U.S. Department of Housing and Urban Development

Office of Inspector General

Semiannual Report to Congress

April 1, 2002 - September 30, 2002

OIG MISSION STATEMENT AND VALUES

The OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive changes in the integrity, efficiency, and effectiveness of HUD operations.

OIG values are as follows:

☞ Relationships among OIG components and staff are characterized by teamwork and respect.

☞ Diversity is valued and promoted in the workforce.

☞ Excellence in the workforce is fostered through continuing concern for professionalism and career development.

☞ As a general rule, emphasis is placed on "*doing*" rather than reviewing, by delegating operational authority, responsibility, and accountability to the lowest appropriate level.

☞ Identifying and meeting client needs in a timely fashion are a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.

☞ OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.

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The Report is also available on our internet site at www.hud.gov/oig/oigindex.html

INSPECTOR GENERAL'S MESSAGE

I have just completed my first full six-month semiannual reporting period as the HUD Inspector General. It has been both a productive time, during which our office has realized a number of significant accomplishments, and a time of setting goals for the future. This Semiannual Report describes the efforts put forth by the HUD OIG to support the Department's mission and to fulfill the mandates of the Inspector General Act of 1978.

The OIG has been making strides in addressing the President's Management Agenda (PMA). The PMA, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal Government. It focuses on five areas of management weakness across government where improvements and the most progress can be made. The Office of Management and Budget is looking for every agency to demonstrate progress in meeting the PMA. In HUD, each assistant secretary must report on his or her plans and progress in meeting PMA items. That progress is tracked through monthly Executive Management Meetings. Additionally, through our audit and investigative efforts, we are striving to focus our work on areas of greatest benefit to the Department. Before initiating any major audit or investigative effort, we look for a link between our work and at least one of the initiatives in the PMA.

In February of this year, in accordance with the Reports Consolidation Act of 2000, the OIG submitted to Secretary Martinez a summary assessment of the most serious challenges facing the Department. We discuss these challenges in Chapter 1 of this report. The challenges outlined have been the focus of much of our audit and investigative effort. HUD is working diligently to address these challenges and in some instances has made progress in correcting them. We will continue to monitor the Department's initiatives in this area and report on their progress.

Further, we continue to receive and respond to multiple requests from various Members of the Congress. One significant example during this reporting period is our review of the eligibility of costs funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, over the last four years. This includes 76 Outreach and Training Assistance Grants, 5 Intermediary Technical Assistance Grants, and 2 other contracts totaling about $26 million provided to 40 recipients. Consistent with this Congressional directive, we completed our reviews of the eligibility of costs at 32 recipients and issued 33 audit reports, with particular emphasis on identifying ineligible lobbying activities. We have questioned costs totaling over $1.4 million. The Congress also tasked the OIG with periodically auditing and reporting on the expenditure of $3.5 billion in Community Development Block Grant Program disaster assistance funds provided to the State of New York, as a result of the September 11, 2001 terrorist attacks. We quickly discovered that this is a formidable task in that hundreds of applications are processed and millions of dollars are disbursed each week. We found that weaknesses in certain application processing procedures could result in duplicate or ineligible assistance. In addition, we learned that some applicants are not being required to provide details describing how they determined their estimated economic loss.

As in past Semiannual Reports, our audits and investigations continue to report fraud and abuse in HUD's Single Family Mortgage Insurance Programs. This fraudulent activity has been a major focus of our audits and investigations over the past several years. Chapters 2 through 5 of this Semiannual Report illustrate a myriad of examples of schemes carried out against the Department and resultant penalties. As we reported in our last Semiannual Report, our goal is to increase our focus on these crimes and re-deploy staff to conduct investigations involving single family fraud and property-flipping. Toward that effort, we have systematically phased out our Operation Safe Home investigations of violent crime and drug trafficking in HUD's Public and Assisted Housing Programs, which we began in February 1994. The Congress funded Operation Safe Home through Fiscal Year 2002 to allow an orderly and responsible conclusion of the initiative, to cease complete operations by September 30, 2002. Correspondingly, the Congress directed that we devote additional resources exclusively for anti-predatory lending and anti-flipping activities.

Chapter 6 of this report discusses the audit resolution process. We are pleased to report that, for the third consecutive semiannual reporting period, we have no items to report on significant audits where a management decision had not been reached for audits that were more than six months old. We attribute this to the ongoing cooperation and support of the current Administration, and the priority they have placed on resolving all OIG audit report recommendations in a timely fashion.

