and theft charges.

Butterfield is scheduled to appear Dec. 29 before U.S. Magistrate David Nuffer.

Calls made Thursday to Butterfield were not returned.

"Seth is a good guy," said Mike Ostermiller, chairman of the board of directors for ALLH. "You look at (Butterfield's) life, and it is a long one of service for others."

ALLH was to provide housing for moderate- and low-income families, according to court documents.

Butterfield's contract to continue as ALLH's executive director was not renewed two years ago by mutu-

al agreement, said Ostermiller, who serves on the board as a volunteer.

The board did not replace Butterfield and is currently working to close down the company because of lack of cash flow, Ostermiller said.

One of the reasons Butterfield's contract was not renewed had to do with the FBI investigation concerning Butterfield's work with Layton city, Ostermiller said.

Rep. Paul Ray, R-Clinton, was a member of the ALLH board of directors when Butterfield was the executive director.

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Cheryl and Gregory Gray, doing business as Gray and Gray Productions, an organization that receives HUD CDBG funds through the Detroit Neighborhood Improvement Project (Neighborhood Improvement) and other nonprofit agencies, were each arrested after they were charged in Wayne County District Court, **Detroit, MI**, with allegedly committing embezzlement and larceny by conversion and failing to file State income tax returns. From 2005 to 2006, Cheryl and Gregory Gray allegedly provided \$26,341 in fraudulent invoices to Neighborhood Improvement and embezzled about \$100,276 in HUD CDBG funds from the Detroit Theatre for the Dramatic Arts project. HUD realized losses of about \$126,617.

Fugitive Michigan couple facing multiple charges

By Ray King
OF THE COMMERCIAL STAFF

The Michigan couple arrested on state fugitive charges last week in Jefferson County were accused of embezzling funds that were issued to build a theater in Detroit.

Gregory Gray, 56, and Cheryl Gray, 52, were extradited back to Detroit Friday and after being arraigned Friday afternoon, their bond was set at \$250,000 each.

A press release from Wayne County Prosecutor Kym L. Worthy of Detroit said the couple was charged in January with three counts of embezzlement, \$100,000 or more; three counts of larceny by conversion, \$20,000 or more; and with failure to file or filing false tax returns.

Worthy issued a not-in-custody warrant for the Grays' stemming from allegations that Gray and Gray Productions had received payments from the city of Detroit in the form of Development Block Grant Funds to fund the building of the Detroit Theater for Dramatic Arts. The project was to be located next to the Greektown Casino. The Grays allegedly embezzled the money for their own use.


The two were arrested on March 17 by Jefferson County Sheriff's deputies after receiving information from the Inspector General's Office of the U.S. Department of Housing and Urban Development and Wayne County authorities.



Gregory and Cheryl Gray

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Sion Robert was charged in U.S. District Court, **New Orleans, LA**, with allegedly committing a conspiracy to steal Federal program funds. From July 2006 to July 2008, Robert and other individuals allegedly conspired and stole about \$109,702 from the House of Ruth, an organization that receives HUD Supportive Housing Program (SHP) funds.



Arthur Johnson, the director of East St. Louis Community Development (Community Development), an organization that receives HOME and other funds, and Harold Rosen, the owner of Kully Construction, Inc. (Kully), were each indicted in U.S. District Court, **East St. Louis, IL**, for allegedly committing bribery and wire fraud, corruptly accepting something of value in connection with a program receiving Federal funds, or aiding and abetting in the commission of wire fraud. From April 2009 to March 2010, Rosen allegedly submitted false information and fraudulent documents associated with the construction of Bowman Estates, a low-income housing development partially funded with Community Development funds, and Johnson allegedly approved the fraudulent Bowman Estate expenses submitted by Kully and accepted cash payments from Kully representatives in exchange for his future employment. HUD realized losses of about \$100,000.



Joseph Vas, a former New Jersey assemblyman and mayor of the City of Perth Amboy, NJ, pled guilty in New Jersey Superior Court, **Trenton, NJ**, to committing a pattern of misconduct, theft by unlawful taking, and financial facilitation of criminal activity. Vas conspired with a former City of Perth Amboy employee to rig a Perth Amboy lottery drawing that awarded the employee \$90,000 in HOME funds.



Kimberly Schultz, a former director of Habitat for Humanity, an organization that receives HUD Self-Help Homeownership Opportunity and other program funds, pled guilty in Louisiana State Court, **Covington, LA**, to committing theft. From June to November 2010, Schultz stole about \$75,000 in cash from the Habitat for Humanity Re-Store.



Brian Jeremiah, the former executive director of Shamokin Redevelopment Authority and city clerk of Shamokin, PA, was sentenced in U.S. District Court, **Williamsport, PA**, to 2 years probation, ordered to pay HUD \$8,100 in restitution, and fined \$1,000 for his earlier guilty plea to making fraudulent transactions with HUD. From 2006 to 2007, Jeremiah misapplied or fraudulently used City of Shamokin HOME funds without authorization. HUD realized losses of \$8,100.



Lori Macakanja, a former foreclosure prevention housing counselor for HomeFront, Inc., a HUD-funded housing counseling agency, was arrested and charged in U.S. District Court, **Buffalo, NY**, with allegedly making false statements to HUD and committing mail fraud. From October 2008 to October 2010, Macakanja allegedly solicited and accepted more than \$200,000 from more than 100 distressed homeowners and used about \$2,000 in HUD Owners Avoiding Homelessness program funds for her personal benefit.



Steven Davis, a former employee of the Greater Rochester Housing Partnership (Rochester Housing), an organization that receives HUD CDBG funds, was sentenced in U.S. District Court, **Rochester, NY**, and fined \$100 for his earlier guilty plea to committing fraud against HUD. From January 2005 to December 2009, Davis manipulated the Rochester Housing bid process and submitted fraudulent bids in an effort to award Rochester Housing contracts to specific contractors.

Civil and Administrative Actions

Joseph McNulty and Sam John, owners of Friendly Maintenance Group; George Thomas, the owner of TAJ Maintenance (TAJ); and Prakash Karot, a manager for TAJ and a housing inspector for the City of Perth Amboy, NJ, were each debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 36 months. From January 2004 to September 2006, the above defendants, who were previously sentenced in U.S. District Court, **Newark, NJ**, for their earlier guilty pleas to committing bribery, provided payments to a number of New Brunswick Community Planning and Economic Development employees in exchange for monthly rehabilitation contracts, expedited and lenient inspections, and accelerated contract payments. In addition, William Walker, the former director of New Brunswick Neighborhood Preservation and Housing Rehabilitation, organizations that receive HUD CDBG and HOME funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 11 months. From January 2004 to October 2006, Walker, who was previously sentenced for his earlier guilty plea to committing a conspiracy to extort under color of law, soliciting and accepting corrupt payments, and filing a false Federal income tax return, accepted \$112,500 in bribes in exchange for New Brunswick contracts and failed to report these kickbacks on his 2004 Federal income tax return.



Janei Walker, a Healthy Homes and Lead Hazard Control grant recipient through the Buffalo Urban Renewal Agency, an organization that receives HUD CDBG and other funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 36 months. Walker, who was previously sentenced in U.S. District Court, **Buffalo, NY**, for her earlier guilty plea to committing embezzlement and bank fraud and filing false Federal income tax returns, provided false information and fraudulently obtained \$16,960 in HUD funds.




Ricky Cherry, a former housing manager for Housing First Homeless Coalition, an organization that receives HUD SHP funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 3 years. From August 2006 to August 2008, Cherry, who was previously sentenced in U.S. District Court, **Mobile, AL**, for his earlier guilty plea to committing embezzlement, stole \$14,179 in tenant rents.



Stacie Billings, the former executive director of Adirondack Veterans House (Adirondack), an organization that receives HUD CDBG and SHP funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 36 months. Billings, who was previously sentenced in Warren County Court, **Saratoga, NY**, for her earlier guilty plea to committing grand larceny, diverted and personally used \$11,600 in Adirondack funds.





Anthony Saccomanno, the former director of the Cherry Hill Department of Code Enforcement and Inspections (Cherry Hill), an organization that receives HUD CDBG funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 36 months. Saccomanno, who was previously sentenced in U.S. District Court, **Newark, NJ**, for his earlier guilty plea to committing mail fraud, caused a letter to be mailed after he accepted money from Building Inspections Underwriters, Inc., a Cherry Hill contractor.

Other Fraud/Crimes

Josephine Moore, a HUD Community Block Lead Abatement grant recipient through the City of Rochester, a municipality that receives HUD CDBG funds, was sentenced in U.S. District Court, **Rochester, NY**, to 5 years probation and ordered to pay HUD \$24,000 in restitution for her earlier guilty plea to committing theft of government funds. Between March and October 2008, Moore provided false information when she applied for and fraudulently obtained \$24,000 in HUD program funds.



Malcolm Crawford, also known as Calvin Gamble, a former West Valley City Housing Authority Housing Opportunities for Persons with Aids program recipient, pled guilty in U.S. District Court, **Salt Lake City, UT**, to committing mail fraud. From August 1993 to July 2010, Crawford used a number of names and Social Security numbers belonging to other individuals, failed to report income on housing and other certifications, and fraudulently obtained about \$21,844 in housing assistance and \$161,156 in Social Security Administration and other benefits he was not entitled to receive.



Talbert Davis, a former realtor for Houston Associates Realty, was indicted in Harris County District Court, **Houston, TX**, for allegedly tampering with a governmental record. In October 2010, Davis allegedly provided a forged City of Houston proof of funds letter in an attempt to purchase two HUD real estate-owned properties for Guiding Light Community Development, a nonprofit organization and Houston NSP participant. HUD losses have not yet been determined.




Joseph Cardwell, a political consultant for Jersey City, NJ, pled guilty in U.S. District Court, **Newark, NJ**, to agreeing to give things of value to a public official with the intent to influence and reward. From July 2008 to April 2009, Cardwell agreed to accept \$30,000 from a government informant posing as a real estate developer in return for his influence with a public official from Jersey City, NJ, a municipality that receives HUD CDBG funds.



Vincent Tabbachino, the owner of Tabbachino Associates, was convicted in U.S. District Court, **Newark, NJ**, of attempting to commit extortion under color of an official right and giving and offering a corrupt payment and found not guilty of committing a conspiracy to obstruct commerce by extortion under color of official right. In addition, Anthony Suarez, the mayor of the Borough of Ridgefield, NJ, was found not guilty of committing a conspiracy to obstruct commerce by extortion under color of an official right, attempted extortion under color of an official right, and giving and offering a corrupt payment. From April to July 2009, Tabbachino agreed to accept \$10,000 from a government informant in exchange for his influence involving commercial and residential real estate projects with the Borough of Ridgefield, NJ, a HUD-funded municipality.





Anthony Sharpe, a former HUD Real Estate Assessment Center inspector, current building inspector for the City of Detroit, MI, and the owner of Sharpe Environmental, and Moreno Taylor, a former Detroit building inspector and the owner of Taylor Environmental Sampling & Testing (Taylor Environmental), each pled guilty in U.S. District Court, **Detroit, MI**, to making false statements to HUD or committing mail fraud. Between 2004 and 2007, Sharpe and Sharpe Environmental provided false residential lead inspection reports for Wayne Metropolitan Community Action Agency, an organization that receives HUD CDBG funding. In addition, Sharpe, Sharpe Environmental, Taylor, and Taylor Environmental created and provided false lead inspection reports for HUD-subsidized multifamily housing developments located in Cincinnati, OH, or Detroit, MI.





Inspections and Evaluations

The HUD OIG Office of Investigation's Inspections and Evaluations activities are designed to promote economy, efficiency, and effectiveness in the administration of HUD programs; detect and deter fraud and abuse in HUD programs and operations; and ensure compliance with applicable laws and regulations. The office conducts inspections and evaluations using various study methods and evaluative techniques to provide timely information to improve policies, programs, and procedures.

HUD's Supportive Housing Program - Survey of Grantee Monitoring of Project Sponsors

HUD OIG conducted a survey of HUD SHP; specifically, the monitoring of nonprofit subgrantees (project sponsors) that deliver supportive housing and/or supportive services. The objective was to assess whether SHP grantees followed Federal regulations and HUD guidance on monitoring project sponsor activities and program expenditures and to examine HUD's role in the grantees' monitoring of project sponsors. Questionnaires were sent to all 44 HUD CPD regional and field offices and to a sample of 11 SHP grantees and 12 project sponsors.

Survey responses indicated that overall HUD was actively providing monitoring guidance to SHP grantees and that most grantees reported compliance with Federal regulations related to their monitoring of project sponsors. However, responses to the survey indicated that improvement is warranted in certain aspects of HUD's guidance and grantee monitoring.

Effective oversight and monitoring are crucial to ensuring that SHP funds are properly spent to assist in the transition of persons out of homelessness. Therefore, HUD should reinforce compliance with Federal regulations and monitoring guidance and ensure that its monitoring reviews include assessment of SHP grantee project sponsor management.



Chapter 5 - American Recovery and Reinvestment Act of 2009



Introduction and Background

The U.S. Department of Housing and Urban Development (HUD) has received \$13.61 billion in funding under the American Recovery and Reinvestment Act of 2009 (ARRA) in several housing program areas. Table 1 shows the HUD program areas receiving funding and the amounts appropriated to each program.

Table 1: HUD programs receiving ARRA funding

Program	Area	Funding amount
Office of Public and Indian Housing	• Public Housing Capital Fund	\$4,000,000,000
	• Native American Housing Block Grant	\$510,000,000
Office of Community Planning and Development	• Community Development Block Grant	\$1,000,000,000
	• Neighborhood Stabilization Program	\$2,000,000,000
	• HOME Investment Partnerships Program-Tax Credit Assistance Program	\$2,250,000,000
	• Homelessness Prevention Fund	\$1,500,000,000
Office of Multifamily Housing	• Assisted Housing Stability grant	\$2,000,000,000
	• Green Retrofit grant	\$250,000,000
Office of Healthy Homes and Lead Hazard Control	• Lead Hazard Reduction Demonstration program	\$100,000,000
Total		\$ 13,610,000,000

ARRA also provided \$15 million to the HUD Office of Inspector General (OIG). This funding will remain available until September 2012. The purpose of the funding is for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Housing and Urban Development.”

Through its audit and investigative programs, HUD OIG will constantly tailor and adjust its short- and long-term activities for timely and effective oversight of the ARRA funds expended by HUD programs. OIG’s plan will be adjusted as the HUD programs develop plans and distribute their ARRA funds. OIG will continue outreach and training efforts for the prevention of fraud, waste, and abuse to the Department and recipients of ARRA funds.



Audit

The Office of Audit has initiated a three-phased approach to conducting related audit work. The actions it has taken and plans to take will help position it to meet the increased workload under ARRA and protect the Federal investment over the long term.

The Office of Audit's overall oversight objectives for HUD funding under ARRA are to determine whether

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes, and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under ARRA avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

In the prior semiannual reporting periods, HUD OIG reviewed HUD's front-end risk assessments, audited HUD's formula allocation dictated in ARRA programs, and assessed the administrative capacity of selected grantees to effectively administer ARRA funds. During this semiannual reporting period, OIG's focus has shifted from the capacity assessments to audits of the grantee expenditures. OIG has also started to focus on HUD's oversight activities.

The following section demonstrates the audit work that has been completed during this reporting period.

Strategic Initiative 3: Contribute to the strengthening of communities

Key program results		Questioned costs	Funds put to better use
Audit	19 audits*	\$4.7 million	---
Our focus	Page 78	• Public Housing Capital Fund audits and reviews	
	Page 81	• Community Development Block Grant audits and reviews	
	Page 81	• Tax Credit Assistance Program	
	Page 83	• Homelessness Prevention and Rapid Re-housing Program	

* The total ARRA-related audits consist of community planning and development and public and Indian housing audits. The questioned costs and funds put to better use amounts relate only to ARRA-related costs.

In addition to the audits described in this chapter, HUD OIG, has conducted a number of outreach efforts (see chapter 8, page 119).

Office of Public and Indian Housing Audits and Reviews

Public Housing Capital Fund Audits and Reviews

HUD OIG audited the Housing Authority of the City of **New Haven, CT**, to determine whether the Authority (1) obligated its Public Housing Capital Fund Stimulus Recovery Act Funded formula grant funds for eligible projects/activities, (2) properly supported obligations and expenditures, (3) had adequate controls over obligations and expenditures, and (4) procured contracts in accordance with ARRA requirements and HUD rules and regulations.

Overall, the Authority obligated its formula grant funds for eligible activities, supported its obligations, and had adequate controls over the obligation and expenditure process. However, it did not always procure contracts in accordance with ARRA and Federal requirements that involved more than \$1.4 million of its \$6 million in ARRA funds. Specifically, the Authority could not show cost reasonableness for vacancy reduction contracts and did not obtain competitive bids for the renovations. As a result, ARRA funds may not have been used efficiently, and the maximum number of vacant housing units may not have been returned to service.

The Authority also did not properly obligate and execute its ARRA physical needs assessment contract. The contract was not properly obligated because it included a \$60,000 contingency for additional work that may have required expenditure; thus, the Authority was not obligated to spend ARRA funds. The contract was not properly executed because the Authority used the contingency for a study that was not included in the contract scope of work and, thus, was not an eligible contract cost.

OIG recommended that HUD require the Authority to support the cost reasonableness or repay any amounts it cannot support from the ARRA capital funds spent for vacancy reduction contracts. OIG also recommended that the Authority improve its procurement controls to include obtaining appropriate procurement training and fully implementing procurement requirements regarding cost estimates, cost analysis, and competitive bids. OIG further recommended that HUD require the Authority to pay for the Section 8 conversion study from non-ARRA funds and ensure that the contingency is expended according to the contract; however, if eligible costs cannot be identified, the funds should be recaptured in accordance with ARRA. (Audit Report: **2011-BO-1003**)



HUD OIG audited the Housing Authority of the City of **Shreveport, LA**'s ARRA funds to determine whether fund obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported and whether procurements were made in accordance with requirements.

The Authority mismanaged its ARRA funds by entering into imprudent contracts to meet the March 17, 2010, obligation deadline. In addition, it could not provide assurance that the contracts were properly awarded or managed. By selecting an activity for expediency purposes instead of prioritizing capital work in its best interest, the Authority inefficiently and ineffectively managed more than \$1.5 million in ARRA funding.

OIG recommended that HUD (1) require the Authority to deobligate more than \$1.1 million in ARRA funds and (2) recapture and rescind the deobligated funds and deposit those funds with the U. S. Treasury in accordance with ARRA as amended. (Audit Report: 2011-FW-1001)



HUD OIG audited the Housing Authority of the City of **Port Arthur, TX**'s Public Housing Capital Fund Stimulus Recovery Act Funded activities to determine whether (1) Public Housing Capital Fund formula grant obligations made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported and (2) related procurements were made in accordance with 24 CFR (Code of Federal Regulations) Part 85 and ARRA requirements. Additionally, OIG assessed the Authority's compliance with ARRA reporting and environmental review requirements.

The Authority's ARRA obligation was not appropriate, prudent, eligible, and supported because its related procurement was not made in accordance with 24 CFR Part 85 and ARRA requirements. The Authority violated procurement requirements designed to ensure full and open competition and reasonable cost and did not practice sound financial controls over the grant. As a result, the Authority's obligation of its nearly \$726,000 ARRA grant and its resulting expenditures were ineligible. In addition, the Authority did not comply with ARRA environmental review reporting requirements, and it commenced site work for its project before receiving environmental clearance to proceed.

OIG recommended that HUD rescind the Authority's ARRA grant, including the nearly \$68,000 expended, and return the entire allocation to the U. S. Treasury for the sole purpose of deficit reduction. HUD should also ensure that the Authority complies with procurement requirements, adopts adequate financial controls, and complies with environmental review requirements. OIG further recommended that HUD prohibit the Authority from conducting further site work until it receives environmental clearance to do so, regardless of the funding source. (Audit Report: **2011-FW-1005**)



HUD OIG audited the Housing Authority of the City of **Los Angeles, CA**'s Public Housing Capital Fund grant awarded under ARRA to evaluate the Authority's capacity in the areas of internal controls, eligibility, financial controls, procurement, and output/outcomes in administering its ARRA funds.

The Authority generally had adequate capacity to manage and administer its ARRA funding. However, OIG identified various weaknesses that could impact the Authority's ability to effectively manage and administer its ARRA funding in the most economical and efficient manner. Specifically, the Authority (1) did not properly procure two of its contracts or evaluate compliance with requirements for a third contract, (2) failed to include all provisions required by 24 CFR 85.36(i) for five of its contracts, (3) did not record its employees' time accurately and consistently in its manual and Oracle time cards, (4) did not develop sufficient written policies and procedures to monitor for Davis-Bacon compliance, and (5) did not maintain documentation to show that Davis-Bacon certified payrolls were received and reviewed for compliance.

OIG recommended that HUD (1) require the Authority to provide support showing the eligibility and reasonableness of more than \$369,000 disbursed for the repair of 12 fire-damaged units at Nickerson Gardens or reimburse this amount to its ARRA program, as appropriate, from non-Federal funds; (2) closely monitor the intergovernmental purchasing agreement transactions of the Authority for the quarters ending December 31, 2010, March 31, 2011, and June 30, 2011, to ensure that it follows HUD's and its own procurement requirements; (3) implement procedures to ensure that it includes all mandatory contract

provisions as required by 24 CFR 85.36(i); (4) rescind the Authority's HA-2006-047 Home Depot contract and require the Authority to rebid it in compliance with 24 CFR 85.36(c) and its own internal procurement policy; and (5) monitor the Authority to ensure that it implements the procedures it has in place to establish project numbers before beginning work at each development. OIG also recommended that HUD require the Authority to (1) reallocate the payroll of force account employees in the Oracle system to the correct project numbers between September 12, 2009, and February 12, 2010, and (2) develop and implement formal written policies and procedures to assist staff in monitoring for Davis-Bacon compliance. (Audit Report: **2011-LA-1002**)



HUD OIG audited the West Memphis Housing Authority in **West Memphis, AR**, to determine whether ARRA obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported and whether procurements and disbursements were made in accordance with requirements.