Within the OIG, we continue to reorganize as necessary in order to support the Department and provide independent reporting to the Congress. We are reallocating resources where needed, and constantly addressing our staffing issues to ensure that we focus on those areas of HUD operations most needing attention. I would like to add that the work and accomplishments discussed in this report are the result of a dedicated and committed OIG staff. The men and women of this organization are consummate professionals who believe in and support the mission of the Department.

I look forward to continuing to work with Secretary Martinez in an effort to achieve HUD's goals.

Kenneth M. Donohue
Inspector General

Reporting Requirements

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

Source/Requirement	***Pages***
Section 4(a)(2)-review of existing and proposed legislation and regulations.	83-84
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	7-79, 85-89
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiences.	13-83
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	13-83
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	13-83
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table C
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	86-88
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	88-89
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	89

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Information About the HUD Office of Inspector General

The Office of Inspector General at HUD is one of the original 12 designated by the Inspector General Act of 1978. The OIG oversees HUD's programs and operations through its audit and investigative activities. While organizationally located within the Department, the OIG's mission is to provide independent and objective reporting to the Secretary and the Congress. OIG activities seek to:

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

The Offices of Audit and Investigation carry out these duties with a staff located in Headquarters and in 10 Regional Offices. Supporting these efforts are the Office of Counsel and the Office of Management and Policy.

Major Issues Facing HUD

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development programs. HUD's budget approximates $32 billion annually. Additionally, HUD assists families with their housing needs by insuring Federal Housing Administration (FHA) mortgages for single family and multifamily properties. FHA's outstanding mortgage insurance portfolio is more than one-half trillion dollars. While HUD is a relatively small agency in terms of staff, about 9,100 nationwide, it relies on the performance and integrity of many outside entities to carry out a large number of diverse programs. Among these entities are hundreds of cities that manage HUD's Community Development Block Grant funds, hundreds of Public Housing Authorities that manage assisted housing funds, and thousands of HUD approved lenders that originate and service FHA insured loans.

Meeting this mission is a major challenge because of limited staff and a large number of programs. HUD management problems associated with program operations have kept HUD on GAO's list of high-risk agencies. HUD's management team, the GAO, and the OIG share the view that improvements in human capital, acquisition, and information systems are essential in removing HUD from its high-risk designation. More specifically, HUD must focus these improvements on Rental Housing Assistance Programs and Single Family Housing Mortgage Insurance Programs, two areas where financial and programmatic exposure is the greatest. Furthermore, the inclusion of HUD's reported management challenges, as part of the President's Management Agenda, is indicative of the important role HUD plays in the federal sector. The Federal Government places a high priority on correcting those weaknesses that put HUD on GAO's high-risk list.

Each year, in accordance with the Reports Consolidation Act of 2000, the OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. We submitted our last assessment on February 26, 2002. These reported challenges have been the focus of much of our audit and investigative effort. HUD is working to address these challenges and in some instances has made progress in correcting them. In July 2002, the Deputy Secretary testified before a Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs. He discussed HUD's progress in meeting management challenges. The Deputy Secretary noted that last year was largely devoted to getting management teams in place, assessing the management environment, and formulating viable strategies and plans to address the major management challenges and program risks still facing the Department. The Department's management challenges and current efforts to address these challenges are as follows:

Department-wide Organizational Changes

Over the last five to six years, the Department has undergone major organizational and management changes. Completing these changes so as to stabilize the HUD workforce to operate efficiently and effectively is a major challenge. In the past Administration, common activities were consolidated in centers, Community Builders were hired, and an increased focus was directed at enforcement. An effort was made to realign the Department along functional lines, separating outreach from program administration. Also, the plan attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD made these changes, many employees were assigned new duties and responsibilities and many new employees were hired. While organizational changes were intended to more efficiently and effectively deliver and oversee HUD's major program activities, disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, many staff in the wrong location, and difficulty in providing supervision to remote staff.

Our past Semiannual Reports to Congress noted that many organizational changes were slow to be put in place, and those in place were not working effectively. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made by the previous Administration. They found some of the organizational and staffing realignments, such as the Community Builder function, an ineffective use of HUD's human capital. As a result, earlier this year, decisions were made and actions taken to pursue separate realignments of headquarters and field activities to better use existing resources. Changes this year include:

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

These operational changes delegate additional authority to the field. We see these as positive steps in bringing operational activities and authority closer to the customers HUD serves.

Financial Management Systems

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness in internal controls since FY 1991. While progress has been made in improving the Department's general ledger system, a number of long-standing deficiencies remain.

Our annual financial audits continue to report systems integration problems. For example, there is a lack of an automated interface between the Departmental general ledger and the FHA subsidiary ledger, which necessitates extensive manual analyses, reprocessing, and additional entries. FHA's funds control process is also largely manual, even to the point of requiring the hand carrying of documents. Other serious deficiencies include the inability to timely identify excess funds on expired Section 8 projects and inadequate assurance about the propriety of Section 8 rental assistance payments.

To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction, and cost overruns. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system.

HUD's security program and practices is another issue critical to HUD's financial systems. In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected.

HUD has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during FY 2002, HUD initiated the planning and program development for an entity-wide security awareness and training program. Despite these improvements, greater emphasis on information security is needed.

Adequate and Sufficiently Trained Staff

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

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

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. The next step in the development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began this spring and the second cycle began in August. We are currently auditing the TEAM process and expect to issue a report during our next semiannual reporting period.

HUD developed a five-year Human Capital Strategic Plan, which was submitted to OMB earlier this year. An Executive Steering Committee is further refining this plan. HUD's human capital management challenges consist of:

- Linking and aligning staff with mission, goals, and organizational objectives through strategic Human Capital Planning.
- Correcting staff shortages and skills gaps resulting from downsizing initiatives during the 1990s.
- Meeting long-range staff needs due to a maturing workforce, with about half of the workforce eligible for retirement over the next five years.
- Increasing the use of technology to support organizational improvements and the accomplishment of goals and objectives.

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

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last five years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of single family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

Consistent with the GAO's identification of Single Family Mortgage Insurance Programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from fraudulent property flipping practices, changes are underway to strengthen the property appraisal process, and other actions are being proposed to better disclose FHA closing costs.

The audit of FHA's FY 2001 financial statements includes a reportable condition on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. However, as of our last financial audit report, FHA had not yet fully implemented certain initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

This semiannual reporting period we reported on two Single Family Program audits. The first audit examined the priority bidding period for owner/occupants that were purchasing HUD owned properties. The audit found that 29 percent of the buyers that purchased properties as owner/occupants never lived in the property. Consequently, where HUD intended to give sales priority to first-time homebuyers, many investors circumvented the rules during the initial 10-day priority bidding period. The second audit examined the Down Payment Assistance Programs operated by several nonprofit entities. Because of HUD system problems, the audit could not conclusively identify the extent to which down payment assistance loans have higher default rates. However, we did find this activity increasing and some evidence that these loans pose a greater than average risk to the FHA Program. Specifics of these two audits are found in Chapter 3.

Several steps are in process to improve FHA risk management. An accurate appraisal is critical in protecting FHA's insurance risk. An appraiser watch initiative was proposed in July 2002 that would permit HUD to take action against appraisers that are associated with a significant number of defaulted properties. Action on that proposal is expected later this year. Other actions are in process to strengthen appraiser oversight. Additionally, the Department is attempting to put controls in place to deter the flipping of properties. Most property flips are at inflated values. The proposal under consideration would prohibit FHA from insuring properties where the last sale is less than 90 days old. Also, properties resold between 90 days and one year would receive tighter scrutiny. Properties that have been resold in the first year at excessive profit would require an additional appraisal to assure the proper valuation.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for-profit) and Public Housing Authorities (HAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD spent about $21 billion in FY 2002 to provide rent and operating subsidies that benefited over four million households. In 2000, a HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 Rental Assistance Programs. These programs are administered by HAs who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. The Office of Housing administers a variety of Assisted Housing Programs, including parts of the Section 8 Program and the Section 202/811 Programs. These subsidies are called "project-based" subsidies because they are tied to particular properties; therefore, tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

For many years, we have reported on material weaknesses with the monitoring of HAs and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration.

In conjunction with OMB, HUD has established a goal for a 50 percent reduction in both the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. The Rental Housing Improvement Project is a Secretarial initiative designed to reduce errors and improper payments by: (1) simplifying the payment process; (2) enhancing administrative capacity; and (3) establishing better controls, incentives, and sanctions. These improvements will be implemented through a series of actions over the next two years.