Generally, the Authority complied with ARRA requirements regarding the obligation of capital funds, including complying with procurement requirements. However, it did not comply with all requirements and could strengthen its controls. OIG recommended actions to correct overobligations and strengthen controls. (Audit Report: **2011-FW-1004**)



HUD OIG audited the **Jersey City, NJ**, Housing Authority's administration of its Public Housing Capital Fund program funded under ARRA to determine whether the Authority obligated and expended its ARRA capital funds in accordance with HUD regulations.

Authority officials generally complied with HUD regulations; however, weaknesses existed in the Authority's financial management system. Specifically, (1) it was difficult to trace the drawdowns to the source documentation, (2) Authority officials charged their ARRA Public Housing Capital Fund program with more expenses than were incurred, and (3) costs were miscategorized. Consequently, HUD was precluded from effectively and efficiently monitoring and evaluating the Authority's administration of its ARRA capital funds.

OIG recommended that HUD instruct Authority officials to (1) improve their financial controls and accounting procedures to ensure that drawdowns can be traced to source documentation as required by HUD regulations; (2) develop procedures to ensure that drawdowns are made only on a reimbursement basis so that the specific costs paid are identified for each drawdown; (3) reimburse more than \$5,000 from non-Federal funds to the ARRA Public Housing Capital Fund program; (4) reimburse more than \$13,000 to the dwelling structure line item from the administrative costs line item and correct the financial records in HUD's Line of Credit Control System to ensure that the proper categories were charged; and (5) develop procedures to improve the accounting system and internal controls to ensure that funds are drawn down and used as budgeted and financial reports are accurate, current, and complete. (Audit Report: **2011-NY-1007**)



HUD OIG audited the ARRA Public Housing Capital Fund program obligations of the Housing Authority of East Baton Rouge Parish in **Baton Rouge, LA**, to determine whether the Authority met HUD and ARRA requirements when obligating and expending funds it received under ARRA.

Overall, the Authority generally ensured that it met HUD and ARRA requirements. Specifically, it obligated ARRA capital funds for eligible projects, maintained proper support for its obligations, and ensured that it had adequate management controls over its obligation process. In addition, the Authority's ARRA projects were in progress, and it appeared that the Authority would spend its ARRA funds within the required timeframes. However, it did not always ensure that ARRA expenditures were eligible. As a result, the Authority spent nearly \$14,000 for ineligible costs. It corrected the transaction that generated the ineligible costs and charged the costs to the appropriate funding source.

OIG recommended that HUD require the Authority to develop and implement adequate written accounting policies, which include procedures for processing and paying invoices, to ensure that ARRA funds are properly spent and accounted for. (Audit Report: **2011-AO-1003**)

Office of Community Planning and Development Audits and Reviews

Community Development Block Grant Audits and Reviews

HUD OIG audited the City of **Pittsburgh, PA's** administration of its Community Development Block Grant funds that it received under ARRA to determine whether the City administered its street resurfacing and neighborhood business and economic development activities funded with ARRA funds according to the requirements of ARRA and applicable HUD rules and regulations.

Although the City generally administered its street resurfacing and neighborhood business and economic development activities funded with ARRA funds according to ARRA requirements and applicable HUD rules and regulations, it can improve its administration of the funds. The City (1) did not comply with HUD guidance for implementing the "buy American" provision of ARRA, (2) could not demonstrate that jobs created in part by \$400,000 in loaned funds benefitted or would benefit low- and moderate-income persons, (3) did not include a statement of work in its subrecipient agreement with the Urban Redevelopment Authority, and (4) did not accurately post the number of jobs created or retained to the Federal reporting Web site.

OIG recommended that HUD require the City to (1) develop and implement controls to ensure that a "buy American" provision is included in requests for applications or proposals, subrecipient agreements, bidding documents, and contracts funded with ARRA funds; (2) provide documentation to demonstrate that funds loaned to two companies will comply with national objective criteria and benefit low- and moderate-income persons; (3) amend its subrecipient agreement with the Urban Redevelopment Authority to include a specific description of the work to be performed, a schedule for completing the work, and a detailed budget; and (4) develop and implement controls to ensure that ARRA job creation data it posts to the Federal reporting Web site are accurate. (Audit Report: **2011-PH-1006**)

Tax Credit Assistance Program

HUD OIG audited the Pennsylvania Housing Finance Agency because it received \$95.1 million in Tax Credit Assistance Program (TCAP) funds under ARRA. The objective was to determine whether the Agency administered its program in accordance with ARRA and applicable HUD requirements.

The Agency generally administered its program in accordance with ARRA and HUD requirements. However, it incurred ineligible costs totaling nearly \$136,000 and could not support costs totaling nearly

\$152,000. In addition, it did not obtain required lobbying certifications from contractors and subcontractors, and it understated the job creation information that it posted to the Federal reporting Web site.

OIG recommended that HUD require the Agency to reimburse its program for the ineligible costs and provide documentation to support the unsupported costs identified by the audit or reimburse its program from non-Federal funds for any costs that it cannot support. In addition, the Agency should obtain the required lobbying certifications from contractors and subcontractors and develop and implement controls to ensure that accurate job information is posted to the Federal reporting Web site. (Audit Report: **2011-PH-1003**)



HUD OIG audited the Washington State Housing Finance Commission in **Seattle, WA**, to determine whether the Commission established eligible grant projects, entered TCAP information into Recovery.gov accurately and completely, and paid eligible TCAP expenditures in accordance with ARRA requirements.

The Commission complied with the applicable ARRA and HUD rules and regulations in establishing eligible grant projects and in entering TCAP information into the Federal reporting Web site. However, it did not always disburse TCAP funds in accordance with program requirements. The Commission reimbursed two project owners for ineligible permanent loan fees, appraisal fees, and unsupported legal costs.

OIG recommended that HUD require the Commission to (1) reimburse more than \$170,000 to its U.S. Treasury line of credit from non-Federal funds for the ineligible expenditures, (2) provide supporting documentation for more than \$17,000 in unsupported costs or reimburse its U.S. Treasury line of credit from non-Federal funds, and (3) establish and implement written policies and procedures for the review and approval of budgets and draw requests. (Audit Report: **2011-SE-1002**)



HUD OIG audited the Virginia Housing Development Authority in **Richmond, VA**, to determine whether the Authority administered its TCAP in accordance with ARRA and applicable HUD requirements.

The Authority generally administered TCAP in accordance with ARRA and HUD requirements. However, it did not obtain lobbying certifications as required by ARRA.

OIG recommended that the Authority obtain lobbying certifications from its TCAP contractors and subcontractors. It took immediate corrective action during the audit to obtain the required certifications. (Audit Report: **2011-PH-1001**)



HUD OIG audited the TCAP funds awarded to the West Virginia Housing Development Fund in **Charleston, WV**, under ARRA to determine whether the Fund administered its program in accordance with ARRA and applicable HUD requirements. The Fund generally administered TCAP in accordance with ARRA and HUD requirements. However, it did not report 38 full-time equivalents (FTE) created during the first three quarters of 2010.

OIG recommended that HUD require the Fund to maintain the FTE data that were not reported until the Federal Government requests the information. (Audit Report: **2011-PH-1008**)

Homelessness Prevention and Rapid Re-Housing Program

HUD OIG audited the City and County of **San Francisco, CA**, to determine whether the City disbursed its Homelessness Prevention and Rapid Re-Housing Program (HPRP) funding in accordance with program requirements.

The City paid for HPRP services for ineligible participants and participants whose eligibility was not supported. It also paid for ineligible activities. Of 31 case files reviewed, 4 participants were ineligible, and 10 did not have adequate documentation to support eligibility. OIG also identified 17 additional participants that the City had reviewed during monitoring whose eligibility was not adequately supported.

OIG recommended that HUD require the City to (1) reimburse the program nearly \$9,000 from non-Federal funds for the ineligible participants and activities and determine and reimburse any amounts that have been spent since the audit for these participants; (2) provide supporting documentation for participants' eligibility or reimburse its program accounts more than \$31,000 for participants reviewed who lacked adequate documentation and determine and reimburse any amounts that have been spent since the audit for these participants; (3) provide supporting documentation for participants' eligibility or reimburse its program accounts more than \$23,000 based on the City's monitoring review and determine and reimburse any amounts that have been spent since the audit for these participants; (4) develop and implement procedures to ensure that its subgrantees verify and document participant eligibility in accordance with HPRP requirements; and (5) develop and implement effective monitoring procedures to ensure, at a minimum, that reviews are timely, deficiencies and corrections are clearly documented, and reimbursements for ineligible participants or participants whose eligibility cannot be determined are repaid to the program. (Audit Report: **2011-LA-1005**)



HUD OIG audited the HPRP at the City of **Los Angeles, CA**, Housing Department to determine whether the Department was efficiently and effectively administering its HPRP grant funds in compliance with ARRA and other applicable requirements. Specifically, OIG wanted to determine whether the Department had adequate policies and procedures in place to ensure that program expenditures were supported with adequate documentation and subrecipients were monitored to ensure compliance with all applicable regulations.

The Department did not always efficiently and effectively administer its grant funds in compliance with ARRA and other applicable requirements. It did not ensure that expenditures were supported with adequate source documentation. Further, its policies and procedures were not adequate to ensure that its subrecipients complied with contractual requirements, maintained source documents for program expenditures, and received adequate monitoring for compliance with Federal requirements.

OIG recommended that HUD require the Department to (1) revise its policies and procedures to ensure that adequate source documentation is reviewed before disbursing HPRP funds and (2) enforce the Homeless Program services contract between itself and the Los Angeles Homeless Services Authority to ensure that the Authority collects, reviews, and maintains adequate source documentation from all of its subrecipients, thereby reducing the risk of fraud, waste, and abuse. Further, OIG recommended that the Department revise its policies and procedures to ensure that the day-to-day activities of all subrecipients are monitored during the grant term to ensure compliance with HPRP and other applicable Federal requirements. (Audit Report: **2011-LA-1001**)



Investigations

The investigations shown below were conducted jointly with Federal, State, or local law enforcement agencies.

George and Elias Saad, Kristijan Kajtna, and Harlene Grullon were each indicted in U.S. District Court, **Boston, MA**, for allegedly making false statements in Federal Housing Administration (FHA) transactions, submitting false claims, and committing wire fraud and a conspiracy to defraud the United States. From 2008 to 2011, George Saad and Harlene Grullon allegedly provided false information used by Elias Saad, Kristijan Kajtna, and other straw borrowers who fraudulently obtained FHA-insured mortgages and “First Time Homebuyer Tax Credits” funded by ARRA. HUD losses have not yet been determined.



Jerry Janvier and Theresa Finocchio, a current Boston Housing Authority public housing tenant and former unauthorized resident; Junior Lopez; Christopher Proe; and five additional individuals were each indicted in U.S. District Court, **Boston, MA**, for allegedly committing a conspiracy to defraud the United States or making false claims. From 2009 to 2011, Lopez and Proe allegedly misused identification information belonging to other individuals, including a number of HUD-subsidized housing recipients, and submitted more than \$600,000 in fraudulent ARRA-funded First Time Homebuyer Tax Credit claims. In addition, Janvier, Finocchio, and the remaining defendants allegedly submitted false information and documents, fraudulently claimed property ownership, and unlawfully obtained First Time Homebuyer Tax Credits.



Ashley King, a HUD HPRP applicant through the Fair Housing Resource Center, and Curtis White each pled guilty in U.S. District Court, **Cleveland, OH**, to making false statements. In March 2010, King and White provided false information and fraudulent documents when they applied for \$1,300 in housing assistance.





Inspections and Evaluations

The HUD OIG Office of Investigation's Inspections and Evaluations activities are designed to promote economy, efficiency, and effectiveness in the administration of HUD programs; detect and deter fraud and abuse in HUD programs and operations; and ensure compliance with applicable laws and regulations. The office conducts inspections and evaluations using various study methods and evaluative techniques to provide timely information to improve policies, programs, and procedures.

Use of American Recovery and Reinvestment Act of 2009 Funds by the Housing Authority of the City of Fort Myers, FL

HUD OIG conducted an inspection to address concerns of OIG senior management regarding the Housing Authority of the City of Fort Myers' (HACFM) use of ARRA funds to construct a new administration building. Specifically, OIG wanted to determine (1) whether HACFM could use ARRA funds to construct a new administration building and (2) whether HACFM used ARRA funds to purchase furniture and equipment for the new administration building and if so, whether this was an eligible activity.

OIG determined that HACFM could use ARRA funds and its fiscal year public housing capital funds for the construction of a new administration building. Also, HACFM did not use ARRA funds to purchase furniture and equipment for the new administration building. These purchases were made from other eligible funding sources.

OIG made no recommendations for corrective action.



Chapter 6 - Disaster Grant Programs





Introduction and Background

As the U.S. Department of Housing and Urban Development (HUD) provides recovery assistance through Community Development Block Grant (CDBG) funds, which are made available from supplemental appropriations for major disasters declared by the President, the Office of Inspector General (OIG) continues its oversight role. Over the past several years, HUD has allocated more than \$29.4 billion to various States through its CDBG program. These active disaster grants nationwide have \$24.5 billion in obligations and \$19.2 billion in disbursements. Regarding the \$19.6 billion in funds provided to Gulf Coast States for Hurricane Katrina, \$15.6 billion, or 79.6 percent, of the funds has been disbursed for the period ending March 31, 2011. These Disaster Recovery grants are used to rebuild the affected areas and provide crucial seed money to start the recovery process. A significant management challenge for HUD is to ensure that States have the accountability controls in place to ensure that limited resources are used appropriately.

HUD OIG continues to take steps to ensure that the Department remains diligent in assisting communities with their recovery efforts. During the current semiannual period, Office of Audit completed two Hurricane Katrina audits and two audits of other disasters. For the four audits, OIG questioned costs of \$2.8 million and provided recommendations for management improvements.



Audit

During this period, OIG's Office of Audit issued four audit reports on various HUD disaster programs. The reviews covered the CDBG disaster programs. HUD provides disaster assistance through the CDBG program, which is made available from supplemental appropriations for recovery from major disasters declared by the President. These reviews were performed by HUD OIG Office of Audit regional offices: (1) two by the Gulf Coast office (Region XI), (2) one by the Fort Worth, TX, office (Region VI), and (3) one by the New York, NY, office (Region II).

Key program results		Questioned costs	Funds put to better use
Audit	4 audits*	\$2.8 million	---

* The total disaster audits, questioned costs, and funds put to better use amounts include four audits conducted in the community planning and development area.

HUD OIG audited the HUD CDBG Supplemental Disaster Recovery program funds administered by the **State of Louisiana**, Office of Community Development, in Baton Rouge, LA, to determine whether the State ensured that disbursements to participants were eligible and supported under its Small Rental Property Program.

In general, the State ensured that disbursements to program participants were eligible and supported by following the program policies and procedures and adequately documenting the program participants' eligibility.

Since the State generally ensured that disbursements to program participants were eligible and supported, OIG did not recommend corrective action. (Audit Report: **2011-AO-1001**)



HUD OIG audited the HUD CDBG Supplemental Disaster Recovery program funds administered by the State of Louisiana, Office of Community Development, in **Baton Rouge, LA**, to determine whether the State ensured that disbursements made under its First Time Homebuyer Program complied with Federal regulations and the cooperative endeavor agreement with its subrecipient, the Finance Authority of New Orleans.

The State did not always ensure that disbursements made under its program complied with Federal regulations and the agreement. Specifically, disbursements to program participants were not always eligible and supported. As a result, the State disbursed \$268,415 for ineligible program costs and was unable to support more than \$1.2 million in program costs.

In addition, the State disbursed funds to the Finance Authority on a fee-per-loan basis, which was unallowable. It also did not ensure that the findings in its monitoring reviews were resolved before continuing disbursements to the Finance Authority. As a result, it disbursed more than \$1.3 million for unallowable costs and did not have assurance that costs were reasonable or necessary. Further, the State did not have reasonable assurance that the Finance Authority used every opportunity to (1) maximize the disaster funds and (2) increase the number of individual families that were served by the program.

OIG recommended that HUD require the State to (1) repay its program for the ineligible costs, (2) support or repay its program for the unsupported costs, and (3) support or repay its program for the funds disbursed to the Finance Authority on a fee-per-loan basis and cease payment of the fee per loan to the Finance Authority. (Audit Report: **2011-AO-1002**)



HUD OIG audited the HUD CDBG Supplemental II Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA) to determine whether TDHCA monitored its program management firm to ensure compliance with Federal and State regulations and to ensure that costs reimbursed for the Housing Assistance Program and the Sabine Pass Restoration Program were adequately supported.

TDHCA's monitoring activities provided assurance that its program management firm generally complied with Federal and State regulations. Further, TDHCA's reviews and monitoring generally ensured that program costs submitted for reimbursement by the firm were adequately supported. However, in a minor instance of noncompliance, TDHCA allowed the firm to budget and receive reimbursement for a \$71,691 markup for "admin fees on subcontractors," calculated using a "cost plus a percentage of cost method" that is not allowed under CDBG rules. TDHCA had originally questioned the costs but later allowed them because contractor staff provided support that made the expenditures seem plausible.

OIG recommended that HUD require TDHCA to recover from its program management firm all "admin fees on subcontractors" costs, reimburse its HUD Disaster Recovery program accounts for those costs, and continue to monitor and review program disbursements for the ineligible cost plus a percentage of cost payments. (Audit Report: **2011-FW-1006**)



HUD OIG audited the Lower Manhattan Development Corporation's (LMDC) administration of the \$2.783 billion in CDBG Disaster Recovery Assistance funds provided to the State of New York in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center in **New York City, NY**, to determine whether LMDC disbursed CDBG Disaster Recovery Assistance funds for the Economic Development and East River Waterfront programs in accordance with the guidelines established under its action plans.

LMDC officials generally disbursed the funds reviewed in accordance with applicable action plans. However, documentation for the award of Small Firm Assistance Program grants, administered under the Economic Development Program, was not always adequate to ensure that grants were awarded in accordance with LMDC guidelines. Further, additional program requirements could provide greater assurance that program objectives will be achieved.

OIG recommended that HUD direct LMDC officials to (1) strengthen Small Firm Assistance Program processing controls to ensure that adequate documentation is maintained for the basis of awarding grants, thus providing greater assurance that any grants awarded from the \$3.1 million authorized under a subrecipient agreement but not yet expended will be adequately supported, and (2) consider administrative changes that might better ensure that program objectives will be met. (Audit Report: **2011-NY-1005**)



Investigation

The HUD OIG Office of Investigation continues to pursue HUD disaster assistance crimes with other law enforcement agencies, including the Federal Bureau of Investigation and other Federal, State, and local partners. While the majority of prosecutions during this reporting period involved individuals who obtained disaster assistance through fraud, OIG is vigorously pursuing public corruption, infrastructure, and procurement crimes. Working with the Louisiana Recovery and Mississippi Development Authorities, OIG is taking a proactive role to prevent fraudulent disaster-related claim payments and to assist with the recovery of deceptive or fraudulent grants. In addition, HUD OIG continues to be a dedicated partner in the National Center for Disaster Fraud Task Force (previously known as the Hurricane Katrina Fraud Task Force). HUD OIG provides personnel to support the joint command center in Baton Rouge, LA, continues to support disaster-related investigative efforts throughout the country, and actively participates in the sharing of information and the receipt and referral of complaints with other law enforcement agencies.

Homeowner Grant Fraud

Judy Carter was charged in U.S. District Court, **Gulfport, MS**, with allegedly making false statements and committing theft of government funds and mail and wire fraud. Carter applied for and received \$300,000 in CDBG Disaster Recovery Assistance funds through the Mississippi Development Authority (MDA) and \$49,517 in Federal Emergency Management Agency (FEMA) disaster assistance on behalf of another individual for hurricane-damaged residential property, but allegedly the damaged property was not their primary residence during Hurricane Katrina.



Robert and Chressye Wallace were collectively sentenced in U.S. District Court, **New Orleans, LA**, to 18 months incarceration and 72 months supervised release and ordered to pay the Louisiana Road Home (Road Home) program \$233,015 in restitution for their earlier guilty pleas to committing theft of government funds. Robert and Chressye Wallace applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Former HUD attorney Diane Walder and her husband James Groomes were collectively sentenced in U.S. District Court, **Gulfport, MS**, to 8 years probation and ordered to perform 80 hours of community service and pay the Small Business Administration (SBA) \$25,000 in restitution for their earlier guilty pleas to committing theft of government funds. Walder and Groomes applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through MDA and \$50,000 in SBA disaster assistance for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Lionel Perkins was sentenced in U.S. District Court, **New Orleans, LA**, to 78 months incarceration and 3 years supervised release and ordered to pay the Road Home program \$115,000, SBA \$48,138, FEMA \$5,514, and others \$57,317 in restitution for his earlier guilty plea to obstructing justice and committing theft of government funds; identity theft; and wire, health care, Social Security Administration (SSA), and Medicaid fraud. Perkins applied for and received \$150,000 in CDBG Disaster Recovery Assistance

funds through the Road Home program and caused the Road Home administrator to remit \$58,500 in CDBG funds to repay his SBA disaster assistance loan for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina. In addition, Perkins applied for and fraudulently obtained SSA, food stamps, Medicaid, and other health care benefits.