HUD continues to implement its performance-oriented, risk-based strategy for carrying out its HA oversight responsibilities. As noted in previous financial audits, further improvements need to be made in the field offices' monitoring of HAs in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of HAs since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strategies needed to improve quality control over rental assistance subsidy determinations.

In prior years, we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Office of Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews. However, a comprehensive plan needs to be developed that would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD's occupancy requirements.

HUD's plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted risk management of reinspections of properties; better use of mortgagee inspectors; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system. We support these efforts.

Chapter 2 – Housing Fraud Initiative

The OIG Housing Fraud Initiative (HFI) is a joint law enforcement effort designed to detect and prosecute fraud in HUD programs. HFIs combine OIG audit and investigative resources with those of the Federal Bureau of Investigation and the United States Attorneys' Offices. The HFI offices are located and investigate fraud in the Judicial Districts of: (1) the Eastern District of New York; (2) the District of Maryland; (3) the District of Columbia; (4) the Northern District of Illinois; (5) the Central District of California; and (6) the Northern District of Texas. The goal of the HFI is to prosecute those who abuse HUD programs, thereby helping to ensure that HUD assistance reaches those who truly need it.

As reported in previous Semiannual Reports, fraud in single family loan origination continues to be the most pervasive problem uncovered by HFI investigations. Some of these investigations were conducted solely by the OIG, while others were conducted jointly with other federal, state, and local law enforcement agencies, including the Federal Bureau of Investigation, Internal Revenue Service Criminal Investigation Division, Postal Inspection Service, Immigration and Naturalization Service, Customs Service, the Treasury Inspector General for Tax Administration, the Department of Veterans Affairs and the Department of Labor OIGs, various U.S. Attorneys' Offices, the Federal Protective Service, various State Police Departments, the New York State Department of State Banking, the New York City (NYC) Department of Human Resources Administration, the NYC Department of Investigation, the NYC Housing and Preservation Department, the NYC Housing Authority OIG, the New York State Attorney General's Office, and the Manhattan District Attorney's Office. If these joint investigations resulted in seizures of any type of assets, the items were administered by our counterparts with seizure authority, i.e., the Department of Justice, Postal Inspection Service, and the Department of Treasury. Following are examples of recent HFI results.

Central District of California (Greater Metropolitan Area of Los Angeles, CA)

The table below lists the program, location, HUD loss and/or potential fraudulent transactions total for the investigative results reported by the HFI of the Central District of California. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date	Total Potential Loss
Single Family Loan Origination	Los Angeles	$3,400,000	$7,600,000
Single Family Loan Origination	Los Angeles	$5,690,000	$11,000,000
Single Family Loan Origination	Los Angeles	$24,500,000	$70,000,000
Single Family Loan Origination	Los Angeles	$1,700,000	$3,400,000
Property Disposition	Los Angeles	$50,404	$5,200,000
Single Family/Title I Loan Origination	Los Angeles	$388,000	$1,100,000
Property Disposition	Los Angeles	$515,560	$515,560
Single Family Loan Origination	La Puente/Van Nuys	$11,000,000	$26,000,000
Single Family Loan Origination	Maywood	$3,400,000	$7,700,000
Single Family/Title I Loan Origination	Los Angeles	$4,742,458	$8,200,000
Single Family Loan Origination	La Puente	$3,300,000	$7,900,000
Single Family Equity Skimming	Los Angeles	$2,000,000	$2,000,000
Single Family Loan Origination	Los Angeles	$600,000	$819,600
Single Family Loan Origination	Rancho Cucamonga	$279,330	$1,400,000
Single Family Loan Origination	Palmdale	$1,380,000	$3,600,000
Community Planning and Development	Los Angeles County	$350,000	$350,000
Single Family Loan Origination	Los Angeles	$912,000	$1,900,000

Defendant Alfonso Reyes Cervantes, an investor, was sentenced in federal district court to 63 months incarceration and three years supervised release, and ordered to pay $3,293,671 in restitution and a $2,200 special assessment. In June 2001, Cervantes pled guilty to one count of conspiracy, seven counts of mail fraud, six counts of making false statements, seven counts of money laundering, and one count of tax evasion. From 1997 through 1999, Cervantes and a co-conspirator used companies, including *HQ Investments, AC Investments, A-Investments, First Home Realty, Top Realty, and A & B Property Management,* to perpetrate a fraud scheme directed at commercial lending institutions and HUD. Cervantes and accomplices purchased distressed properties in the **Los Angeles, CA** area and arranged for sales of those properties to strawbuyers at inflated prices ranging from $125,500 to $310,000. They recruited the strawbuyers whom they paid for the use of their identities. Cervantes notarized false documents, paid document forgers to create or obtain false W-2 forms and pay stubs, and submitted fraudulent applications and documents to lending institutions. He directed third parties to purchase cashiers' checks for use as down payments on behalf of the strawbuyers, and then represented that the strawbuyers or their relatives were the sources of the funds. In order to promote and continue the scheme, Cervantes used the proceeds from the individual property sales to fund subsequent property flips to additional fictitious strawbuyers. The fraud scheme involved over $7.6 million in FHA insured loans and resulted in losses to HUD in excess of $3.4 million.

In **Los Angeles, CA**, defendants Edgardo Torres Guinto and Danilo Torres Guinto pled guilty in federal district court to five counts of making false statements to HUD. The Guinto brothers, who did business under the names of *Western Services Group, Golden West Group, Dynamic Group, and Premier Mortgage*, engaged in a single family flipping and loan origination fraud scheme by locating multi-unit residential properties in the $100,000-$150,000 value range. They then entered into contracts to purchase the properties in the names of fictitious persons. While the transactions were pending, the Guinto brothers and others prepared second contracts for the sale of the same properties, purporting to transfer them to other fictitious persons. The second sales were inflated by approximately $100,000 per property. The Guintos and others then prepared fraudulent loan applications in the names of fictitious purchasers for the second sales and submitted the documents to HUD/FHA. The mortgage insurance application packages in the names of fictitious purchasers contained false employment documents, verifications that the down payments were either made from the buyers' personal funds or were gifts, and inflated real estate appraisals. The Guintos subsequently managed the properties and collected rent payments from the tenants residing in them. Their actions caused approximately $11 million in fraudulent loans to be funded with FHA insured mortgages, and resulted in losses to HUD of $5.69 million.

In federal district court in **Los Angeles, CA**, defendant Maggie Cuevas, who was an investor, pled guilty to nine counts of wire fraud, while co-defendants Graciela Salgado and Sarai Mora pled guilty pursuant to the same indictment. Between 1997 and November 2000, Cuevas, Salgado, and Mora participated in a fraud scheme that involved businesses owned and operated by Cuevas, such as *Maggie Cuevas Insurance, Serrano Telemarketing, and L. Telemarketing*. The businesses were used to help unqualified borrowers obtain approximately $70 million in fraudulent FHA insured loans. Cuevas is currently on federal probation for a conviction on similar charges relating to a document forging business that she ran. The most recent indictment charged that Cuevas continued the scheme by selling forged tax forms, check stubs, and credit documents that could be used to obtain FHA loans. She created fictitious businesses to verify the documents and then sold the documents to real estate brokers and agents for $75 to $300. HUD's loss is estimated at approximately $20 million.

In the same case, two loan processors were each charged by information in federal district court in **Los Angeles, CA**, with one count of wire fraud and one count of aiding and abetting. Defendant Reynalda Gonzalez was employed by *California Quality Mortgage, First Capital Mortgage, and Millennium Mortgage*, while Javier Salazar was employed by *Trinity Mortgage, First National*

Funding Group, and FinServ Capital Mortgage, all of which are located in the greater Los Angeles area. Both loan processors allegedly purchased and caused others to purchase cashiers' checks used for the down payments toward single family property purchases, and used false and fraudulent employment, income, and credit documentation to qualify strawbuyers for FHA insured mortgages. The fraudulently obtained loans resulted in losses to HUD of more than $2.25 million.

In **Los Angeles, CA,** defendant Luis Sanchez, a real estate investor, pled guilty to a federal criminal indictment charging him with three counts of wire fraud, one count of false statements and one count of aiding and abetting. Defendant David Garcia Ramos, an unlicensed real estate salesperson, pled guilty in federal district court to one count of conspiracy and one count of mail fraud. Sanchez and Ramos, along with others, purchased residential properties for the purpose of reselling them. They then recruited non-qualified buyers to purchase properties with FHA insured mortgages. They falsely informed the buyers that little or no down payment was needed to purchase the properties, and then purchased cashiers' checks out of their own funds for the actual down payments. As a result, fraudulent mortgage application packages were completed and submitted to FHA in the names of buyers and co-signers that contained false employment documents, false verifications concerning the down payments, false explanation letters concerning the relationships of the co-signers to the buyers, and false notarizations of the signatures of buyers and co-signers. Sanchez' actions resulted in a loss to HUD of between $1 million and $2 million due to these fraudulent FHA insured loans.