Ellaine Mullone pled guilty in U.S. District Court, **New Orleans, LA**, to committing theft of government funds. Mullone applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through the Road Home program, \$219,000 in SBA disaster assistance, and \$26,676 in FEMA assistance for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.

Woman guilty of Katrina fraud

*Houston resident
claimed La. home*

From staff reports

A Houston woman pleaded guilty Friday to three counts of theft of government funds related to Hurricane Katrina.

Elaine Mullone, 64, received about \$364,330 from FEMA, Road Home and the Small Business Administration between 2005 and 2009 by falsely claiming

that a Madisonville home was her primary residence.

Although Mullone owned a home in Madisonville, she was living in Houston when the hurricane struck.

In October 2005, she filed an application with FEMA, claiming that the Madisonville home was her primary residence and receiving nearly \$9,500 for property loss, home repair and rental assistance. She also requested a FEMA trailer for the property, which stayed there from March 2007 to May 2009 and cost FEMA more than \$17,000.

Mullone applied for a disaster assistance loan from the SBA,

declaring again that her primary residence was in Madisonville. She received about \$225,300.

She also applied for a Road Home grant and received approximately \$150,000.

One of the major requirements of the Road Home program is that the damaged property be the primary residence of the applicant.

Mullone faces a maximum penalty of 10 years in prison, a \$250,000 fine and three years of supervised release for each count, in addition to the forfeiture of her Madisonville property.

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Ruth Goodman was sentenced in U.S. District Court, **New Orleans, LA**, to 37 months incarceration and 36 months probation and ordered to pay the Road Home program and others \$476,904 in restitution for her earlier guilty plea to making false statements, committing theft of government funds and mail fraud, and possessing a false passport. Goodman applied for and received \$132,146 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$342,000 in SBA disaster assistance for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina. In addition, Goodman submitted false documents to FEMA and possessed a fraudulent passport.



Casey Adams entered into a pretrial diversion filed in U.S. District Court, **New Orleans, LA**, and agreed to repay the Road Home program \$10,000. Adams admitted that he applied for and received \$130,000

in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property that was not his primary residence during Hurricane Katrina.



Gerald and Michael Haydel were each charged in U.S. District Court, **Jackson, MS**, with allegedly making false statements and committing theft of government funds and mail fraud. Gerald and Michael Haydel applied for and received \$92,856 in CDBG Disaster Recovery Assistance funds through MDA and \$22,373 in FEMA disaster assistance for hurricane-damaged residential property, but allegedly the damaged property was not their primary residence during Hurricane Katrina.



LaTancia McMillan-Rogers and Wayne Rogers were collectively sentenced in U.S. District Court, **Jackson, MS**, to 27 months incarceration and 6 years supervised release and ordered to pay HUD, FEMA, and SBA \$247,379 in restitution for their earlier guilty pleas to committing theft of government funds. LaTancia McMillan-Rogers and Wayne Rogers applied for and received \$91,021 in CDBG Disaster Recovery Assistance funds through MDA and \$156,358 in SBA and FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



William Turnage, Jr., paid the Louisiana Office of Community Development \$76,355 in restitution and a \$5,000 fine and was sentenced in U.S. District Court, **New Orleans, LA**, to 18 months probation for his earlier guilty plea to making a false statement. Turnage applied for and received \$89,355 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$12,500 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Gordon Guidry was sentenced in U.S. District Court, **Gulfport, MS**, to 12 months incarceration and 2 years supervised release, ordered to perform 100 hours of community service and pay MDA \$69,742 and FEMA \$10,688 in restitution, and fined \$5,000 for his earlier guilty plea to making false statements and committing theft of government funds. Gordon and previously sentenced Mary Guidry applied for and received \$69,742 in CDBG Disaster Recovery Assistance funds through MDA and \$10,688 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Rosalyn Kelsey was charged in U.S. District Court, **Jackson, MS**, with allegedly making false statements and committing theft of government funds and mail fraud. Kelsey applied for and received \$64,875 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but allegedly the damaged property was not her primary residence during Hurricane Katrina.



Michelle Carroll and Steven Gardner were collectively sentenced in U.S. District Court, **Gulfport, MS**, to 45 months incarceration and 48 months supervised release and ordered to perform 160 hours of community service and jointly pay MDA \$63,105 in restitution for their earlier guilty pleas to committing

mail fraud or aggravated identity theft. Carroll and Gardner applied for and received \$63,105 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property as husband and wife, but Carroll and Gardner were not married, and Carroll provided fraudulent identity and other documents to obtain the funds.



Hubert Sentino was sentenced in U.S. District Court, **New Orleans, LA**, to 6 months home confinement and 5 years probation, ordered to pay the Road Home program \$60,000 in restitution, and fined \$5,000 for his earlier guilty plea to committing theft of government funds. Sentino applied for and received \$60,000 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Annette Stallworth was charged in U.S. District Court, **Gulfport, MS**, with allegedly making false statements and committing theft of government funds. Stallworth applied for and received \$53,790 in CDBG Disaster Recovery Assistance funds through MDA and \$38,800 in SBA disaster assistance for hurricane-damaged residential property, but allegedly the damaged property was not her primary residence during Hurricane Katrina.



Carlas Williams pled guilty in U.S. District Court, **Baton Rouge, LA**, to making false statements. Williams provided false income information when she applied for and received \$51,449 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$98,000 in SBA disaster assistance for hurricane-damaged residential property.



David and Cindy Cole were collectively sentenced in U.S. District Court, **Gulfport, MS**, to 39 months incarceration and 6 years supervised release and ordered to pay MDA and FEMA \$70,025 in restitution for their earlier guilty pleas to committing theft of government funds and mail fraud. David and Cindy Cole applied for and received \$46,695 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Anthony Spears, Sr., was charged in U.S. District Court, **Gulfport, MS**, with allegedly committing theft of government funds and mail fraud. Spears applied for and received \$23,452 in CDBG Disaster Recovery Assistance funds through MDA and \$128,858 in SBA and FEMA disaster assistance for hurricane-damaged residential property, but allegedly the damaged property was not his primary residence during Hurricane Katrina.



Barbara Dennis was sentenced in U.S. District Court, **Gulfport, MS**, to 3 years probation and ordered to perform 70 hours of community service and pay FEMA \$23,883 in restitution for her earlier guilty plea to committing theft of government funds. Dennis applied for and received \$23,883 in FEMA disaster assistance and attempted to obtain \$48,452 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.

HUD and FEMA Disaster Housing Assistance Fraud

Alicia Watt, a former Dupage Housing Authority (Dupage) Section 8 tenant and FEMA Disaster Housing Assistance program participant, was sentenced in U.S. District Court, **Chicago, IL**, to 21 months incarceration and 5 years probation and ordered to pay HUD \$34,359, FEMA \$29,751, and SSA \$50,482 in restitution for her earlier guilty plea to committing mail fraud. From 2005 to 2009, Watt failed to report her receipt of FEMA disaster housing assistance on Dupage housing and other certifications and obtained \$34,359 in housing and \$80,233 in other assistance she was not entitled to receive.



Zaimah Muhammad, a former Kansas City Housing Authority Disaster Housing Assistance program participant and FEMA disaster assistance recipient, pled guilty in U.S. District Court, **Kansas City, MO**, to committing theft of government funds. From December 2005 to July 2007, Muhammad submitted false information and documents and fraudulently obtained \$10,243 in housing and \$17,977 in FEMA disaster assistance.



Alicia Williams, a Houston Housing Authority Disaster Housing Assistance program participant, was sentenced in Harris County District Court, **Houston, TX**, to 3 years supervised release and ordered to perform 120 hours of community service and pay HUD \$5,336 in restitution for her earlier guilty plea to committing theft. From April to November 2006, Williams failed to report her nonresidency in her subsidized unit and obtained \$5,336 in housing assistance she was not entitled to receive.



Johnny Watson, a former Minnesota Housing Finance Agency (Minnesota) Section 8 tenant and FEMA disaster housing recipient, was indicted in U.S. District Court, **Minneapolis, MN**, for allegedly making false claims and committing mail fraud. In addition, former Minnesota Section 8 tenant Jovanta Schaffer pled guilty to making a false claim and committing mail fraud. From September 2006 to April 2008, Watson and Schaffer applied for and received more than \$65,000 in FEMA disaster housing assistance after they claimed Hurricane Katrina evacuee status, but Watson allegedly and Schaffer admittedly resided in a Minnesota subsidized housing unit during the storm.



Lee and Gayland Ridley, Montgomery County Housing Authority (Montgomery County) Section 8 landlords, were each indicted in U.S. District Court, **Norristown, PA**, for allegedly making false statements to HUD and FEMA. From March to November 2007, Lee and Gayland Ridley allegedly received dual housing subsidies on behalf of Hurricane Katrina housing recipients and failed to report their receipt of \$8,100 in FEMA assistance on Montgomery County certifications.

Other Fraud

Tynisa Cobb, a former employee of First American Title Insurance Corporation, a HUD contractor responsible for Louisiana Road Home grant disbursements, was charged in Louisiana State Court, **New Orleans, LA**, with allegedly committing theft. In December 2007, Cobb allegedly embezzled \$50,000 in Road Home program funds awarded to another individual.



Chapter 7 - Other Significant Audits and Investigations/OIG Hotline



In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), has conducted a number of outreach efforts (see chapter 8, page 121).

Audit

Strategic Initiative 4: Contribute to improving HUD’s execution and accountability of fiscal responsibilities as a relevant and problem-solving advisor to the Department’s execution

Key program results		Questioned costs	Funds put to better use
Audit	12 audits	\$3.2 million	\$754 million
Our focus	Page 98	• Audit of HUD’s financial statements	
	Page 100	• FHA financial statements	
	Page 100	• Audit of the Government National Mortgage Association’s financial statements	
	Page 100	• Evaluation of Federal Information Security Management Act of 2002	
	Page 101	• Evaluation of HUD’s information technology services contracts	
	Page 101	• Evaluation of ACORN Associates, Inc.	
	Page 102	• Review of reducing improper payments	
	Page 102	• Review of HUD’s hiring process	
	Page 102	• Review of HUD’s efforts to rehost financial applications	
	Page 103	• Review of HUD’s controls over selected configuration management activities	

HUD OIG’s more significant audits are discussed below.

Audit of HUD’s Financial Statements

HUD OIG provided additional details to supplement the Report on HUD’s Fiscal Years 2010 and 2009 Financial Statements, which is included in HUD’s Fiscal Year 2010 Agency Financial Report. Based on the audit and the reports of other auditors, the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

OIG identified the following significant deficiencies in internal controls related to the need to

- Have financial management systems comply with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- Improve the processes for reviewing obligation balances;

- Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries' program performance, and use of Housing Choice Voucher program funds;
- Establish internal controls over Office of Community Planning and Development grantees' compliance with program requirements;
- Improve administrative control of funds;
- Further strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to the Department's critical financial systems;
- Effectively monitor modernization efforts and existing systems to mitigate near-term financial reporting risks; and
- Mitigate increased risks to management estimates caused by economic conditions and inherent model design.

OIG's findings included the following four instances of noncompliance with applicable laws and regulations:

- HUD did not substantially comply with FFMIA regarding system requirements;
- HUD did not substantially comply with the Antideficiency Act;
- HUD did not substantially comply with laws and regulations governing claims of the United States Government; and
- The Federal Housing Administrations's (FHA) Mutual Mortgage Insurance Fund capitalization was not maintained at a minimum capital ratio of 2 percent, which is required under the Cranston-Gonzalez National Affordable Housing Act of 1990.

The audit also identified \$341 million in excess obligations recorded in HUD's records.

OIG recommended that \$27.5 million not be expended as originally intended and reprogrammed by the grantee and that HUD seek legislative authority to implement \$385 million in offsets against public housing agencies' (PHA) excess unusable funding held in net restricted assets accounts at the PHAs. These amounts represent funds that HUD could put to better use. (Audit Report: **2011-FO-0003**)



HUD OIG reviewed general and application controls for selected information systems to assess management controls over HUD's computing environments as part of the OIG audit of HUD's financial statements for fiscal year (FY) 2010 under the Chief Financial Officer's Act of 1990. The review was based on the Government Accountability Office's "Federal Information Systems Controls Audit Manual" and information technology (IT) guidelines established by the Office of Management and Budget (OMB) and the National Institute of Standards and Technology. (Audit Report: **2011-DP-0004**)



HUD OIG audited HUD's ability to comply with the requirements of OMB Circular A-127. OIG conducted the audit as a component of the audit of HUD's consolidated financial statements for FY 2010 under the Chief Financial Officer's Act of 1990.

HUD did not fully comply with the requirements of OMB Circular A-127. Specifically, HUD had not (1) initiated plans to review financial management systems for compliance with computer security and

internal control guidelines and (2) accurately identified its financial management systems within its financial system inventory listing. Additionally, although progress had been made, OIG continued to have concerns regarding HUD's integrated core financial system.

OIG recommended that HUD take appropriate steps to move into compliance with the requirements of OMB Circular A-127. (Audit Report: **2011-DP-0003**)

FHA Financial Statements

Clifton Gunderson (CG) audited the FY 2010 and 2009 financial statements of FHA.

CG provided an unqualified opinion on FHA's financial statements and reported two significant deficiencies in FHA's internal controls and one reportable instance of noncompliance with laws and regulations. It made eight new recommendations and discussed the issues/conditions in detail, provided an assessment of management's responses to the report, and recommended corrective actions. CG also noted other matters involving internal control and operations that were not material to the financial statements and were communicated separately to FHA's management. (Audit Report: **2011-FO-0002**)

Audit of the Government National Mortgage Association's Financial Statements

Carmichael, Brasher, Tuvell, and Company (CBTC) audited the Government National Mortgage Association's (Ginnie Mae) financial statements for the fiscal years ending September 30, 2010, and 2009. In CBTC's opinion, the financial statements presented fairly, in all material respects, Ginnie Mae's financial position as of September 30, 2010, and September 30, 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CBTC did not identify any deficiencies in internal control over financial reporting that might be considered significant deficiencies or material weaknesses. CBTC issued a separate letter to management regarding other less significant matters that came to its attention during the audit. (Audit Report: **2011-FO-0001**)

Evaluation of Federal Information Security Management Act of 2002

HUD OIG audited HUD's information security program because it is a required component of OIG's FY 2010 consolidated financial statements audit and its annual evaluation of HUD's information system security program in accordance with the Federal Information Security Management Act of 2002. OIG evaluated whether HUD had developed security policies, implemented procedures, and continuously monitored its entitywide information system security program.

HUD had continued its progress in implementing a comprehensive, entitywide information system security program. Specifically, HUD's Office of Chief Information Officer (OCIO) had successfully certified and accredited its major application and general support systems; responded to and resolved reported computer incidents in a timely manner; conducted contingency plan testing; and tracked, prioritized, and remediated weaknesses identified in the plan of actions and milestones reports.

OIG also found several matters that require management's attention and recommended that OCIO improve overall policies and procedures with regard to entitywide security measures. (Audit Report: **2011-DP-0005**)

Evaluation of HUD's Information Technology Services Contracts

HUD OIG audited HUD's management and contractors' performance of the HUD information technology services (HITS) contracts. OIG reviewed (1) the services provided by the contractors based on HUD's core functional business needs, (2) the levels of contractor performance as outlined in the contracts, (3) HUD's management of the HITS contracts, and (4) compliance with applicable Federal requirements. (Audit Report: **2011-DP-0001**)

Evaluation of ACORN Associates, Inc.

HUD OIG audited ACORN Associates, Inc., in **New Orleans, LA**, regarding its use of its FY 2004 and 2005 Lead Elimination Action Program grant funds to determine whether Associates expended program funds in accordance with HUD's requirements.

Associates inappropriately expended more than \$3.2 million from its FY 2004 and 2005 grants for the elimination of lead poisoning in its housing program. It paid program funds of more than \$3 million to affiliate and nonaffiliate organizations without properly procuring their services and did not include the funds in a HUD-approved grant budget. For its 2004 and 2005 grants, Associates failed to (1) properly procure the services of 19 affiliate and 20 nonaffiliate organizations through free and open competition, (2) retain records and files documenting the basis for contractor selection, (3) justify the lack of competition and basis for the award cost, (4) ensure that it obtained the lowest, most reasonable cost, and (5) enter into a contract with each organization that performed an activity to accomplish grant goals. Additionally, it did not have adequate supporting documentation for disbursements to 11 affiliate and 4 nonaffiliate organizations.

Also, program funds were not used for approved purposes. Associates used program funds for purposes not identified in its grant applications' detailed budgets. The unapproved uses included campaign services, grant fundraising activities, lead-based paint remediation work, payroll taxes and workmen's compensation insurance, communication services, and financial- and audit-related expenditures for services performed by affiliate and nonaffiliate organizations. Further, improper expenses for bank service fees were disbursed from program funds. The repayment of total questioned costs will not exceed the amount of the funds drawn from Associates' 2004 and 2005 grants.

OIG recommended that HUD require Associates to (1) provide procurement documentation or reimburse HUD from non-Federal funds more than \$3.2 million in program funds, (2) provide documentation or reimburse HUD from non-Federal funds for nearly \$218,000 in unsupported disbursements, and (3) reimburse HUD from non-Federal funds nearly \$1.2 million for the unapproved and improper use of program funds. OIG also recommended that HUD withdraw Associates' ability to draw down the more than \$750,000 in program funds remaining in its grants.

Further, OIG recommended that HUD pursue appropriate administrative sanctions against Associates' officers for their failure to adequately manage the program grants. (Audit Report: **2011-CH-1002**)

Review of Reducing Improper Payments

HUD OIG conducted an annual limited scope review of HUD's compliance with Presidential Executive Order (EO) 13520, Reducing Improper Payments.

HUD was in general compliance with EO 13520 annual reporting requirements. Its ongoing efforts in mitigating the risks of improper payments in the rental housing assistance programs were progressing in a positive direction. However, some areas were identified, in which HUD could make enhancements related to disclosure and procedural issues and strengthen its improper payment reduction strategies.

OIG recommended that HUD (1) consider full disclosure of the error estimates related to public housing through a footnote disclosure in the performance accountability report and accountable official report to comply with the EO and OMB Memorandum M-10-13 requirements, (2) test the operating effectiveness of monitoring controls related to Office of Public and Indian Housing and Office of Housing supplemental measures as part of HUD's annual OMB Circular A-123 assessment reviews, (3) establish and implement supplemental measures to address the ongoing issue of tenant overdue recertifications in the public housing and public housing voucher programs, (4) perform the required analysis to document its basis for arriving at annual and quarterly improper payment reduction goals and to establish 3-year supplemental targets to fully comply with EO 13520 and OMB Memorandum M-10-13 requirements, and (5) strengthen the transparency of the estimation methodology by incorporating additional information or analysis into the HUD contractor quality control study's final report. (Audit Report: **2011-FO-0004**)

Review of HUD's Hiring Process

HUD OIG audited HUD's process for hiring employees in accordance with Office of Personnel Management (OPM) guidelines to determine whether HUD effectively hired employees in accordance with OPM guidelines for streamlining the Federal hiring process.

HUD generally hired employees in accordance with OPM's 80-day timeframe goal for the Federal hiring cycle. HUD had made improvements that reduced its average cycle time for hiring employees by approximately 37 percent between FY 2008 and 2010 and met the staffing needs of HUD's four Homeownership Centers within the confines of authorized staffing levels.

OIG made no recommendations. (Audit Report: **2011-PH-0001**)

Review of HUD's Efforts to Rehost Financial Applications

HUD OIG audited HUD's efforts to rehost important financial applications from the Unisys mainframe computing platform to the UNIX open system platform. This audit was initiated based upon work performed during the FY 2009 review of information system security controls in support of the annual financial statements audit.


OIG identified weaknesses in the planning and execution of the rehost project. Although HUD had processes and procedures in place for managing and monitoring IT system development projects, improvements were needed. Specifically, better upfront planning was needed for the Unisys rehost project.

OIG recommended that HUD ensure that its system development methodology is used in all IT development projects and verify contractor capabilities before the initiation of IT development projects. (Audit Report: **2011-DP-0002**)

Review of HUD's Controls Over Selected Configuration Management Activities

HUD OIG audited HUD's controls over selected configuration management (CM) activities. This audit was based on work performed during OIG's FY 2009 and 2010 reviews of information system security controls in support of the annual financial statement audits, during which weaknesses in security controls over selected CM activities were identified.

HUD had processes and procedures for managing the configurations of systems in its computing environment. However, those procedures were not always followed. Specifically, (1) CM documentation



for the eTravel and Integrated Disbursement and Information System Online systems was outdated, and (2) HUD did not consistently follow its own Configuration Change Management Board (CCMB) review and approval process.

OIG recommended that HUD (1) update its CM plans and ensure that contractor support staff reviews application CM documentation at least annually and updates the documentation when changes occur and (2) ensure that all products running on the HUD IT infrastructure are CCMB approved and that products selected for pilot testing are CCMB approved before conducting the tests. (Audit Report: **2011-DP-0006**)



Investigations

Strategic Initiative 4: Contribute to improving HUD’s execution and accountability of fiscal responsibilities as a relevant and problem-solving advisor to the Department’s execution

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	30	\$95,787	8	4

The investigation shown below was conducted jointly with Federal, State, and local law enforcement agencies.

James Dunn, the president of Lamp Stand Institute (Lamp Stand), was sentenced in U.S. District Court, **Houston, TX**, to 27 months incarceration and 3 years supervised release and ordered to pay an unnamed victim \$46,519 in restitution for his earlier guilty plea to misuse of a government seal. Between November 2008 and May 2009, Dunn created a fake HUD “notice of grant award” letter with a HUD seal and fraudulently used the bogus letter to swindle money and property from a number of victims.

Correction to Previous Report

HUD OIG’s Semiannual Report to Congress, No. 55, HUD-2006-03-OIG, which covered the period October 1, 2005, to March 31, 2006, incorrectly indicated that Toulou Thao, a HUD housing specialist, was indicted in U.S. District Court, Eastern District of California, **Fresno, CA**, for allegedly receiving \$125,000 from organizations doing business with HUD and failing to disclose the income and business arrangements and/or business agreements on his OGE (Office of Government Ethics) Form 450. The indictment, in actuality, charged Thao with failing to report the receipt of a total of \$12,700 in outside income and failing to report his outside position, employment, and/or business arrangement with an entity doing business with HUD. The charges relating to Thao’s alleged failure to disclose outside employment and/or business arrangements with an entity doing business with HUD were ultimately dropped because the entity at issue did not receive money from or do business with HUD.



Inspections and Evaluations

The HUD OIG Office of Investigation's Inspections and Evaluations activities are designed to promote economy, efficiency, and effectiveness in the administration of HUD programs; detect and deter fraud and abuse in HUD programs and operations; and ensure compliance with applicable laws and regulations. The office conducts inspections and evaluations using various study methods and evaluative techniques to provide timely information to improve policies, programs, and procedures.

HUD's Departmental Enforcement Center's Compliance Division, Evaluation of Suspension and Debarment Referrals

HUD OIG conducted an evaluation of HUD's Departmental Enforcement Center (DEC), specifically the Compliance Division, to (1) determine whether DEC processed suspension and debarment referrals in a timely manner and (2) identify ways to improve case management for suspensions and debarments. Between October 1, 2006, and December 9, 2009, the Compliance Division received a total of 978 suspension and/or debarment referrals (cases) from HUD OIG, various HUD program offices, and the U.S. Department of Justice.

A review of 62 cases disclosed that suspension and debarment referrals were not processed in a timely manner and Federal requirements for entry of suspended or debarred individuals or entities were not met. Delays in the processing of suspension and debarment actions and late entry of information on excluded individuals or entities into the Excluded Parties List System ultimately place HUD and other Federal agencies at an increased risk of awarding contracts, grants, and other subsidies to unethical, dishonest, and irresponsible parties. Further, DEC's record-keeping system for suspensions and debarments needed improvement.

To improve the effectiveness of HUD's administrative sanctions program, steps must be taken by DEC to ensure that suspension and debarment actions are processed consistently and in a timely manner.

OIG recommended that DEC develop formalized written policies and procedures for the Compliance Division and departmentwide guidance. Also, a uniform record-keeping system that provides for a complete historical record of the suspension and debarment process should be established.



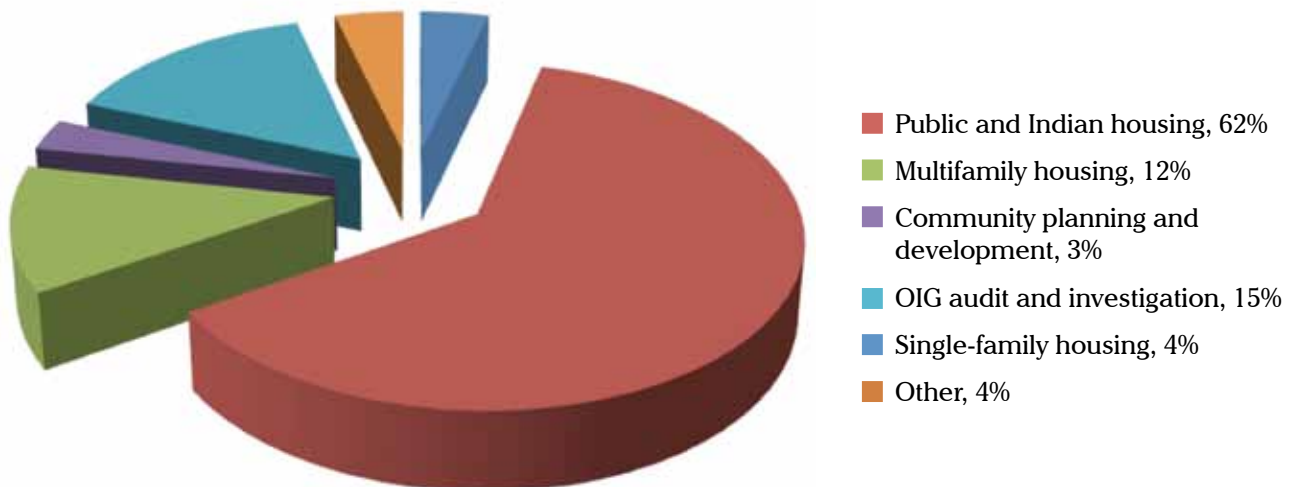
OIG Hotline

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 HUD-funded programs from HUD employees, contractors, and the public. The hotline also coordinates reviews with internal audit and investigative units or with HUD program offices.

During this reporting period, the hotline received and processed 8,177 complaints – 59 percent (4,856) received by telephone, 5 percent (464) by mail, and 35 percent (2,857) by e-mail. Every allegation determined to be related to the OIG mission is logged into a database and tracked.

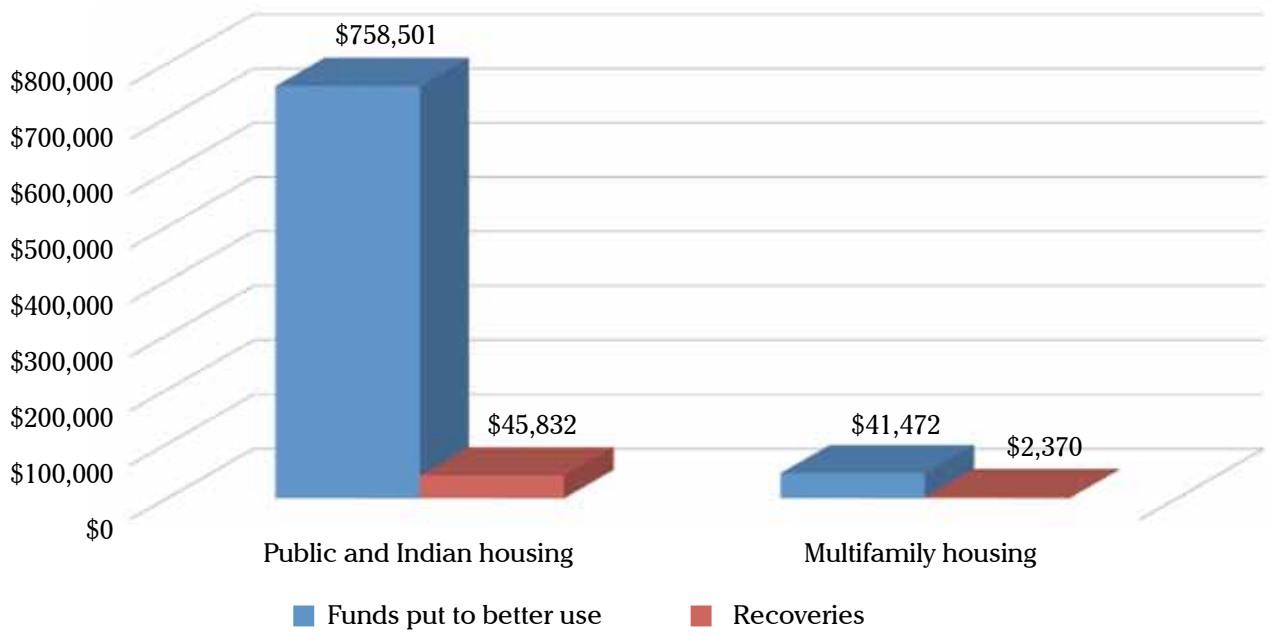
Of the complaints received, 489 were related to the mission of OIG and were addressed as hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of hotline case referrals by percentage.

Chart 7.1: Hotline cases opened by program area



The hotline closed 209 cases this reporting period. The closed hotline cases included 42 substantiated allegations. The substantiated allegations resulted in 19 administrative sanctions, including action taken against a tenant for failing to report all income and allowing unauthorized live-ins to reside in her HUD-subsidized residence. The Department also took 30 corrective actions that resulted in \$48,202 in recoveries of losses and \$799,973 in HUD funding that could be put to better use. The recoveries included repayments of overpaid rental subsidies. Some of the funds that could be put to better use were the result of cases in which tenants were terminated from public housing or multifamily housing programs for improperly reporting their incomes or family composition to qualify for rental assistance.

Chart 7.2: Hotline dollar impact from program offices



Chapter 8 - Outreach Efforts



To foster cooperative, informative, and mutually beneficial relationships with agencies and organizations assisting the U.S. Department of Housing and Urban Development (HUD) in accomplishing its mission, the Office of Inspector General (OIG) participates in special outreach efforts. The outreach efforts described below complement routine coordination with Federal, State, and local law enforcement agencies; various congressional committees or subcommittees; and other OIGs. During outreach efforts, OIG personnel present information about HUD OIG's role and function, provide audit and investigative results, and discuss desired goals and objectives.

Single-Family Housing Programs

Deputy Assistant Inspector General for Audit (DAIGA) for Special Operations Joan Hobbs, Civil Fraud Division Director Kim Randall, Regional Inspector General for Audit (RIGA) Heath Wolfe, and Supervisory Forensic Auditor (SFA) Muhammad Akhtar met with the Chief of the Civil Division of the Northern District of Illinois, Eastern Division, in **Chicago, IL**. DAIGA Hobbs described HUD OIG's new Civil Fraud Division and its pursuit of civil actions, particularly with regard to mortgage fraud. The group discussed current and potential cases and the recent focus on foreclosure fraud. The HUD OIG staff members expressed their plan to look for civil action potential with each criminal case and to continually look for opportunities to work cases as parallel proceedings.



Special Agent in Charge (SAC) Barry McLaughlin and RIGA Heath Wolfe provided an overview of HUD OIG's Civil Fraud Division and described audit expectations, mortgage fraud and prevention methods, and current mortgage fraud trends at a Mainstreet Organization of Realtors meeting in **Downers Grove, IL**. Approximately 60 realtors attended or participated through a simulcast broadcast.



SAC Breck Nowlin and RIGA Heath Wolfe provided an overview of HUD OIG's investigative role and responsibilities and described the Office of Audit civil enforcement initiative, mortgage fraud, and OIG's actions to address the foreclosure crisis at a meeting held in **Columbus, OH**, with personnel from the Ohio Attorney General's Office.



RIGA John Dvorak, SAC Cortez Richardson, Assistant Regional Inspector General for Audit (ARIGA) Mike Motulski, and Assistant Special Agents in Charge (ASAC) Gene Westland and Michael Wixted met in **Concord, NH**, with Attorney General Michael Delaney, his deputy Mike Finch, and Karen Gorham, an attorney for the Consumer Protection Bureau, to explain the role of HUD OIG, develop lines of communication, and provide information on the organizational structure and the functions of the Offices of Audit and Investigation. The discussion also included exchanging information regarding mortgage fraud efforts and the State's role in the national investigation into "robo-signing." The challenges faced were discussed, including the significant influx of HUD Federal Housing Administration (FHA) mortgages and identification of fraud. Other items discussed included HUD's Neighborhood Watch, recent relevant State legislation regarding licensing of mortgage companies within the State, and the State's willingness to share information on FHA mortgage fraud when identified. Additionally, HUD OIG audit and investigation results and experience in pursuing fraud were shared. The presentation provided the opportunity to explore the possibility of leveraging resources and sharing information between organizations.





SAC Barry McLaughlin and ARIGA Kelly Anderson provided an overview of HUD OIG's Office of Audit and Civil Fraud Division and described mortgage fraud trends, enforcement efforts, and investor protection tips at a Chicago Area Real Estate Investors Association meeting in **Glendale Heights, IL**. Approximately 50 association members attended.



RIGA John Dvorak, SAC Cortez Richardson, and ASACs Gene Westland and Michael Wixted met with attorneys Scott Schaefer and Jean Hillary from the Attorney General's Office's Consumer Protection Division in **Boston, MA**, to explain the role of HUD OIG, develop lines of communication, and provide information on OIG's organizational structure and the functions of the Offices of Audit and Investigation. The discussion included exchanging information regarding mortgage fraud efforts and the State's role in the national investigation into robo-signing. Other information was exchanged, including how to identify FHA mortgages, relevant State legislation regarding a restriction on the sharing of mortgage information received through the State's civil investigative disclosure process, the State's willingness to identify areas in which OIG could assist in pursuing foreclosure fraud, and the possibility of establishing an agreement to work together and share information including potential foreclosure fraud involving FHA mortgages. The presentation provided the opportunity to explore the possibility of leveraging resources and sharing information between organizations.



SAC Barry McLaughlin provided an overview of HUD programs and HUD OIG and described mortgage fraud and current fraud schemes at a meeting in **Chicago, IL**, sponsored by the Federal Reserve Bank. Approximately 25 Federal law enforcement and regulatory personnel attended.



RIGA John Dvorak, SAC Cortez Richardson, ASAC Gene Westland, and ARIGA Kristen Ekmalian met in **Montpelier, VT**, with Deputy Attorney General Janet Murane and Assistant Attorneys General Wendy Morgan and Elliot Burg to explain the role of HUD OIG, develop lines of communication, and provide information on OIG's organizational structure and the functions of the Offices of Audit and Investigation. The meeting included an exchange of information regarding mortgage fraud efforts and the State's role in the national investigation into robo-signing. Other information exchanged included the State's interest in pursuing servicers' misconduct in unfair foreclosure practices. The meeting provided the opportunity to explore the possibility of leveraging resources and sharing information between organizations.



SAC Kenneth Taylor provided an overview of foreclosure scams and prevention options and described the HUD OIG hotline and the reporting of fraud, waste, and abuse as a panelist at a foreclosure prevention event in **Riverdale, MD**, sponsored by the Coalition for Homeowner Preservation. Approximately 25 homeowners facing foreclosure attended.



RIGA Heath Wolfe, SAC Nowlin, and ARIGA Ronald Farrell met with the U.S. Attorney for the Southern District of Ohio, the Chiefs of the Civil and Criminal Divisions, and the First Assistant U.S. Attorney in **Columbus, OH**. RIGA Wolfe described HUD OIG's new Civil Fraud Division and its pursuit of civil actions, particularly with regard to mortgage fraud. The group discussed current and potential cases and the recent focus on foreclosure fraud. RIGA Wolfe, SAC Nowlin, and ARIGA Farrell discussed their plan to look for

civil action potential with each criminal case and to continually look for opportunities to work cases as parallel proceedings.



SAC Wayne North, ASAC Jim Siwek, and Special Agent (SA) Dana Papesh provided an overview of HUD OIG and described mortgage fraud trends, “red flag” indicators, and OIG’s role in mortgage fraud investigations at an Eastside Regional Escrow Association meeting in **Bellevue, WA**. Approximately 100 escrow agents attended.



RIGA John Dvorak, SAC Cortez Richardson, ASAC Gene Westland, and ARIGA Mike Motulski met in **Augusta, ME**, with Assistant Attorney General Linda Conti, head of the Consumer Protection Division, to explain the role of HUD OIG, develop lines of communication, and provide information on OIG’s organizational structure and the functions of the Offices of Audit and Investigation. Discussion included the State’s mortgage fraud efforts and role in the national investigation into robo-signing. Other information exchanged included OIG’s interest in pursuing servicers’ misconduct in unfair foreclosure practices and the possibility of the State’s providing OIG information on any FHA loans that are being foreclosed. The meeting provided the opportunity to explore the possibility of leveraging resources for both criminal and civil actions.



Civil Fraud Division Director Kim Randall met with two assistant United States attorneys (AUSA) from the Western District of Missouri, Civil Division, in **Kansas City, MO**. The attorneys specialize in affirmative civil enforcement actions (primarily using the False Claims Act), civil mortgage fraud, and financial litigation cases. Director Randall described HUD OIG’s new Civil Fraud Division and its pursuit of civil actions against those that commit fraud against HUD programs, particularly with regard to mortgage fraud. The attorneys offered their services and expressed their desire to work with HUD OIG on mortgage fraud cases.



Civil Fraud Division Director Kim Randall and SFA Fran Ranzie met in **New York City, NY**, with the Civil Division of the U.S. Attorney’s Office for the Southern District of New York. Director Randall described HUD OIG’s new Civil Fraud Division and how HUD OIG expects to work civil actions with HUD and the U.S. Department of Justice. The U.S. Attorney’s Office described its new unit that will handle HUD civil fraud cases and expressed its desire to focus on mortgage fraud cases. The group also discussed several ongoing civil cases and the best protocols to employ to bring about effective coordination and outcomes.



ARIGA Ed Schmidt, SAC Wayne North, and ASAC Jim Siwek met with several officials from the State of Washington Attorney General’s offices located in **Seattle, WA**. The parties explained their respective interests and positions relating to the current foreclosure crisis. SAC North and ARIGA Schmidt offered to work with the Washington Attorney General’s office on FHA foreclosure issues.



ASACs Brad Geary and Ray Espinosa provided presentations, entitled “Introduction to Mortgage Fraud,” “The Mortgage Process,” and “Mortgage Fraud Schemes,” during a mortgage fraud training seminar in



Milwaukee, WI, sponsored by the U.S. Attorney's Office. Approximately 80 Federal, State, and local law enforcement personnel and banking institution representatives attended.



ASAC James Luu provided an overview of HUD OIG and the FHA program at a mortgage fraud conference sponsored by the American Conference Institute in **San Francisco, CA**. Approximately 50 financial institution representatives, attorneys, and law enforcement personnel attended.



ASAC Brad Geary and Federal Bureau of Investigation (FBI) intelligence analyst Christa Greco provided an overview of FHA and HUD Home Equity Conversion Mortgage (HECM) programs and described property flipping, deed thefts, and current trends in short sales at a CoreLogic meeting in **Chicago, IL**. Approximately 50 financial institution representatives attended.



ASAC Lisa Gore and SA James Fincher provided an overview of HUD and HUD OIG's mission and goals, described the functions of the Offices of Investigation and Audit, and discussed HUD program and mortgage fraud and the Real Estate Settlement Procedures Act (RESPA) at an ethics seminar sponsored by the Tennessee Land Title Association in **Nashville, TN**. Approximately 40 title attorneys and closing agents attended.



ASACs Brad Geary and Ray Espinosa provided an overview of HUD OIG and described various home buying and rental assistance strategies for about 100 individuals attending a National Consumer Protection event in **Hammond, IN**.



ASAC Edwin Bonano and SA Scott Tanchak provided an overview of HUD OIG's mission and goals and described FHA and HECM programs and fraud schemes at a Collateral Risk Network convention in **Fort Lauderdale, FL**. Approximately 40 appraisers and mortgage professionals attended.




ASAC Brad Geary provided a presentation, entitled "The Role of Bankruptcy in Single Family Fraud Prosecutions," and described bankruptcy fraud schemes, Federal statutes, and "red flag" fraud indicators at a meeting held in **Chicago, IL**, for members of the Association of Government Accountants. Approximately 25 individuals attended.



ARIGA Tracey Vargas and ASAC Jim Siwek met in **Boise, ID**, with staff from the Idaho Attorney General's Office. The discussion focused on the recent foreclosure crisis and specifically addressed the issue of robo-signing. It was agreed that the offices would keep each other informed with respect to work performed in Idaho dealing with FHA foreclosures.





ASAC Brad Geary and HUD Quality Assurance Division Field Supervisor Charles Martinez provided an overview of FHA mortgage fraud, “red flag” indicators, and mortgage fraud schemes and described the HUD Quality Assurance Division and quality assurance review expectations for Harris Bank employees meeting in **Rolling Meadows, IL**. Twelve employees responsible for the management, servicing, and quality control of the bank’s FHA-insured mortgage portfolio attended.



Senior Auditor Chad Gagon and Auditor Stacey Streeter gave a presentation to approximately 300 realtors at the 2010 Las Vegas Realtor Summit in **Las Vegas, NV**. Auditor Streeter discussed the new HUD OIG office in the Las Vegas area and HUD OIG’s mission, roles, and responsibilities. Senior Auditor Gagon discussed the results of recent single-family audits and recent HUD OIG mortgage fraud initiatives. The event panel consisted of Freddie Mac’s chief economist, a certified appraiser, loan officers, a legal analyst, HUD officials, and HUD OIG.



SA Steve Tsourkas provided an overview of HUD OIG’s mission, goals, and priorities and described the functions of the Office of Investigation and current mortgage fraud trends at meetings held in **Cleveland, Columbus, and Cincinnati, OH**, for members of the Ohio Land Title Association. Collectively, about 400 individuals attended.



SAs Christina Scaringi and Elizabeth Peralta provided an overview of the FHA program and mortgage fraud, described mortgage fraud schemes, and illustrated the process for detecting and preventing fraud and selecting and conducting investigations at a New York Association of Mortgage Brokers conference in **Melville, NY**. Approximately 120 mortgage industry representatives attended.



SAs Carissa Barnes and David Smith provided an overview of HUD OIG’s mission and role in FHA mortgage fraud and described mortgage fraud detection and prevention strategies at an “Instructor Development” workshop during a Utah Real Estate Mortgage and Appraiser Education seminar in **Salt Lake City, UT**. Approximately 90 individuals attended.