Informations were filed in district court in **Los Angeles, CA,** against Ali Ghomizadeh, Massoud Ghomizadeh, and Behrooz Katirai charging them with making false statements to HUD. The three defendants were partners in a joint venture to purchase, renovate, and manage HUD real estate owned properties. The three self-employed defendants falsely stated that they were licensed as real estate brokers. They purchased 46 HUD properties and received brokers' commissions. The properties were purchased from Karen Christensen, a former HUD Single Family Housing Specialist, who was convicted and sentenced to jail earlier in this investigation. Christensen sold the defendants the properties at prices far below HUD's listed price. The 46 properties had been appraised at approximately $5.2 million. The defendants have signed plea agreements in which the government has recommended sentences of two years probation and restitution to HUD of $50,404, which is the amount of commissions paid to them.

Defendants Greg Phillips, Ben Tyler, and Tony Hicks pled guilty in federal district court in **Los Angeles, CA,** to mail fraud charges. The three utilized their companies, *Malitop, Inc., Malitop Realty Inc., Western Security Group, Champion Investment Group, Pacific Access, Inc., Western Property Management Group, and Nesbitt's Distributing, Ltd.*, in a fraud scheme. The scheme was directed at commercial lending institutions and the FHA Title I Program. The defendants used the personal information of others, including Social Security numbers, dates of birth, and other personal and credit information, to fraudulently obtain mortgage loans and Title I loans. They recruited strawbuyers or directed other co-conspirators to do the same, and then fraudulently notarized documents certifying that the strawbuyers signed deeds and other documents. The defendants also created or obtained false W-2 forms and pay stubs in the names of the strawbuyers. The loan applications and false documents were submitted to lending institutions in order to support inflated income levels necessary for the strawbuyers to qualify for the loans. Phillips, Tyler, and Hicks caused at least $1.1 million in defaulted loans, at a loss of $388,000 to HUD.

Defendants Heidi Lynn Jackson and Walter Brent Williams, employees of *Golden Feather Realty Services, Inc.*, in **Los Angeles, CA**, each pled guilty in federal district court to one count of conspiracy to commit fraud against HUD. *Golden Feather* was the HUD contractor for the marketing, maintenance, and sale of HUD real estate owned (REO) properties in California. Jackson and Williams were marketing and management employees responsible for the sale of HUD properties. They devised a scheme to enter "straw" high bids to win the electronic bid processes for REO properties. Once a winning bid was entered, the official bid sheets were altered to show that a much lower bid had won the bid process. The properties were ultimately sold for amounts far below market value. The fraud resulted in a loss to HUD of $515,560.

Five defendants were the latest to be charged in federal district court as a result of an investigation of a single family loan origination fraud and document forgery scheme centered on *April 8 Realty* in **La Puente, CA**. The five defendants are Julio Rocha, an assistant to an independent real estate investor; Amelia Arias, a real estate agent for *C & R Homes* and for *Sunrise Realty*; Raul Altimirano, a real estate agent for *Dynamic Brokers* in **Montebello, CA**; Antonio Esquivel, an independent real estate agent; and George Gonzales, a real estate agent for *Coldwell Banker, George Gonzalez Realty, and La Magic Realty*. This brings the total number of persons charged in this case to 25. The owners of *April 8 Realty* fabricated and sold thousands of fake loan documents to over 100 real estate agents and investors. The fabricated documents included W-2 forms, pay statements, bank statements, and letters of credit, which were used to secure over 1,200 federally insured loans. In addition, *April 8 Realty* routinely provided false employment verifications for FHA loan applicants using fake companies and a network of individuals throughout the **Los Angeles** area.

To date, this investigation has resulted in guilty pleas by 22 individuals and sentences totaling 40 months of incarceration, 21 years of probation, $335,626 in restitution, and $22,000 in fines. There are nine remaining defendants to be sentenced. The total loss to HUD resulting from the entire fraud scheme is approximately $11 million, with an additional $15 to $20 million of FHA insured loans in default. Active loans with an approximate value of $120 million contain false documents generated by *April 8* principals.