SA Heather Yannello and AUSA Kathleen Lynch provided an overview of mortgage and foreclosure fraud and described the Federal Government’s response to recent mortgage and foreclosure scams at a Western New York Mortgage Bankers and Credit Association training conference in **Amherst, NY**. More than 60 appraisers, attorneys, bank compliance personnel, and financial institution security officers attended.



SA Gregory Williams provided an overview of HUD OIG’s role and responsibilities involving mortgage fraud investigations and described “red flag” fraud indicators at a meeting in **Holyoke, MA**, for Western Massachusetts Banking and Credit Union Compliance Association members. Approximately 60 financial institution representatives and Federal and State law enforcement personnel attended.





SA Heather Yannello, AUSA Kathleen Lynch, and U.S. Postal Inspector Shelly Carosella provided an overview of the Federal response to mortgage and foreclosure scams at a consumer protection “Financial Literacy” seminar in **Buffalo, NY**, sponsored by the United Way. Approximately 65 individuals attended.



SA José Laureano provided an overview of HUD OIG’s mission; provided a presentation describing FHA mortgage fraud and criminal, civil, and administrative consequences; and illustrated mortgage fraud detection and prevention techniques at a Mortgage Bankers Association seminar in **San Juan, PR**. Approximately 60 banking industry personnel attended.



SAs Patrick Fox and Matt Nutt provided an overview of HUD OIG’s mission, goals, and priorities and described the functions of the Office of Investigation and current mortgage fraud trends for members of the International Association of Special Investigative Units meeting in **Livonia, MI**. Approximately 60 individuals attended.



SA Stacie Wilson, AUSA Kathleen Lynch, and other members of the Western New York Mortgage Fraud Task Force provided an overview of the FHA program, mortgage fraud, and mortgage fraud schemes and illustrated the process of detecting and preventing fraud and selecting and conducting investigations for HSBC Mortgage Bank employees meeting in **Buffalo, NY**. Approximately 50 employees attended.



SA Heather Yannello and AUSA Kathleen Lynch provided an overview of mortgage and foreclosure fraud and described the Federal Government’s response to recent mortgage and foreclosure scams at an Appraisal Institute of America training conference in **Ellicottville, NY**. More than 45 residential and commercial real estate appraisers and property assessors attended.



SAs James Fincher and Harvey Martin provided an overview of HUD and HUD OIG’s mission and goals, described the functions of the Offices of Investigation and Audit, and discussed HUD program and mortgage fraud and RESPA at an ethics seminar in **Nashville, TN**, sponsored by the Tennessee Land Title Association. Approximately 30 title attorneys and closing agents attended.



SA Ronnyne Bannister provided an overview of HUD OIG’s mission and role in FHA-insured mortgage fraud investigations at a mortgage fraud training seminar in **Upper Marlboro, MD**. At the conclusion, a question and answer forum was held for 20 Federal, State, and local prosecutors and regulatory personnel in attendance.



SA Heather Yannello and AUSA Kathleen Lynch provided an overview of bankruptcy fraud and described the HUD HECM program and recent scams involving mortgages and foreclosures at a U.S. Bankruptcy Trustee meeting in **Buffalo, NY**. Approximately 18 bankruptcy trustees attended.



SAs Amy Durso and Eric Kolb provided an overview of HUD OIG’s mission and role in FHA mortgage fraud and described mortgage fraud detection and prevention strategies for Missouri Secretary of State Securities Division personnel meeting in **Kansas City, MO**. Approximately 10 individuals attended.

Public Housing and Rental Assistance Programs

SAC Herschell Harvell, Jr., provided an overview of HUD OIG’s mission and described the Federal oversight of public housing funds and the role and responsibilities of housing authority commissioners relating to funding, contracts, and procurement procedures at a meeting in **Milledgeville, GA**. Approximately 18 Milledgeville public housing commissioners, local law enforcement personnel, and others attended.



RIGA Tanya Schulze and SAC James Todak spoke at the 2010 National Association of Housing and Redevelopment Officials (NAHRO) conference in **Reno, NV**. RIGA Schulze and SAC Todak were part of a panel session entitled “Accountability in Administering the Housing Choice Voucher Program.” RIGA Schulze spoke about the OIG organization and mission, recent Section 8 audits, the American Recovery and Reinvestment Act of 2009 (ARRA), and civil fraud priorities. SAC Todak gave an overview of the investigative priorities and prevention and detection of fraud in administering Section 8 program funds. The session had about 75 participants from various housing authorities across the country. After the panelists spoke, the session was opened up to a question and answer period.



ASAC Wyatt Achord, ARIGA Tracey Carney, and SA Aimee Peralta provided an overview of HUD OIG’s mission and role at a Louisiana Housing Council meeting in **New Orleans, LA**. Approximately 80 public housing executive directors, board members, and others attended.



ARIGA Kelly Anderson provided a presentation to approximately 40 employees of the Housing Authority of Cook County in **Chicago, IL**. ARIGA Anderson explained the makeup of HUD OIG, its authority in conducting audits, and the audit process.




ASAC Gene Westerlind, HUD Office of Public and Indian Housing Deputy Director Robert Cweika, and HUD Associate Regional Counsel Jack Brandwein provided an ethics presentation at a Massachusetts NAHRO meeting in **Norwood, MA**. At the conclusion, a question and answer forum was held for approximately 20 housing officials in attendance.



ASACs Brad Geary and Ray Espinosa described current trends and the interwoven aspects of rental assistance and mortgage fraud for about 40 landlords attending a Chicago Alternative Policing Strategy meeting in **Chicago, IL**.



SA Anthony Troeger provided a presentation, entitled “Fighting Fraud, Waste, Abuse, and Mismanagement in Housing Authority Procurement,” at two procurement training seminars in **Raleigh and Asheville, NC**. At



the conclusion, OIG hotline posters and tenant fraud leaflets were given to 120 housing authority executive directors who attended these HUD-sponsored events.



SA Jeffrey Lowery provided an overview of public housing authority fraud and conflicts of interest at a Council of Housing Redevelopment and Codes Officials Commissioner's conference in **Myrtle Beach, SC**. Approximately 100 executive directors and board members from North and South Carolina housing authorities attended.



SA Rafael Galindo described multifamily rental assistance fraud relating to tenant criminal histories at a community meeting held at the Haverstock Hills Apartments, a HUD-subsidized multifamily housing development in **Houston, TX**. More than 30 county government leaders, faith-based religious organization representatives, and nonprofit and school officials attended.



SAs Robert Petrole and Lisa Carling provided an overview of HUD OIG's mission and role in HUD rental assistance programs, described current trends in rental assistance fraud investigations, and illustrated fraud detection methods at a fraud awareness training seminar in **Cambridge, MD**, sponsored by the Maryland Association of Housing and Redevelopment Agencies. Approximately 30 executive directors and housing specialists attended.



SAs Trevor Wood and Timothy Lishner provided an overview of HUD OIG's mission and role and described methods to prevent, detect, and report rental assistance fraud at a multifamily housing manager's meeting in **Aurora, CO**, sponsored by the Aurora Housing Authority. Approximately 20 multifamily housing managers and others attended.



SA Gregory Williams provided an overview of HUD OIG's mission, role, and priorities and described methods to prevent, detect, and report fraud at a Worcester Housing Authority public safety meeting in **Worcester, MA**. Approximately 20 housing authority officials, law enforcement personnel, and local citizens attended.



SAs Michael Weinstein and Robert Petrole provided an overview of HUD OIG's mission and role in HUD housing programs, described current trends in rental assistance fraud investigations, and illustrated fraud detection methods at a Baltimore County Sex Offenders Containment meeting in **Towson, MD**. Twelve State and local government officials attended.



SAs Neil McMullen and Jennifer Landon provided an overview of HUD OIG, described current rental assistance fraud schemes, and provided avenues for detecting rental assistance fraud for personnel from

Irvine Company, a HUD multifamily management contractor in **Irvine, CA**. Approximately 10 managers attended.



SAs Vicky Vazquez and Michael Granatstein provided an overview of HUD OIG's mission, goals, and priorities; explained the function of the Office of Investigation; and described a number of OIG investigations at a meeting in **Manhattan, NY**, held for staff members from Reliant Realty, a HUD multifamily management contractor. At the conclusion, a question and answer forum was held for 10 employees in attendance.

Community Planning and Development

SAC Breck Nowlin and RIGA Heath Wolfe provided an overview of the Offices of Investigation and Audit; described investigative priorities and the audit process and functions; described the HUD Neighborhood Stabilization Program (NSP), HOME Investment Partnerships Program (HOME), and Homelessness Prevention and Rapid Re-Housing Program (HPRP); presented information relating to the False Claims and Program Fraud Civil Remedies Acts; and illustrated OIG's zero tolerance stance, oversight of HUD funding in ARRA, and grantee and contractor fraud within State and local community development programs at a National Association for County Community and Economic Development conference in **Ann Arbor, MI**. More than 25 individuals attended.



SAC Phyllis Robinson and ASAC Michael White provided an overview of HUD OIG initiatives and accomplishments and described OIG's role and responsibilities involving Office of Community Planning and Development (CPD) investigations during a meeting for area CPD administrators in **Fort Worth, TX**. Approximately 30 CPD administrators and HUD personnel attended.



ASAC Wyatt Achord and ARIGA Tracey Carney provided an overview of HUD OIG's mission and role at a "Grant Writing and Capacity Building" training seminar in **New Orleans, LA**, sponsored by HUD. Approximately 150 potential grant recipients and Federal, State, and local government representatives attended.




ASAC Brad Geary and ARIGA Brent Bowen provided an overview of HUD OIG's Offices of Investigation and Audit; described the False Claims and Program Fraud Civil Remedies Acts; and explained documentation requirements, file maintenance, and the OIG referral process for grantees and subgrantees attending a Cook County Bureau of Community Development's Community Development Block Grant (CDBG) agreement workshop in **Chicago, IL**. More than 75 individuals attended.



ASAC Edwin Bonano provided an overview of HUD OIG's mission and goals and described previous HUD OIG investigations at a meeting in **Pompano Beach, FL**. Approximately 35 Pompano Beach City commissioners and other community leaders attended.





ASAC Robert Jones provided an overview of HUD OIG's mission, goals, and priorities; explained the functions of the Offices of Audit and Investigation; and described OIG initiatives relating to HUD programs, HUD funding in ARRA, and the Disaster Housing Assistance and NSP programs at a Coalition for the Homeless meeting in **Houston, TX**. Approximately 12 representatives attended.



SAs Michael Weinstein and Lori DiCriscio provided an overview of HUD OIG's mission, presented a CPD fraud awareness briefing, and described the resources available for grantees and subgrantees at a CDBG application workshop in **Baltimore, MD**, sponsored by the Maryland Department of Housing and Community Development. Approximately 85 individuals attended.



SAs Jessica Thompson and Alexander Rosania provided an overview of HUD's HPRP and described program fraud vulnerabilities at a meeting held at the Rhode Island Office of Housing and Community Development in **Warwick, RI**. At the conclusion, a question and answer forum was held for approximately 30 State and city employees in attendance.



Auditors Roleen Milton and Dana Young gave a presentation to the New Mexico Coalition to End Homelessness meeting hosted by HUD CPD at the **Albuquerque, NM**, field office. Attendees included representatives from the Coalition and nine different providers. The presentation covered OIG's mission and goals, the new Albuquerque Office of Audit, and typical audit issues and problems in this program area.



SA Victoria Marquez provided an overview of HUD OIG's mission and priorities at a HUD-sponsored HPRP seminar in **San Antonio, TX**. Approximately 85 grantees and subgrantees attended.

American Recovery and Reinvestment Act

RIGA Heath Wolfe and SAC Breck Nowlin made presentations at the National Association for County & Community Economic Development annual conference in **Ypsilanti, MI**. RIGA Wolfe presented information on the functions of the Office of Audit; the audit process; NSP, HOME, and HPRP; the False Claims and Program Fraud Civil Remedies Acts; and OIG's oversight of HUD's ARRA funding. SAC Nowlin's presentation provided an overview of the Office of Investigation; investigative priorities with a focus on corruption within the administration of State and local community development programs; and fraud by grantees, subgrantees, and contractors. SAC Nowlin and RIGA Wolfe also emphasized the zero tolerance approach that is being taken by HUD OIG concerning fraud related to HUD's ARRA programs. There were more than 25 individuals in attendance.



RIGA Heath Wolfe and ASAC Ray Espinosa provided an overview of the functions of the Offices of Audit and Investigation; described the audit process, investigative priorities, the HUD HOME and NSP programs, and the False Claims and Program Fraud Civil Remedies Acts; and illustrated OIG's oversight in relation to HUD ARRA funding, corruption within State and local community development programs, and grantee and contractor fraud at a Community Development conference in **Indianapolis, IN**, sponsored by HUD. Approximately 45 State and local grantees attended.



RIGA Heath Wolfe made presentations to more than 50 individuals at the Michigan Housing Directors Association's fall conference on **Mackinac Island, MI**. He discussed the Public Housing Capital Fund program being funded by ARRA plus ARRA accountability and reporting requirements. His presentation covered the audit process, common findings in public housing agency nonprofit development activities and HUD's Section 8 Housing Choice Voucher and Project-Based Voucher programs, and the Office of Audit's affirmative civil enforcement initiative.



ARIGA Brent Bowen and SAC Breck Nowlin provided an overview of the roles and responsibilities of the HUD OIG Offices of Investigation and Audit and ARRA programs and described "red flag" fraud indicators, the audit process, common audit findings in community planning and development programs, and the False Claims and Program Fraud Civil Remedies Acts at the Michigan Community Development Association technical assistance conference in **Lansing, MI**. More than 100 individuals attended.



ARIGA Vince Mussetter and SA Vicky Lawson made a presentation in the **Los Angeles, CA**, HUD office with the assistance of ARIGA James Brady as part of HUD's NSP 3 training to about 20 Southern California grantees. They informed the participants of OIG's mission and structure, recent ARRA review efforts, and continuing focus on the area.

Law Enforcement Outreach

SAC Rene Febles and ASAC Steven Perez provided an overview of HUD OIG's jurisdiction and investigative scope and described potential victims impacted by HUD program and mortgage fraud at a financial crimes and money laundering symposium in **New York City, NY**, sponsored by the Manhattan District Attorney's Office and the NY/NJ High Intensity Financial Crimes task force. Approximately 250 financial and law enforcement personnel attended.



SAC Phyllis Robinson provided an overview of HUD OIG's mission, goals, and priorities and described OIG initiatives relating to HUD programs and HUD funding in ARRA at a regional public corruption working group meeting in **Albuquerque, NM**, sponsored by the FBI. Approximately 40 Federal, State, and local law enforcement personnel and others attended.




SAC Breck Nowlin provided an overview of OIG's Office of Investigation and described investigative priorities relating to FHA and HECM program fraud, public corruption, and the planned oversight of HUD ARRA funding for members of the Michigan Chapter of the International Association of Financial Crimes Investigators meeting in **Livonia, MI**. Approximately 150 financial institution representatives and investigators and law enforcement personnel attended.



SAC Wayne North provided an overview of HUD OIG's mission and described recent financial fraud prosecutions at a meeting sponsored by the U.S. Attorney's Office in **Portland, OR**. Approximately 60 financial institution representatives and law enforcement personnel attended.





ASAC Brad Geary provided a presentation, entitled “How to Get Your Case Prosecuted,” described prosecutor presentations and trial preparations, and illustrated current mortgage fraud schemes and the changes to the FHA and single-family mortgage industry at an Association of Certified Fraud Examiners meeting in **Chicago, IL**. Approximately 50 law enforcement, State regulatory, and bank security personnel attended.



ASAC Michael Catinella provided a presentation, entitled “Bankruptcy Fraud – An Agents Perspective,” at a bankruptcy fraud meeting held at the U.S. Attorney’s Office in **Detroit, MI**. Approximately 60 representatives from the U.S. Trustee office, the U.S. Attorney’s office, and Federal law enforcement agencies attended.



ASACs Brad Geary and Manny Colin provided a presentation, entitled “The Latest Trends in Mortgage Fraud,” and described the FHA program and mortgage fraud schemes and trends at a meeting in **Chicago, IL**, sponsored by the Chicago Police Department. Approximately 25 State and local law enforcement personnel and financial institution investigators attended.



SA Julien Kubesh provided an overview of the HUD HECM program and described fraudulent patterns and schemes at an International Association of Financial Crimes Investigators meeting in **Minneapolis, MN**. Approximately 75 financial institution investigators and law enforcement personnel attended.



SAs Audra Carrington and Ira Long provided an overview of the FHA, HECM, and HUD real estate-owned programs and described the FHA-insured mortgage loan process at a Mortgage Fraud Investigations seminar in **San Diego, CA**. Approximately 35 Federal and State law enforcement personnel and real estate and mortgage professionals attended.


Other Outreach

Michael Beard, Director, Technical Oversight and Planning Division, presented the HUD OIG view of suspensions and debarments at the Council of Inspectors General Suspension and Debarments Seminar in **Washington, DC**. More than 350 participants from various Inspector General and program enforcement offices were present at the seminar. Director Beard spoke on OIG’s Operation Watchdog results and new Civil Fraud Division and the debarments resulting from Region 9’s First Source financial audit.



RIGA John Buck, Auditor James Carrington, and Administrative Officer Deborah Laforet participated in the Pennsylvania Attorney General’s Consumer Fair in **Philadelphia, PA**, along with officials from HUD’s Philadelphia office. The Consumer Fair is part of National Consumer Protection Week, designated by the Federal Trade Commission. The Consumer Fair provided an opportunity for citizens to obtain valuable information regarding HUD’s and OIG’s services and promoted awareness and prevention of fraudulent schemes.





Field Technical Support Division Director Cliff Cole participated as a guest speaker at the joint Association of Government Accountants Peninsula Chapter and American Society of Military Comptrollers Spring 2011 Professional Development Conference in **Chesapeake, VA**. The conference was attended by more than 180 financial managers and auditing and accounting professionals from a number of Federal and local government entities and military organizations in and around the eastern Virginia area. Director Cole provided an overview of HUD OIG's organizational structure and described how OIG's progressive use of computer-assisted analytics played a critical role in the history of OIG's data-mining and organization-changing journey that ultimately brought it to the forefront of the inspector general community as one of the leading Federal agencies in innovative audit and investigative data analyses.



ASAC Robert Jones provided an overview of HUD OIG's mission, goals, and priorities; discussed the Office of Audit robo-signing project; and described investigative initiatives relating to HUD programs, HUD funding in ARRA, and the Disaster Housing Assistance and NSP programs at a meeting held with the Better Business Bureau Consumer Protection Group in **Houston, TX**. Approximately 15 individuals attended.



ASAC Wyatt Achord and SAs Jonathan Harrison, Kevin Leonhardt, and Jerry Rogers served as group leaders at a "Badges for Baseball" camp in **New Orleans, LA**. Approximately 200 students and volunteers attended.



The **Seattle, WA**, Office of Audit gave a presentation to a group of recently hired HUD Region X staff. The presentation was made in conjunction with the Region X HUD's World training program in which new HUD employees are taken to each of the Region's HUD program offices for an overview of the programs' organization and functions. ARIGA Ed Schmidt and Auditor James Byers gave a presentation on the mission and organization of HUD OIG, along with a description of the work performed by the Office of Audit. Attending the presentation were 13 new Region X employees.



ARIGA Tracey Vargas participated in a teleconference with the Idaho State Auditor's Office. The parties discussed HUD funding and the types of audits each agency performed. They agreed that if anything came to either party's attention with respect to the **State of Idaho's** HUD funds, they would coordinate with each other.



Senior Auditor Christy Thomas gave a presentation to a business class at the University of Kansas in **Lawrence, KS**. She discussed her career path with HUD OIG and described a day in the life of a government auditor to about 150 college freshman.



Chapter 9 - Legislation, Regulation, and Other 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 has committed approximately 485 hours to reviewing 139 issuances. The draft directives consisted of 11 notices of funding availability, 71 mortgagee letters or notices, and 62 other directives. OIG provided comments on 45 percent of these draft directives. This chapter highlights some of OIG's comments for this reporting period.

Enacted Legislation

Due to the collapse of the subprime mortgage market and resulting increase in foreclosures, Congress and the President approved the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA). These legislations contained significant new funding and programs for the U.S. Department of Housing and Urban Development (HUD). Specifically, the Neighborhood Stabilization Program (NSP) was created under HERA and provided an initial \$3.92 billion in funding to State and local governments for the redevelopment of abandoned and foreclosed-upon homes and residential properties. ARRA provided an additional \$13.61 billion to existing programs, including an additional \$2 billion for NSP. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provided the third NSP funding totaling \$1 billion.


On May 20, 2009, the President signed the Helping Families Save Their Homes Act of 2009. This new law (1) provided the Federal Housing Administration (FHA) with additional loss mitigation authority to assist FHA borrowers under the Making Home Affordable program (MHA) and (2) expanded the authority to use FHA loss mitigation to assist defaulted home buyers in avoiding foreclosure to include those facing imminent default. The President also signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which established an office of housing counseling within HUD to boost home ownership and rental housing counseling and provided for foreclosure legal assistance. Specifically, the Act authorized a HUD-administered program for making grants to provide foreclosure legal assistance to low- and moderate-income homeowners and tenants related to home ownership preservation, home foreclosure prevention, and tenancy associated with home foreclosure. In addition, the Act provided \$1 billion to HUD to implement the Emergency Homeowners' Loan Program, which is currently under development and will be managed by HUD's Office of Housing Counseling.

On September 21, 2010, FHA introduced a new modified version of its home equity conversion mortgage (HECM) product through Mortgagee Letter 2010-34. Specifically, FHA designed HECM Saver as a second reverse mortgage option for the purpose of lowering upfront loan closing costs for homeowners who want to borrow a smaller amount than would be available with a HECM standard loan. This option is available for all HECM case numbers assigned on or after October 4, 2010.

OIG is performing audits of recipients of HERA and ARRA funding. Based on risks identified in HUD's front-end risk assessments, OIG has targeted program areas and will propose regulatory changes, as necessary, to control risks in these new program areas. In addition, OIG is conducting foreclosure reviews of FHA-insured properties.

OIG has also participated in a number of meetings with HUD officials regarding these additional funds and the programmatic risks of the activities. OIG continues to express concerns about the capacity of many of the grantees and has expressed its concerns in review comments to clearance items and directly to HUD officials.

The Federal Housing Commissioner continued to propose a number of risk management initiatives related to HUD's single-family programs and has started the process of updating its multifamily program requirements. As part of the issuances reviewed, OIG provided comments on the preliminary rules. Many of



the proposed changes required rule making. On April 20, 2010, HUD issued the final rule on Federal Housing Administration: Continuation of FHA Reform; Strengthening Risk Management Through Responsible FHA-Approved Lenders [**Docket No. FR 5356-F-02**]. This final rule increases the net worth requirements for FHA-approved lenders, provides for the elimination of FHA approval of loan correspondents, and updates FHA regulations to incorporate criteria specified in the Helping Families Save Their Homes Act of 2009 designed to ensure that only entities of integrity are involved in the origination of FHA-insured loans.

Notices and Policy Issuances

On December 22, 2010, HUD issued a notice of information collection for its multifamily rental project closing documents. This is the final step before issuing the closing documents in final. This has been a process that began with industry talks in 1996. It brings added protection to all parties as well as consistency with modern real estate practice and mortgage lending laws and procedures.



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 ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant management decisions with which OIG disagrees. 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 3, table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of March 31, 2011."

Audit Reports Issued Before Start of Period With No Management Decision as of March 31, 2011

HUD Lacked Adequate Controls To Ensure The Timely Commitment and Expenditure of HOME Funds, Issue Date: September 28, 2009.

HUD OIG audited HUD's HOME Investment Partnerships Program (HOME). OIG recommended that the HUD Office of Community Planning and Development (CPD) establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for eligible activities in time to avoid losing them to recapture by the United States Treasury under provisions of Public Law 101-510. OIG also recommended that CPD obtain a formal legal opinion from HUD's Office of General Counsel regarding whether

- HUD's cumulative technique for assessing compliance with commitment deadlines is consistent with and an allowable alternative to the 24-month commitment required by 42 U.S.C. (United States Code) § 12748 and
- HUD's first-in, first-out (FIFO) method for assessing compliance with HOME expenditure requirements is consistent with and an allowable alternative to the 8-year recapture deadline pursuant to Public Law 101-510, codified at 31 U.S.C. § 1552.

During the reporting period, OIG rejected two management decisions proposed by CPD to address the recommendation. The proposed management decisions did not provide for the establishment and implementation of all of the controls that are needed to address the recommendation.

CPD obtained a legal opinion from the Assistant General Counsel for Community Development on March 5, 2010. The legal opinion supports the Department's use of the cumulative approach and FIFO accounting method. Based on this legal opinion, CPD does not plan to implement OIG's recommendation to discontinue use of the FIFO method to account for the commitment and expenditure of HOME funds or the cumulative technique for assessing deadline compliance.

OIG requested reconsideration of the opinion. On June 10, 2010, HUD's General Counsel and Chief Financial Officer provided additional information regarding HUD's recapture requirements of the HOME program statute and CPD's use of cumulative accounting and the FIFO method for financial management.

HUD explained that CPD's use of cumulative accounting in its financial management represents a reasonable interpretation of the statutory duties imposed on the HUD Secretary and addresses the complex administrative challenges inherent in managing the HOME Investment Trust. HUD also explained that obligations and expenditures under the HOME program are accounted for on a FIFO basis by fund type instead of by fiscal year and that CPD, in enforcing the obligation and expenditure requirements, looks to total cumulative obligations and expenditures instead of accounting for them by fiscal year. Based on the

Chief Financial Officer's financial analysis, given the origin of these requirements and the fundamental nature of this block grant program, HUD believed that the FIFO accounting method for obligations and expenditures by fund type was consistent with Federal accounting requirements and had no objection to the total cumulative obligations and expenditures methods used for assessing compliance with the 24-month commitment and 5-year expenditure requirements.

OIG continues to disagree that CPD's use of the FIFO method for recognizing commitments and expenditures that participating jurisdictions make against their HOME appropriations or CPD's cumulative accounting is consistent with the legislation under 42 U.S.C. § 12748, requiring recapture of funds not committed by statutory deadline dates. These methods of accounting also potentially violate the closure of accounts under 31 U.S.C. § 1552.

Another issue raised by CPD's accounting methods is whether HUD's FIFO accounting method complies with Federal accounting requirements for maintaining the U.S. Standard General Ledger and general appropriations law. The accounting issues require review for compliance with Federal accounting standards and appropriation law. Since OIG's last semiannual report date, in conjunction with its annual audit of HUD's financial statements, OIG has discussed the FIFO accounting method with the Government Accountability Office (GAO). OIG will make a formal request for GAO to determine whether the FIFO accounting method violates Federal standards for appropriation accounting. (Audit Report: **2009-AT-0001**)

The Federal Housing Administration Delayed Sending Violation Notices to Lenders That Did Not Meet Recertification Requirements, Issue Date: August 6, 2010.

OIG audited the Federal Housing Administration (FHA) Title II single-family lender renewal process. The objective of the audit was to determine whether FHA ensured that lenders submitted recertification requirements in a timely manner. OIG found that FHA did not ensure that lenders submitted recertification forms, annual fees, and/or audited financial statements in a timely manner. The Lender Approval and Recertification Division (Division) did not promptly issue notices of violation to lenders that did not submit required annual recertification documentation and/or fees when due. The notices of violation give the lenders 30 days to cure the violation before referring them to the Mortgagee Review Board (MRB) for sanctions. Instead, the Division sent notices of deficiency to the noncompliant lenders and did not send out notices of violation until 7 months after the March 31, 2009, recertification due date. The Division's delay in issuing notices of violation on behalf of the MRB allowed the noncompliant lenders to originate FHA loans for an additional 7 months. During this period, these noncompliant lenders originated 7,107 FHA-insured loans worth nearly \$1.4 billion and had an average default rate that was almost twice as high as the national rate.

OIG recommended that the Office of Lender Activities and Program Compliance require the Division to revise the recertification process to discontinue issuing notices of deficiency and issue notices of violation promptly for all lenders that do not submit or attempt to submit one or more of the required items by the due date (recommendation 1A).

The Office of Single Family Housing (Housing) agreed that the delay in issuing the notices of violation was unacceptable but disagreed with OIG's recommendation. Housing explained that delays in the issuance of notices of violation were the result of exponential growth in the number of FHA-approved lenders and significant staffing shortages, combined with insufficient recertification processing procedures. Housing stated that it viewed the delays as a separate matter to the use of notices of deficiency and that a number of operational and policy changes had been made to avert backlogs in the future.

OIG disagrees. Although FHA has taken measures to streamline the process, these measures have not significantly affected the time to issue the notices of violation. As of the August 6, 2010, audit report

date, the Division had not sent out notices of violation for December 2009 lenders that did not submit timely recertification items. Instead, the Division sent out notices of deficiency for these lenders in June of 2010 even though these notices are not legally required for due process. Timely enforcement of the recertification requirements is absolutely necessary to protect the interests of the insurance fund. Mortgagee Letter 2009-01 stresses this point. It states, “The Department considers the timely annual renewal of FHA approval requirements to be critical to its ability to adequately monitor and assess the condition of the mortgagee and determine if the mortgagee poses a risk to the Department, its programs or the public.” Notices of deficiency serve only to delay completion of this process and, therefore, should be discontinued for mortgagees that do not comply with the timeliness requirement.

On March 9, 2011, OIG referred this matter to the Assistant Secretary for Housing – Federal Housing Commissioner. (Audit Report: **2010-KC-0002**)

Significantly Revised Management Decisions

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

Somerset Investors Corporation – Melville, NY, Issue Date: March 26, 2010

As part of the OIG goal to improve the integrity of the single-family insurance programs, HUD OIG audited the underwriting by Somerset Investors Corporation of FHA-insured refinanced loans. The objective was to determine whether Somerset originated FHA-insured refinanced loans in accordance with HUD/FHA requirements and conducted quality control reviews that complied with HUD/FHA requirements.

Somerset did not always originate refinanced loans in accordance with HUD/FHA requirements. Specifically, 8 of 11 loans reviewed exhibited underwriting deficiencies significant enough to warrant indemnification, such as inadequate evaluation of previous mortgage payment history, excessive qualifying ratios without significant compensating factors to justify loan approval, and improper calculation of income. The remaining three loans disclosed other underwriting deficiencies that were not significant enough to request indemnification. In addition, six loans subject to Somerset’s quality control review evidenced underwriting deficiencies that warrant indemnification. Consequently, 14 mortgage loans with an outstanding principal balance of more than \$4.6 million were approved, which presented an unnecessary risk to the FHA insurance fund. In addition, while Somerset’s written quality control plan complied with HUD/FHA requirements, the quality control reviews conducted did not comply with HUD’s and its own quality control requirements regarding sample size and reporting. Specifically, the completed quality control reviews did not include home equity conversion mortgages; did not always identify corrective actions, a timetable for completion, or planned follow-up activities; and did not report serious violations to HUD. Consequently, assurance was lessened that Somerset’s quality control process would identify and address underwriting problems in a timely manner and thus protect Somerset and FHA from unacceptable risk.

OIG recommended that HUD require Somerset to (1) indemnify HUD for potential estimated losses of nearly \$2.8 million for 14 loans with significant underwriting deficiencies, (2) strengthen controls over its underwriting procedures to provide assurance that HUD/FHA requirements are met, and (3) implement procedures to ensure that quality control reviews comply with HUD/FHA requirements.

HUD agreed with the recommendations on June 24, 2010, and subsequently sought Somerset’s cooperation in implementing OIG’s recommendations. However, Somerset failed to respond to the

requested planned actions and closed its home office. As a result, the MRB on October 28, 2010, issued a notice of permanent withdrawal of Somerset's HUD/FHA lender approval status. Since Somerset did not appeal the decision, the action became final after a 30-day period. Consequently, HUD has exhausted all options to satisfy the recommendations. Therefore, HUD revised its management decision on January 16, 2011, to reflect that the recommendations were not implemented and to not realize funds to be put to better use, and the audit was closed on January 16, 2011. (Audit Report: **2010-NY-1009**)

The Owner of Ebony Lake Healthcare Center, Brownsville, Texas, Violated Its Regulatory Agreement with HUD - Brownsville, TX, Issue Date: November 25, 2008

OIG issued an audit report entitled "The Owner of Ebony Lake Healthcare Center, Brownsville, Texas, Violated Its Regulatory Agreement with HUD." Among the issues reported was that although the regulatory agreements require project receipts to be deposited into an account in the project's name, the former owner failed to do so. Instead, the former owner took funds that belonged to the project, resulting in unauthorized distributions. When the deposits were made, the project's manager was also a principal of the former owner. Although the project became HUD insured in November 2000, in March and October of 2001, Medicaid and Medicare receipts of more than \$140,000 were deposited into the former owner's bank account rather than the project's account. The current owner learned about the unauthorized distributions on or before September 20, 2004, but had not taken appropriate actions to recover the funds. OIG's recommendation 2A of the report was that HUD require the owner to reimburse from non-Federal funds more than \$140,000 to the project's residual receipts account for the ineligible distribution. HUD agreed to endeavor to incorporate into a management improvement and operating plan, developed with the owner, a requirement that the owner deposit more than \$140,000 from non-Federal funds into the project's residual receipts account for the ineligible distribution.

At the time of the original management decision, the Office of Housing, Office of Insured Health Care Facilities, stated that the project was a single-asset entity with no revenues other than those generated by the facility and that the owner is a nonprofit organization, which asserted that it had no funds available to make the required deposit. In addition, according to the owner, the former owner of the property—the entity which received this distribution—filed for bankruptcy February 11, 2004. After report issuance, several other events occurred, including the death of two of the owners. Also, the remaining owners entered into a \$500,000 civil money penalty settlement agreement with HUD for various regulatory violations, including items cited in this audit report and one of a sister project.

HUD submitted a revised management decision, stating that it would submit a memorandum to OIG for write-off concurrence and closure of the recommendation. OIG worked closely with HUD's Office of General Council, Departmental Enforcement Center, and the HUD program office to resolve a number of recommendations in this report. HUD aggressively pursued resolution of the recommendations and concluded that further pursuit would not be beneficial. Thus, on February 18, 2011, OIG concurred with the revised management decision for recommendation 2A to write off more than \$140,000. OIG is awaiting HUD's memorandum. (Audit report **2009-FW-1002**)

Significant Management Decision With Which OIG Disagrees

HUD's Community Development Block Grant Set-Aside for Colonias Was Not Used for Its Intended Purposes – Washington, DC, Issue Date: July 29, 2008

HUD OIG issued an audit entitled "HUD's Community Development Block Grant Set-Aside Was Not Used for Its Intended Purposes." Among the issues reported was that due to the lack of guidance, colonia set-aside funding was spent for parks, swimming pools, recreation centers, and public facility improvements. OIG recommended that CPD issue guidance or criteria that (1) better define a colonia,

(2) require the States to support their colonia designations with objective criteria, and (3) require States to prioritize funding to colonias with the greatest need, thereby better assuring compliance with the Cranston-Gonzales National Affordable Housing Act. CPD agreed to issue guidance.

Further, GAO issued its December 2009 report, “Rural Water Infrastructure – Improved Coordination and Funding Processes Could Enhance Federal Efforts to Meet Needs in the U. S.-Mexico Border Region” (GAO-10-126), which found that HUD has “not always ensured compliance with statutory requirements and regulations concerning the eligibility of applicants or projects or the prioritization of funds from programs targets at the border region.” GAO also “found that HUD has not developed guidance for determining what constitutes a colonia, has not made such determinations, and has not reviewed states’ determinations. Lacking guidance and direction from HUD, states have applied the requirements differently.”

OIG reported in its April 1, 2010, through September 30, 2010, Semiannual Report to Congress that it disagreed with CPD’s proposed guidance due to OIG’s disagreement with CPD’s interpretation of the statute implementing the colonia set-aside and CPD’s definition of a colonia. OIG also previously reported that it had referred the issue to the Deputy Secretary. In December 2010, the Deputy Secretary met with Acting Inspector General Stephens to discuss the issue. After this meeting, HUD’s Office of General Counsel issued a legal opinion in response to the referral and disagreement, dated December 16, 2010. In it, HUD’s General Counsel determined that CPD’s position was legally correct.

On February 8, 2011, CPD issued Notice CPD-11-001 to provide guidelines for administering the State Community Development Block Grant colonia set-aside. The notice provided guidance, and regarding the criteria for a community to be considered a colonia, CPD stated, “In addition to being in existence before November 28, 1990, Section 916(e)(1)(C) requires a colonia to be ‘determined to be a colonia on the basis of objective criteria, including lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe, and sanitary housing.’ This means that all three expressly named criteria be included in such list and that at least one of three be included in each instance.”


As OIG disagrees that the statute allows CPD to define a colonia as lacking in just one of the criteria, such as only potable water; adequate sewage systems; or decent, safe, and sanitary housing, OIG noted its disagreement with the management decision but has closed the recommendations based on the Deputy Secretary’s agreement with the legal opinion and CPD. (Audit Report **2008-FW-0001**)

Federal Financial Management Improvement Act of 1996

In fiscal year (FY) 2010, HUD did not substantially comply with FFMIA. In this regard, HUD’s financial management systems did not substantially comply with Federal financial management system requirements.

During FY 2010, HUD made limited progress in bringing the financial management systems into compliance with FFMIA. HUD’s financial management systems continued to not meet current requirements. HUD’s systems were not operated in an integrated fashion and linked electronically to efficiently and effectively provide agencywide financial system support necessary to carry out the agency’s mission and support the agency’s financial management needs.

HUD’s financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. HUD is in the process of modernizing its financial management systems by developing an integrated financial management system. The modernization development, HUD’s Integrated Financial Improvement Project (HIFMIP), was launched in FY 2003 but has been plagued by delays. Originally



planned for implementation in 2006, the contract for HIFMIP was awarded on September 23, 2010. The Office of Management and Budget (OMB) approved the 18-month base period of performance for the contract, which is expected to run through April 2012. Future option periods will require OMB approval.

FFMIA requires OIG to report in its Semiannual Reports to Congress instances and reasons when an agency has not met the intermediate target dates established in its mediation plan required by FFMIA. At the end of 2010, 4 of the 42 financial management systems were not in substantial compliance with FFMIA. These four systems are the HUD Procurement System (HPS), Small Purchase System (SPS), Integrated Disbursement and Information System (IDIS), and Facilities Integrated Resources Management System (FIRMS). The Department acquired a new application, HUD Integrated Acquisition Management System, to replace the HPS and SPS on September 30, 2010. As of November 15, 2010, HUD had not provided remediation plans for FIRMS. OIG determined that IDIS is not in substantial compliance with FFMIA. Although 38 individual systems had been certified as compliant with Federal financial management systems requirements, HUD had not performed independent reviews of all of its financial management systems in accordance with OMB Circular A-127. Collectively and in the aggregate, deficiencies continued to exist.

In addition, OIG audit reports have disclosed that security of financial information was not provided in accordance with OMB Circular A-130, Management of Federal Information Resources, appendix III, and the Federal Information Security Management Act.



Appendix 1 - Peer Review Reporting





Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), Section 989C, requires Inspectors General to report the latest peer review results in their semiannual reports to Congress. The purpose in doing so is to enhance transparency within the government. Both the Office of Audit and Office of Investigation are required to undergo a peer review of their individual organizations every 3 years. The purpose of the reviews is to ensure that the work completed by the respective organizations meets the applicable requirements and standards. The following is a summary and status of the latest round of peer reviews for both organizations.

Office of Audit

Peer Review Conducted on HUD OIG

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), received a grade of pass (the highest rating) on the peer review report issued by the U.S. Treasury Inspector General for Tax Administration on September 22, 2009. There were no recommendations included in the System Review Report. The report stated:

In our opinion, the system of quality control in effect for the year ended March 31, 2009, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. The HUD OIG has received a peer review rating of pass.

Peer Review Conducted by HUD OIG on USDA

The U.S. Department of Agriculture (USDA) OIG received a rating of pass on the peer review report issued by HUD OIG on September 30, 2009. The System Review Report contained no findings or recommendations.

Office of Investigation

Peer Review Conducted on HUD OIG

The most recent peer review of the Office of Investigation was conducted in 2008 by the United States Postal Service's Office of Inspector General. The results of the peer review found HUD OIG compliant (the highest rating) with the quality of standards established by the inspector general community and the attorney general guidelines.



Appendix 2 - Audit Reports Issued



Internal Reports

15 Audit Reports

Chief Financial Officer (4 Reports)

- 2011-DP-0003 HUD Did Not Fully Comply With the Requirements of OMB Circular A-127, 12/03/2010.
- 2011-DP-0004 Fiscal Year 2010 Review of Information Systems Controls in Support of the Financial Statements Audit, 01/14/2011.
- 2011-FO-0003 Additional Details to Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, 11/15/2010. Better use: \$753,500,000.
- 2011-FO-0004 Annual Evaluation of HUD's Compliance With Presidential Executive Order 13520, Reducing Improper Payments, 12/07/2010.

Chief Information Officer (4 Reports)

- 2011-DP-0001 HUD Did Not Properly Manage HITS Contracts and Contractors To Fully Comply With Contract Requirements and Acquisition Regulations, 10/06/2010.
- 2011-DP-0002 Better Planning for the Unisys Rehost Project Was Needed, 11/19/2010.
- 2011-DP-0005 Although HUD Continued to Make Improvements to Its Entitywide Security Program, Challenges Remained in Its Efforts To Comply with Federal Information Security Requirements, 02/10/2011.
- 2011-DP-0006 HUD's Controls Over Selected Configuration Management Activities Need Improvement, 03/24/2011.

Government National Mortgage Association (1 Report)

- 2011-FO-0001 Audit of Ginnie Mae's Financial Statements for Fiscal Years 2010 and 2009, 11/05/2010.

Housing (3 Reports)

- 2011-FO-0002 Audit of the FHA's Financial Statements for Fiscal Years 2010 and 2009, 11/05/2010.
- 2011-HA-0001 HUD Did Not Adequately Plan the Procurement of the Management and Marketing Contracts, 11/09/2010.
- 2011-LA-0001 HUD Did Not Provide Adequate Oversight and Guidance During the Technical Review of the Retreat at Santa Rita Springs, 01/21/2011.

Office of Chief Human Capital Officer (1 Report)

- 2011-PH-0001 HUD Hired Employees in Accordance With Office of Personnel Management Guidelines for Streamlining the Federal Hiring Process, 01/25/2011.

Public and Indian Housing (2 Reports)

- 2011-CH-0001 HUD Can Improve Its Oversight of Public Housing Agencies' Section 8 Project-Based Voucher Programs, 11/16/2010.
- 2011-NY-0001 HUD's Oversight of Public Housing Authorities' Energy Performance Contracting in New York and New Jersey Had Not been Sufficient, but HUD Had Taken Appropriate Steps To Improve Controls, 02/01/2011.



External Reports

63 Audit Reports

Community Planning and Development (26 Reports)

- 2011-AO-1001 The State of Louisiana Generally Ensured That Disbursements to Small Rental Property Program Participants Were Eligible and Supported, Baton Rouge, LA, 10/28/2010.
- 2011-AO-1002 The State of Louisiana Did Not Always Ensure That Disbursements Under Its First Time Homebuyer Program Complied With Federal Regulations and Program Requirements, Baton Rouge, LA, 10/29/2010. Questioned: \$2,817,530; Unsupported: \$2,549,115.
- 2011-AT-1004 Mecklenburg County Mismanaged Its Shelter Plus Care Program, Charlotte, NC, 01/21/2011. Questioned: \$466,175; Unsupported: \$441,100.
- 2011-BO-1007 The Community Builders Is Expected To Expend Funding Within the Deadline and Meet Its Goals for the NSP 2, Boston, MA, 03/21/2011.
- 2011-CH-1001 The City of Flint Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System, Flint, MI, 10/13/2010. Questioned: \$2,236,722; Unsupported: \$64,761; Better use: \$646,298.
- 2011-CH-1003 The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded Afford-A-Home Program, Cleveland, OH, 12/27/2010. Questioned: \$810,000; Unsupported: \$760,000; Better use: \$90,000.
- 2011-CH-1004 The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded First Home/PLUS Program, Indianapolis, IN, 01/31/2011. Questioned: \$942,071; Unsupported: \$803,445; Better use: \$123,768.
- 2011-FW-1006 The Texas Department of Housing and Community Affairs Generally Ensured That Its Program Management Firm Complied With Requirements, Austin, TX, 01/26/2011. Questioned: \$71,691.
- 2011-KC-1001 The City of East St. Louis Did Not Properly Manage Housing Rehabilitation Contracts Funded by the CDBG Program, East St. Louis, IL, 02/09/2011. Questioned: \$127,780; Better use: \$400,000.
- 2011-LA-1001 The City of Los Angeles Housing Department Did Not Always Effectively Administer Its Homelessness Prevention and Rapid Re-Housing Program, Los Angeles, CA, 10/25/2010.
- 2011-LA-1004 The Community Development Programs Center of Nevada Did Not Fully Comply With NSP Requirements, Las Vegas, NV, 12/21/2010. Questioned: \$10,831; Unsupported: \$10,831.
- 2011-LA-1005 The City and County of San Francisco Did Not Always Ensure That Homelessness Prevention and Rapid Re-Housing Funds Were Used as Required, San Francisco, CA, 12/21/2010. Questioned: \$63,008; Unsupported: \$54,188.
- 2011-LA-1006 The City of Mesa Needs To Improve Its Procedures for Administering Its NSP Grant, Mesa, AZ, 02/08/2011. Questioned: \$22,344; Better use: \$328,207.

2011-LA-1007	Allegations of Lutheran Social Services of Northern California's Misuse of Homelessness Prevention and Rapid Re-Housing Program Funds Were Unsubstantiated, Sacramento, CA, 02/08/2011.
2011-NY-1002	The City of Bayonne Did Not Adequately Administer Its Economic Development Program, Bayonne, NJ, 11/12/2010. Questioned: \$645,601; Better use: \$196,292.
2011-NY-1004	The City of Binghamton Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements, Binghamton, NY, 12/21/2010. Questioned: \$3,926,961; Unsupported: \$2,403,393; Better use: \$81,561.
2011-NY-1005	The Lower Manhattan Development Corporation CDBG Disaster Recovery Assistance Funds, New York, NY, 02/07/2011.
2011-PH-1001	The Virginia Housing Development Authority Generally Administered Its Tax Credit Assistance Program Funded Under the Recovery Act in Accordance With Applicable Requirements, Richmond, VA, 10/25/2010.
2011-PH-1002	The City of Scranton Did Not Administer Its CDBG Program in Accordance With HUD Requirements, Scranton, PA, 11/08/2010. Questioned: \$11,735,924; Unsupported: \$11,735,924.
2011-PH-1003	The Pennsylvania Housing Finance Agency Generally Administered Its Tax Credit Assistance Program Funded Under the Recovery Act in Accordance With Applicable Requirements, Harrisburg, PA, 11/08/2010. Questioned: \$287,526; Unsupported: \$151,936.
2011-PH-1005	The District of Columbia Did Not Administer Its HOME Program in Accordance With Federal Requirements, Washington, DC, 12/23/2010. Questioned: \$8,174,880; Unsupported: \$6,479,685; Better use: \$1,884,526.
2011-PH-1006	The City of Pittsburgh Can Improve Its Administration of Its CDBG Recovery Act Funds, Pittsburgh, PA, 01/31/2011. Questioned: \$400,000; Unsupported: \$400,000.
2011-PH-1008	The West Virginia Housing Development Fund Generally Administered Its Tax Credit Assistance Program Funded Under the Recovery Act in Accordance With Applicable Requirements, Charleston, WV, 03/21/2011.
2011-SE-1002	Washington State Housing Finance Commission Did not Always Disburse Its Tax Credit Assistance Program Funds in Accordance With Program Requirements, Seattle, WA, 01/19/2011. Questioned: \$187,104; Unsupported: \$17,068.
2011-SE-1003	Oregon Housing and Community Services Allowed a Developer To use NSP Funds for Ineligible Purposes, Salem, OR, 03/01/2011. Questioned: \$5,000.
2011-SE-1004	Oregon Housing and Community Services Generally Complied With NSP 2 Requirements, Salem, OR, 03/28/2011.

General Counsel (1 Report)

2011-PH-1009	Deutsche Bank Berkshire Mortgage, Inc., Acquired a \$45.6 Million Loan That Was Not Properly Underwritten in Accordance With HUD's Multifamily Accelerated Processing Program, Bethesda, MD, 03/22/2011. Questioned: \$29,774,713.
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Housing (10 Reports)

2011-AT-1001	Nationwide Home Loans Did Not Follow HUD Requirements in Approving FHA Loans and Implementing Its Quality Control Program, Miami, FL, 10/25/2010. Better use: \$5,186,994.
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- 2011-BO-1004 The Neighborhood Assistance Corporation of America Generally Administered Its HUD Grants Used for Housing Counseling Activities in Accordance With HUD Requirements, Jamaica Plain, MA, 02/16/2011.
- 2011-BO-1005 Semper Home Loans, Inc., Needs To Improve Its Quality Control Process for Loan Origination and Updating of Mortgage Records, Providence, RI, 03/02/2011. Questioned: \$169,000; Better use: \$179,400.
- 2011-DE-1001 Citizen Complaint Against BIONIC Real Estate Services, LLC, Regarding Its Management of a HUD Section 236-Insured Multifamily Property Cannot Be Supported, St. Joseph, MO, 11/08/2010.
- 2011-FW-1002 Gold Financial Services, Inc., Did Not Follow HUD/FHA Requirements in Underwriting Two Loans and Originated a Third in Violation of Its Own Internal Controls, San Antonio, TX, 10/25/2010. Questioned: \$71,259; Better use: \$86,885.
- 2011-FW-1003 WR Starkey Mortgage, LLP, Did Not Follow HUD Underwriting Requirements for 13 of 14 Loans Reviewed, Plano, TX, 12/17/2010. Questioned: \$360,032; Better use: \$543,482.
- 2011-LA-1003 Naomi Gardens Did Not Comply With HUD Procurement and Waiting List Requirements, Arcadia, CA, 11/24/2010.
- 2011-NY-1006 Financial Management and Procurement Controls at Westbeth Artists Houses Did Not Always Comply With Regulations, New York, NY, 03/10/2011. Questioned: \$377,516; Unsupported: \$332,836.
- 2011-PH-1004 NFM, Inc., Did Not Fully Implement Its Quality Control Plan in Accordance With HUD Requirements, Linthicum, MD, 11/10/2010.
- 2011-SE-1001 Alaska Housing Finance Corporation's Management and Occupancy Reviews Were Not Always as Comprehensive as Required for a Section 8 Performance-Based Contract Administrator, Anchorage, AK, 12/17/2010.

Lead Hazard Control (1 Report)

- 2011-CH-1002 ACORN Associates, Inc., Materially Failed To use Its Lead Elimination Action Program Grant Funds Appropriately, New Orleans, LA, 11/08/2010. Questioned: \$3,247,078; Unsupported: \$2,047,163; Better use: \$752,842.

Public and Indian Housing (20 Reports)

- 2011-AO-1003 The Housing Authority of East Baton Rouge Parish Generally Ensured That It Met HUD and the Recovery Act Requirements but Incurred an Ineligible Expenditure, Baton Rouge, LA, 01/04/2011.
- 2011-AT-1002 The East Point Housing Authority Made Excessive Housing Assistance Payments for a Zero-Income Tenant and Its Units Did Not Meet Housing Quality Standards, East Point, GA, 11/22/2010. Questioned: \$38,447.
- 2011-AT-1003 The Housing Authority, City of Wilson, Mismanaged Its Section 8 Program, Wilson, NC, 01/14/2011. Questioned: \$124,346; Unsupported: \$14,568.
- 2011-BO-1001 The Cambridge Housing Authority Generally Administered Its Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded Grant in Accordance With Applicable Requirements, Cambridge, MA, 11/02/2010.
- 2011-BO-1002 Brockton Housing Authority Needs To Improve Controls over its Interprogram Fund Transactions and Housing Choice Voucher Program Procurements, Brockton, MA, 12/13/2010. Questioned: \$1,146,168; Unsupported: \$1,146,168.

2011-BO-1003	The Housing Authority of the City of New Haven Did Not Support Cost Reasonableness for More Than \$1.4 Million or Properly Obligate \$60,000 of Its Capital Fund Stimulus Recovery Act Grant, New Haven, CT, 12/17/2010. Questioned: \$1,498,948; Unsupported: \$1,438,948.
2011-BO-1006	The New Bedford Housing Authority Generally Administered Its Public Housing Capital Fund Stimulus Formula and Competitive Grants (Recovery Act Funded) in Accordance With Applicable Requirements, New Bedford, MA, 03/03/2011.
2011-CH-1005	The Housing Authority of the County of Cook Needs To Improve Its Controls Over Its Administration of Section 8 Housing Assistance Payments to Its Nonprofit Units, Chicago, IL, 02/07/2011. Questioned: \$35,193; Better use: \$10,688.
2011-CH-1006	The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL, 03/23/2011. Questioned: \$5,532,347; Unsupported: \$400,250.
2011-FW-1001	The Housing Authority of the City of Shreveport Mismanaged Its Recovery Act Funds by Entering into Imprudent Contracts to Meet the Obligation Deadline, Shreveport, LA, 10/14/2010. Questioned: \$1,147,670.
2011-FW-1004	The West Memphis Housing Authority Generally Administered Its Recovery Act Funding in Compliance with Requirements, West Memphis, AR, 01/05/2011. Questioned: \$23,412.
2011-FW-1005	The Housing Authority of the City of Port Arthur Mismanaged Its Recovery Act Funding, Port Arthur, TX, 01/25/2011. Questioned: \$725,546.
2011-KC-1002	The East St. Louis Housing Authority Drew Capital Funds for Unsupported and Ineligible Expenses, East St. Louis, IL, 03/01/2011. Questioned: \$171,687; Unsupported: \$90,534.
2011-LA-1002	The Housing Authority of the City of Los Angeles Generally Had Capacity; However, It Needs To Improve Controls Over Its Administration of Its Capital Fund Grant Awarded Under The Recovery Act Program, Los Angeles, CA, 11/04/2010. Questioned: \$369,259; Unsupported: \$369,259.
2011-LA-1008	The Hawthorne Housing Authority Failed To Maintain an Adequate Financial Management System, Hawthorne, CA, 03/28/2011. Questioned: \$1,488,455; Better use: \$450,000.
2011-NY-1001	The Jersey City Housing Authority Had Administration Weaknesses in Its Capital Fund Programs, Jersey City, NJ, 10/19/2010. Questioned: \$5,636,567; Unsupported: \$5,583,115; Better use: \$1,479,147.
2011-NY-1003	The Irvington Housing Authority Did Not Administer Its Capital Fund Programs in Accordance With HUD Regulations, Irvington, NJ, 11/24/2010. Questioned: \$2,631,523; Unsupported: \$2,422,132; Better use: \$60,621.
2011-NY-1007	The Jersey City Housing Authority Had Financial Control Weaknesses in Its Recovery Act Funded Public Housing Capital Fund Program, Jersey City, NJ, 03/11/2011. Questioned: \$18,574.
2011-NY-1008	The Jersey City Housing Authority Did Not Always Obligate or Disburse Replacement Housing Factor Capital Fund Grants in a Timely Manner, Jersey City, NJ, 03/18/2011. Questioned: \$3,118,327.

2011-PH-1007 The Philadelphia Housing Authority Did Not Comply With Several Significant HUD Requirements and Failed To Support Payments for Outside Legal Services, Philadelphia, PA, 03/10/2011. Questioned: \$4,496,120; Unsupported: \$4,496,120.

Audit-Related Memorandums¹

Community Planning and Development (2 Reports)

2011-AT-1801 The City of Columbus Demonstrated the Capacity to Obligate Its NSP-1 Funds, Columbus, GA, 11/24/2010.

2011-AT-1802 The Municipality of Arecibo Charged the HOME Program With Expenditures That Did Not Meet Program Objectives, Arecibo, PR, 01/27/2011. Questioned: \$483,500; Unsupported: \$431,489; Better use: \$108,635.

Housing (3 Reports)

2011-CF-1801 An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities To Recover Losses to the FHA Insurance Fund, Washington, DC, 03/02/2011.

2011-FW-1801 Review of Allied Home Mortgage Capital Corporation's Fiscal Year 2009 Financial Statements, Houston, TX, 11/01/2010.

2011-LA-1801 Review of Compliance With the Real Estate Settlement Procedures Act by DHI Mortgage, LTD, and Its Closing Agents, Tucson & Scottsdale, AZ, 02/09/2011.



¹ The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

Appendix 3 - Tables



Table A

**Audit reports issued before the start of the period
with no management decision at March 31, 2011**

***Significant audit reports described in previous semiannual reports**

Report number and title	Reason for lack of management decision	Issue date
* 2009-AT-0001 HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME funds	See chapter 10, page 128.	09/28/2009
2010-KC-0002 FHA Delayed Sending Violation Notices to Lenders That Did Not Meet Recertification Requirements	See chapter 10, page 129.	08/06/2010

Table B

Significant audit reports on which final action had not been completed within 12 months after the date of the Inspector General's report

Report number	Report title	Issue date	Decision date	Final action
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	07/01/2015
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	08/30/2011
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	12/31/2011
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-CH-1002	Washington Mutual Bank, Underwriting of FHA-Insured Loans, Downers Grove, IL	11/29/2004	01/28/2005	07/31/2011
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	10/11/2011
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	01/11/2006	Note 1
2006-CH-0001	Real Estate Assessment Center's Physical Condition Assessment Was Compromised	11/30/2005	01/10/2006	12/31/2011
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	08/17/2006	09/13/2012
2006-SE-0002	The Office of Single Family Housing Expanded Late Endorsement Eligibility Without Studying Associated Risks	08/16/2006	03/30/2007	Note 1
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2012

Report number	Report title	Issue date	Decision date	Final action
2006-DP-0802	Assessment of HUD's Compliance with OMB Memorandum M-06-16, "Protection of Sensitive Agency Information"	09/21/2006	11/24/2006	09/30/2014
2007-LA-0001	Tax Credit Project Owners Are Allowed To Charge Higher Rents for Tenant-Based Section 8 Voucher Households than Non-Voucher Households	11/08/2006	07/05/2007	Note 2
2007-DP-0003	Review of HUD's Procurement Systems	01/25/2007	05/25/2007	10/15/2011
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts To Reduce Housing Assistance Payments	01/29/2007	01/29/2007	Note 2
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	Note 1
2007-BO-0002	HUD Did Not Process Multifamily Accelerated Processing Applications within Established Processing Goals and the Multifamily Accelerated Processing Guide Is Outdated	05/21/2007	09/07/2007	Note 2
2007-SE-0001	HUD's Oversight of the Section 8 Project-Based Contract	06/07/2007	10/05/2007	Note 1
2007-FW-1011	Capmark Finance, Inc., Misrepresented Asbury Square Apartments' Financial and Physical Condition When Underwriting the \$9.098 Million Loan, Tulsa, OK	07/02/2007	10/23/2007	Note 2
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	Note 2
2007-DP-0006	Review of HUD's Personal Identity Verification and Privacy Program	08/28/2007	12/20/2007	Note 1
2007-AT-0001	HUD Needs To Improve Controls Over Its Contract Administration Processes	09/19/2007	09/19/2007	Note 1
2007-KC-0801	Lenders Submitted Title II Manufactured Housing Loans for Endorsement without the Required Foundation Certifications	09/24/2007	03/11/2008	Note 2
2007-CH-1017	The City of Cincinnati Lacked Adequate Controls over Its HOME Investment Partnerships Program, Cincinnati, OH	09/30/2007	01/28/2008	09/30/2011

Report number	Report title	Issue date	Decision date	Final action
2008-LA-0001	The Los Angeles Multifamily Hub Did Not Properly Monitor Its Performance-Based Contract Administrator, Los Angeles LOMOD	11/05/2007	03/03/2008	Note 1
2008-LA-1003	Home for Life Foundation Did Not Properly Administer Its Supportive Housing Program Grants, Los Angeles, CA	12/18/2007	02/26/2008	04/01/2013
2008-AT-1004	The City of West Palm Beach Did Not Properly Administer Its CDBG Program, West Palm Beach, FL	01/09/2008	05/05/2008	05/01/2012
2008-AT-1005	The City of Fort Lauderdale Did Not Properly Administer Its CDBG Program, Fort Lauderdale, FL	01/11/2008	05/05/2008	05/01/2012
2008-NY-1003	The City of New York's Department of Housing Preservation and Development Had Administrative Weaknesses in Its HOME Program, New York, NY	01/23/2008	05/21/2008	Note 1
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	Note 1
2008-KC-0002	HUD Did Not Ensure That Housing Authorities Properly Administered the Community Service and Self-Sufficiency Requirement	03/24/2008	07/22/2008	10/01/2011
2008-AO-0801	Review of Duplication of Participants Benefits under HUD's Katrina Disaster Housing Assistance Program and Disaster Voucher Program	03/28/2008	08/01/2008	Note 1
2008-AT-0003	HUD Lacked Adequate Controls over the Physical Condition of Section 8 Voucher Program Housing Stock	05/14/2008	09/10/2008	09/30/2012
2008-BO-0002	Maintenance of Effort Requirements Are Needed to Ensure Intended Use of CDBG Program Funds	05/21/2008	10/02/2008	Note 1
2008-CH-1010	The City of Cincinnati Lacked Adequate Controls over Its System Reporting and Rental Rehabilitation Projects for Its HOME Investment Partnerships Program, Cincinnati, OH	06/11/2008	10/09/2008	07/13/2011

Report number	Report title	Issue date	Decision date	Final action
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 1
2008-LA-1012	The Housing Authority of the City of Calexico Did Not Comply with Public Housing Program Rules and Regulations, Calexico, CA	07/01/2008	10/14/2008	12/31/2013
2008-AO-1005	State of Louisiana, Road Home Program, Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible, Baton Rouge, LA	08/07/2008	01/13/2009	Note 1
2008-CH-1014	The City of Cincinnati Did Not Adequately Manage Its HOME Investment Partnerships Program, Cincinnati, OH	09/26/2008	01/22/2009	07/31/2011
2009-CH-1001	New Phoenix Assistance Center Substantially Failed to Manage Its Supportive Housing Program Grant, Chicago, IL	10/24/2008	02/20/2009	Note 1
2009-FO-0002	Audit of the FHA's Financial Statements for Fiscal Years 2008 and 2007	11/07/2008	03/13/2009	04/15/2011
2009-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Years 2008 and 2007 Financial Statements	11/14/2008	03/19/2009	12/31/2011
2009-FW-1002	The Owner of Ebony Lake Healthcare Center Violated Its Regulatory Agreement with HUD, Brownsville, TX	11/25/2008	03/25/2009	10/01/2011
2009-DP-0003	Review of the Centralized HUD Account Management Process	01/09/2009	04/30/2009	Note 2
2009-AO-0002	HUD's Receivership Did Not Ensure That the Housing Authority of New Orleans Properly Accounted for Its Fungibility Funding, Monitored and Paid Two of Its Contractors, and Paid Its Accounts Payable Disbursements	01/29/2009	08/21/2009	Note 2
2009-NY-1008	The City of Newburgh Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Newburgh, NY	02/24/2009	06/11/2009	Note 2

Report number	Report title	Issue date	Decision date	Final action
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible to Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 2
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 2
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	09/08/2011
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance with HUD Requirements, Rome, NY	05/20/2009	09/23/2009	Note 2
2009-FW-0801	Tenant Confirmation for Disaster Housing Assistance Program for March and April 2009	05/28/2009	09/25/2009	10/01/2011
2009-DP-0005	Review of Implementation of Security Controls over HUD's Business Partners	06/11/2009	11/17/2009	12/31/2014
2009-AT-1008	Miami-Dade County Did Not Properly Administer Its CDBG Program, Miami, FL	06/19/2009	09/25/2009	Note 2
2009-PH-0801	Corrective Action Verification Review, Upfront Grant for Ridgecrest Heights Apartments, CEMI-Ridgecrest, Inc., Washington, DC, Audit Memorandum 98-AO-219-1804	06/19/2009	07/09/2009	Note 2
2009-FW-0001	HUD's Disaster Recovery Grant Reporting System Can Collect the Basic Information Needed to Monitor the Neighborhood Stabilization Program	06/25/2009	10/23/2009	Note 2
2009-LA-1011	City of Los Angeles Housing Department Did Not Ensure That the Buckingham Place Project Met HOME Program Requirements, Los Angeles, CA	07/01/2009	10/21/2009	09/01/2011

Report number	Report title	Issue date	Decision date	Final action
2009-AT-1009	The Housing Authority of the City of Newnan Inappropriately Encumbered Assets and Advanced Funds to Support Its Nonprofit Organization, Newnan, GA	07/20/2009	11/16/2009	06/30/2011
2009-KC-1008	Grace Hill Used Neighborhood Initiative Grant Funds to Pay Unsupported Payroll Expenses and Duplicated Computer Support Costs, St. Louis, MO	07/24/2009	10/13/2009	Note 2
2009-CH-1011	The Housing Authority of the City of Terre Haute Failed to Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN	07/31/2009	11/24/2009	01/01/2030
2009-KC-0001	HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders	08/14/2009	03/31/2011	12/31/2013
2009-AT-1011	The City of Miami Did Not Properly Administer Its CDBG Program, Miami, FL	08/18/2009	12/15/2009	04/04/2011
2009-CH-0002	The Office of Affordable Housing Programs' Oversight of HOME Investment Partnerships Program Income Was Inadequate	08/28/2009	12/26/2009	Note 2
2009-LA-1018	DHI Mortgage Company, LTD's Scottsdale and Tucson, AZ, Branches Did Not Always Follow FHA-Insured Loan Underwriting and Quality Control Reaquirements	09/10/2009	01/08/2010	06/30/2011
2009-LA-1019	The Owner of Park Lee Apartments Violated Its Regulatory Agreement with HUD, Phoenix, AZ	09/15/2009	01/13/2010	07/13/2011
2009-DE-1005	Adams County Did Not Have Adequate Controls over Its Block Grant Funds, Westminster, CO	09/17/2009	01/15/2010	Note 2
2009-AO-1003	Louisiana Land Trust, As the State of Louisiana's Subrecipient, Did Not Always Ensure That Properties Were Properly Maintained, Baton Rouge, LA	09/23/2009	01/26/2010	Note 2
2009-DE-1801	Adams County Had Weaknesses That Could Significantly Affect Its Capacity to Administer Its Recovery Act Funding, Commerce City, CO	09/24/2009	01/14/2010	Note 2

Report number	Report title	Issue date	Decision date	Final action
2009-LA-1020	The Housing Authority of the City of Richmond Did Not Follow Procurement Requirements and Had Internal Control Weaknesses, Richmond, CA	09/24/2009	12/29/2009	04/30/2011
2009-AT-1012	The Municipality of Río Grande Needs to Improve Administration of Its CDBG Program and Its Recovery Act Funds, Rio Grande, PR	09/25/2009	01/22/2010	Note 2
2009-AT-0001	HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME Funds	09/28/2009	03/18/2011	Note 3
2009-AT-1013	The City of Atlanta Entered Incorrect Commitments into HUD's Integrated Disbursement and Information System for its HOME Program, Atlanta, GA	09/28/2009	11/05/2009	Note 2
2009-CH-1017	The Housing Authority of the City of Terre Haute Failed to Follow Federal Requirements Regarding Its Turnkey III Homeownership Program Units' Sales Proceeds, Terre Haute, IN	09/29/2009	01/22/2010	06/30/2011
2009-DP-0006	Review of HUD's Web Application Systems	09/29/2009	12/17/2009	09/30/2011
2009-AT-1015	The Puerto Rico Public Housing Administration Mismanaged Its Capital Fund Financing Program and Inappropriately Obligated \$32 Million in Recovery Act Funds, San Juan, PR	09/30/2009	01/27/2010	05/05/2011
2009-CH-1019	The Michigan State Housing Development Authority Failed to Operate Its Section 8 Project-Based Voucher Program According to HUD's and Its Requirements, Lansing, MI	09/30/2009	01/27/2010	02/01/2012
2009-CH-1020	The City of Flint Lacked Adequate Controls over Its Commitment and Disbursement of HOME Investment Partnerships Program Funds, Flint, MI	09/30/2009	01/27/2010	Note 2
2009-DP-0007	Review of Selected Controls within the Disaster Recovery Grant Reporting System	09/30/2009	03/26/2010	Note 2

Report number	Report title	Issue date	Decision date	Final action
2010-NY-1002	Jersey Mortgage Company Did Not Always Comply with HUD/FHA Loan Underwriting Requirements, Cranford, NJ	10/09/2009	03/19/2010	Note 2
2010-FW-0001	HUD Did Not Maintain Documentation to Determine if Public Housing Agencies Took Corrective Action on its January 7, 2008 Memorandum and Public Housing Agencies Paid an Estimated \$7 Million for Deceased Tenants	11/10/2009	01/08/2010	Note 2
2010-LA-0001	HUD's Performance-Based Contract Administration Contract Was Not Cost Effective	11/12/2009	03/12/2010	Note 2
2010-FO-0002	Audit of the FHA's Financial Statements for Fiscal Years 2009 and 2008	11/13/2009	03/05/2010	Note 2
2010-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Years 2009 and 2008 Financial Statements	11/16/2009	04/02/2010	04/01/2011
2010-BO-1002	The City of Holyoke, Office of Community Development, Needs to Improve Its Administration of HOME- and CDBG-Funded Housing Programs, Holyoke, MA	11/23/2009	09/30/2010	04/15/2011
2010-CH-1003	The Grand Rapids Housing Commission Needs to Improve Its Administration of Its Section 8 Project-Based Voucher Program, Grand Rapids, MI	11/24/2009	03/22/2010	10/01/2011
2010-AO-0801	HUD Needs to Ensure That the Housing Authority of New Orleans Strengthens Its Capacity to Adequately Administer Recovery Funding	12/15/2009	04/19/2010	04/30/2012
2010-NY-1005	The City of Paterson Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Paterson, NJ	12/18/2009	03/19/2010	06/30/2011
2010-AO-1002	State of Louisiana Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program, Baton Rouge, LA	01/04/2010	05/14/2010	Note 2
2010-NY-1802	Control Weaknesses at the Syracuse Housing Authority May Affect Its Capacity to Administer American Recovery and Reinvestment Act Funds, Syracuse, NY	01/14/2010	03/04/2010	08/31/2011

Report number	Report title	Issue date	Decision date	Final action
2010-FW-1002	The Housing Authority of the Sac and Fox Nation of Oklahoma Improperly Spent More Than \$800,000 in Contracts and Did Not Always Operate in Accordance with HUD Rules and Regulations or Its Own Policies, Shawnee, OK	01/20/2010	04/23/2010	04/23/2011
2010-NY-1007	The City of Jersey City Needs To Strengthen Its Controls To Ensure That It Will Be Able To Effectively Administer CDBG-R Funds, Jersey City, NJ	02/02/2010	04/05/2010	04/01/2011
2010-BO-0001	HUD Was Not Effective in Recovering the New London Housing Authority From Troubled Status and Did Not Take the Required Regulatory or Statutory Action	02/18/2010	06/18/2010	05/01/2011
2010-PH-0001	HUD's Philadelphia, PA, Homeownership Center Did Not Always Ensure That Required Background Investigations Were Completed for Its Contracted Employees	02/26/2010	06/25/2010	Note 2
2010-DE-1002	Fort Belknap Indian Community Did Not Properly Administer Its Indian Housing Block Grant Funds, Harlem, MT	03/07/2010	06/25/2010	06/30/2011
2010-KC-1001	The State of Iowa Misspent CDBG Disaster Assistance Funds and Failed To Check for Duplicate Benefits, Des Moines, IA	03/10/2010	09/13/2010	10/31/2012
2010-NY-1803	The New York City Housing Authority Had the Capacity to Administer Capital Funds Provided Under the American Recovery and Reinvestment Act, New York, NY	03/12/2010	06/03/2010	06/01/2011
2010-LA-1009	DHI Mortgage Company, LTD's Scottsdale, AZ, Branches Did Not Follow FHA-Insured Loan Underwriting Requirements	03/19/2010	07/16/2010	06/02/2011
2010-KC-1003	The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process to Secure a Consulting Services Contract, East St. Louis, IL	03/26/2010	07/22/2010	06/01/2011
2010-CH-0001	The Office of Block Grant Assistance Lacked Adequate Controls Over the Inclusion of Special Conditions in NSP Grant Agreements	03/29/2010	07/27/2010	06/01/2011

**Significant audit reports issued within the past 12 months
that were described in previous semiannual reports
on which final action had not been completed
as of March 31, 2011**

Report number	Report title	Issue date	Decision date	Final action
2010-DE-1801	The Fort Belknap Indian Community Had Weaknesses That Could Significantly Affect Its Capacity To Administer Its Recovery Act Funding, Harlem, MT	04/23/2010	08/03/2010	07/31/2011
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY	04/28/2010	08/26/2010	11/29/2035
2010-AO-1003	The State of Louisiana's Subrecipient Generally Ensured Costs Were Supported Under Its Tourism Marketing Program, Baton Rouge, LA	04/30/2010	08/27/2010	Note 2
2010-CH-1006	The Other Place, Inc., Needs To Improve the Administration of Its Homelessness Prevention and Rapid Re-Housing Program Under the ARRA, Dayton, OH	04/30/2010	08/10/2010	04/29/2011
2010-LA-1010	Arizona Department of Housing's Administration of Its Recovery Act Grant: Homelessness Prevention and Rapid Re-Housing Program, Phoenix, AZ	05/07/2010	08/03/2010	05/31/2011
2010-PH-1008	Sasha Bruce Youthwork, Incorporated, Did Not Support More Than \$1.9 Million in Expenditures, Washington, DC	05/11/2010	11/03/2010	12/30/2011
2010-FW-1003	The Housing Authority of the Sac and Fox Nation of Oklahoma Did Not Demonstrate the Administrative Capacity To Appropriately Expend Its Recovery Act Funding, Shawnee, OK	05/13/2010	08/16/2010	07/31/2011
2010-CH-1007	The Michigan State Housing Development Authority Needs To Improve Its Controls Over Section 8 Project-Based Housing Assistance Payments, Lansing, MI	05/14/2010	09/08/2010	05/31/2012
2010-AT-1004	Mobile Housing Board Used HOME Investment Partnerships Program Funds for Ineligible and Unsupported Costs for Its HOPE VI Redevelopment, Mobile, AL	05/17/2010	08/31/2010	04/30/2011

Report number	Report title	Issue date	Decision date	Final action
2010-KC-1004	The State of Iowa Did Not Implement Adequate Controls Over Its Business Rental Assistance Program, Des Moines, IA	05/26/2010	10/13/2010	05/31/2011
2010-FW-1004	The Georgetown Housing Authority Used \$195,855 for Ineligible and Unsupported Expenditures, Georgetown, TX	06/02/2010	08/20/2010	08/11/2011
2010-LA-1011	Sacramento Housing and Redevelopment Agency Did Not Always Administer the NSP in Accordance With HUD Rules and Regulations, Sacramento, CA	06/02/2010	02/22/2011	04/29/2011
2010-AT-1006	The Puerto Rico Department of Housing Failed To Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	06/11/2010	10/08/2010	10/31/2011
2010-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL	06/15/2010	10/08/2010	12/31/2012
2010-AO-1004	The Mississippi Development Authority Generally Ensured That Contracts Were Procured in Accordance With Its Disaster Recovery Program Policies and Procedures, Jackson, MS	06/22/2010	10/19/2010	07/01/2011
2010-NY-1012	The City of Jersey City's CDBG Funds Used for a Float Loan Did Not Comply With Applicable Regulations, Jersey City, NJ	07/01/2010	01/25/2011	01/15/2012
2010-LA-1013	The City of Montebello Did Not Comply With HOME Requirements, Montebello, CA	07/08/2010	11/04/2010	11/01/2011
2010-PH-1011	The Philadelphia Housing Authority Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards, Philadelphia, PA	07/08/2010	09/27/2010	04/30/2011
2010-FW-1005	The Texas Department of Housing and Community Affairs Did Not Fully Follow Requirements or Best Practices in the Acquisition of Its Disaster Recovery-Funded Program Management Firm, Austin, TX	07/20/2010	11/16/2010	11/15/2011

Report number	Report title	Issue date	Decision date	Final action
2010-CH-1807	Birmingham Bancorp Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, West Bloomfield, MI	07/21/2010	11/12/2010	11/01/2011
2010-CH-1808	Mac-Clair Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Flint, MI	07/22/2010	10/26/2010	11/01/2011
2010-LA-1803	Alacrity Lending Company Did Not Properly Underwrite a Selection of FHA Loans, Southlake, TX	07/26/2010	12/21/2010	11/01/2011
2010-AT-1007	The Housing Authority, City of Wilson, Lacked the Capacity To Effectively Administer Recovery Act Funds, Wilson, NC	07/27/2010	11/24/2010	11/27/2013
2010-BO-1006	Waltham Housing Authority Needs to Improve Controls Over Its Interprogram Fund Transactions, Procurement, and Travel for Its Housing Choice Voucher and Low-Income Public Housing Programs, Waltham, MA	07/27/2010	11/24/2010	10/14/2011
2010-CH-1010	The Housing Authority of the City of Terre Haute Substantially Mismanaged Its Capital Fund Program and Lacked Capacity To Adequately Administer Its Recovery Act Funds, Terre Haute, IN	07/27/2010	12/07/2010	11/04/2011
2010-PH-1012	The Harrisburg Housing Authority Did Not Procure Goods and Services in Accordance With HUD Regulations and Its Procurement Policy, Harrisburg, PA	07/27/2010	09/27/2010	06/30/2011
2010-CH-1810	Dell Franklin Financial, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Millersville, MD	07/30/2010	12/10/2010	11/01/2011
2010-LA-1014	The Retreat at Santa Rita Springs Did Not Comply With HUD Rules and Regulations and Other Federal Requirements, Green Valley, AZ	08/02/2010	11/29/2010	11/01/2011
2010-AO-1005	The State of Louisiana's Subrecipient Did Not Always Meet Agreement Requirements When Administering Projects Under the Orleans Parish Long Term Community Recovery Program, Baton Rouge, LA	08/04/2010	01/13/2011	12/01/2011

Report number	Report title	Issue date	Decision date	Final action
2010-CH-1811	D&R Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Farmington Hills, MI	08/04/2010	12/22/2010	11/01/2011
2010-CH-1011	The State of Illinois Needs To Improve Its Capacity To Effectively and Efficiently Administer Its NSP, Chicago, IL	08/05/2010	11/27/2010	05/01/2011
2010-LA-1804	Assurity Financial Services, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Englewood, CO	08/05/2010	12/03/2010	12/02/2011
2010-LA-1805	Americare Investment Group Did Not Properly Underwrite a Selection of FHA Loans, Arlington, TX	08/06/2010	12/16/2010	10/20/2011
2010-AT-1009	The Puerto Rico Public Housing Administration Needs To Improve Its Procurement Procedures, San Juan, PR	08/13/2010	10/29/2010	07/15/2011
2010-AT-1010	The Housing Authority of DeKalb County Improperly Used Its Net Restricted Assets, Decatur, GA	08/23/2010	11/18/2010	08/31/2011
2010-LA-1806	American Sterling Bank Did Not Properly Underwrite a Selection of FHA Loans, Sugar Creek, MO	08/24/2010	12/22/2010	12/07/2011
2010-AT-1011	The Puerto Rico Department of Housing Did Not Ensure Compliance With HOME Program Objectives, San Juan, PR	08/25/2010	12/06/2010	11/30/2011
2010-FW-0003	HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than \$2.5 Billion	08/25/2010	12/03/2010	08/25/2011
2010-LA-1015	The Housing Authority of the City and County of San Francisco Did Not Effectively Operate Its Housing Choice Voucher Housing Quality Standards Inspections, San Francisco, CA	08/31/2010	12/20/2010	11/30/2011
2010-SE-1001	Washington State Did Not Disburse Its Homelessness Prevention and Rapid Re-Housing Funds in Accordance With Program Requirements, Olympia, WA	08/31/2010	12/07/2010	04/30/2011

Report number	Report title	Issue date	Decision date	Final action
2010-NY-1805	Webster Bank Did Not Properly Underwrite a Selection of FHA Loans, Cheshire, CT	09/01/2010	02/09/2011	09/01/2012
2010-BO-1008	The Avesta Housing Management Corporation Did Not Properly Follow HUD Rules and Regulations, Portland, ME	09/03/2010	11/30/2010	05/06/2011
2010-LA-1807	Alethes, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Lakeway, TX	09/08/2010	01/04/2011	12/07/2011
2010-KC-1007	The Missouri Housing Development Commission Did Not Always Obtain Required Documents and Properly Report on the Tax Credit Assistance Program Funded Under the Recovery Act, Kansas City, MO	09/10/2010	01/07/2011	04/29/2011
2010-LA-0002	HUD's Office of Single Family Housing's Management Controls Over Its Automated Underwriting Process	09/15/2010	01/13/2011	09/15/2011
2010-NY-1806	Security Atlantic Mortgage Company, Inc., Did Not Properly Underwrite a Selection of FHA Loans, Edison, NJ	09/22/2010	02/09/2011	01/20/2012
2010-NY-1807	First Tennessee Bank, N.A., Did Not Properly Underwrite a Selection of FHA Loans, Memphis, TN	09/27/2010	02/17/2011	12/10/2011
2010-AT-1014	Polk County Did Not Comply With Procurement and Contract Requirements in Its NSP and HOME Program, Bartow, FL	09/28/2010	03/16/2011	03/01/2012
2010-KC-0003	HUD's Written Policies and Procedures for Loan Indemnifications Were Generally Adequate, But Did Not Include Procedures for Pursuing Signed Indemnification Agreements From Lenders	09/28/2010	02/03/2011	09/28/2011
2010-KC-1008	The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, East St. Louis, IL	09/28/2010	01/26/2011	05/12/2012
2010-NY-1808	Pine State Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Atlanta, GA	09/29/2010	02/11/2011	01/30/2012

Report number	Report title	Issue date	Decision date	Final action
2010-CF-1801	Final Civil Action, Anchor Mortgage Corporation, Loan Origination Fraud - Violations of the False Claims Act, Chicago, IL	09/30/2010	02/18/2011	02/17/2012
2010-DP-0004	Security Weaknesses on HUD's Network Devices	09/30/2010	12/02/2010	09/30/2011
2010-FW-0004	HUD's Oversight of the Hurricane Ike Disaster Housing Assistance Program in Texas Needed Improvement	09/30/2010	12/30/2010	12/31/2011
2010-HA-0003	HUD Needs To Improve Controls Over Its Administration of Completed and Expired Contracts	09/30/2010	01/27/2011	Note 2
2010-NY-1809	Sterling National Mortgage Company, Inc., Did Not Properly Underwrite a Selection of FHA Loans, Great Neck, NY	09/30/2010	02/03/2011	01/31/2012

Audits Excluded:

79 audits under repayment plans

30 audits under debt claims collection processing, 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 reports with questioned and unsupported costs at March 31, 2011 (thousands)

Audit reports	Number of audit reports	Questioned costs	Unsupported costs
A1 For which no management decision had been made by the commencement of the reporting period	47	116,148	76,297
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	4	7,042	4,424
A3 For which additional costs were added to reports in beginning inventory	-	376	261
A4 For which costs were added to noncost reports	1	38	0
B1 Which were issued during the reporting period	42	95,617	44,644
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	94	219,221	125,626
C For which a management decision was made during the reporting period	65 ¹	139,890	92,900
(1) Dollar value of disallowed costs:			
- Due HUD	33 ²	42,597	21,257
- Due program participants	36	90,920	66,359
(2) Dollar value of costs not disallowed	10 ³	6,373	5,284
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	3	5,419	3,305
E For which no management decision had been made by the end of the reporting period	26 <50> ⁴	73,912 <62,254> ⁴	29,421 <17,786> ⁴

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

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

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

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

Table D

Inspector General-issued reports with recommendations that funds be put to better use at March 31, 2011 (thousands)

Audit reports	Number of audit reports	Questioned costs
A1 For which no management decision had been made by the commencement of the reporting period	30	218,555
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	1	2,957
A3 For which additional costs were added to reports in beginning inventory	-	0
A4 For which costs were added to noncost reports	1	1,624
B1 Which were issued during the reporting period	19	766,109
B2 Which were reopened during the reporting period	0	0
Subtotals (A+B)	51	989,245
C For which a management decision was made during the reporting period	37 ¹	154,366
(1) Dollar value of disallowed costs:		
- Due HUD	10 ²	35,173
- Due program participants	26	105,927
(2) Dollar value of costs not disallowed	5 ³	13,266
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	15,521
E For which no management decision had been made by the end of the reporting period	12 <15> ⁴	819,358 <42,157> ⁴

¹ 22 audit reports also contain recommendations with questioned costs.

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

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

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



Explanations of Tables C and D

The Inspector General Act Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the “report” level rather than at the individual audit “recommendation” level results in misleading reporting of cost data. Under the Act, an audit “report” does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the “report” based rather than the “recommendation” based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management’s decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current “all or nothing” reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on tables C and D (line E) reflects figures at the report level as well as the recommendation level.



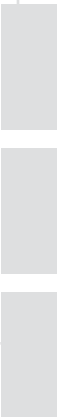
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