Also in this case, defendant Julio Rocha pled guilty to two counts of submitting false statements to HUD. Rocha obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured single family loans. Rocha, who was a real estate assistant employed by real estate agent Antonio Esquival, and who was also affiliated with *Coldwell Banker Real Estate* in **Van Nuys, CA**, caused the false documents to be submitted to HUD. Antonio Esquivel pled guilty to two counts of submitting false statements to HUD. Esquivel obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured single family home loans. The loans based on false information from Esquivel have a total value of approximately $1 million, and the loss to HUD is $89,573.

In district court in **Santa Ana, CA**, defendants John Dancy, Claudio Hernandez, and David Magarin each pled guilty to wire fraud in connection with a scheme to defraud HUD. All three defendants, who were licensed real estate agents, were charged in May 2002 with causing the funding of FHA insured mortgages through fraud. They created false income and credit related documents for prospective home buyers who otherwise could not qualify for FHA insured loans. The documents were then provided to loan brokers or real estate agents in **Los Angeles and Orange Counties** who used the documents to prepare fraudulent loan packages. The fraudulent applications were ultimately submitted to HUD. Defendant Robert Salamone also pled guilty to two counts of wire fraud for his participation in the scheme.

Defendant Sergio Fernandez, a **Maywood, CA** Police Officer, was arrested following his indictment by a federal grand jury. Fernandez, who was a part-time real estate agent, was one of 20 real estate professionals videotaped purchasing fraudulent W-2 forms and employment statements from a cooperating witness during an undercover operation. He then used the fake loan documents in support of an FHA loan application. The borrower subsequently defaulted on the loan and a mortgage insurance claim has been filed with HUD. A separate investigation into another single family loan fraud scheme disclosed that Fernandez assisted several real estate investors in recruiting and coordinating strawbuyers. He met with borrowers and assisted in the preparation of loan documents during the processing of the FHA insured loans. The strawbuyers were paid between $800 and $1,000 each to fraudulently represent to HUD that they were the purchasers of real properties. The scheme involved the fraudulent use of W-2s, employment statements, submissions of down payments for borrowers, and rent skimming. The fraud scheme resulted in a loss to HUD in excess of $3.4 million. The total value of FHA insured loans involved in the scheme is in excess of $7.7 million.

In **Los Angeles, CA**, a federal grand jury indicted defendant Lucas Reyes, the co-owner of *Pacific Investment Capital*, a mortgage brokerage company, on one count of conspiracy, two counts of wire fraud, and one count of money laundering. This brokerage company originated HUD Title I home improvement loans. The co-owner and others allegedly obtained fraudulent Title I loans for properties that had fraudulent first mortgage loans insured by FHA. The Title I loan applications contained false information, including employment documentation and wage amounts, and falsely represented that the loan proceeds would be used to improve the properties. Portions of the proceeds received from the Title I loans were used to make the mortgage payments on the fraudulent first mortgage loans. The actions of the co-owner and others caused a loss of $242,458 to HUD. The fraudulently obtained first mortgage loans resulted in a loss to HUD of over $4.5 million.

In **La Puente, CA**, defendant Frank Acosta, an investor, and his spouse, Elizabeth Madrigal, were indicted by a federal grand jury on 20 felony counts each, including nine counts of making false statements, six counts of wire fraud, one count of conspiracy, and four counts of money laundering. The two were allegedly involved in selling properties with FHA insured mortgages. They provided down payments for buyers who purchased homes from their investment company, *Acosta Real Estate Services*, at inflated prices. The scheme involved the use of inflated appraisals, false verifications of employment and income, false W-2 forms, fraudulent credit histories, and other fraudulent documents, to make ineligible borrowers qualify for FHA insured mortgages. The scheme caused HUD to insure fraudulent loans valued at approximately $3.4 million. To date, the loss to HUD is in excess of $1.3 million. Acosta was arrested subsequent to the indictment.

In the same case, defendants Fernando Garcia and Matt Dunne were charged by informations filed in federal district court. Garcia, who worked independently as an investor, was charged with making false statements to HUD. Dunne, who worked for Citibank Mortgage as a loan officer and as an independent investor, was charged with wire fraud. The defendants allegedly submitted loan applications that contained false W-2's and other income documents to HUD in order to qualify ineligible borrowers for FHA insured home mortgages. The total amount of the insured mortgages is over $4.5 million. The loss to the government to date is over $2 million.

Defendant Honey Waymire was charged in district court in **Los Angeles, CA,** with two counts each of bankruptcy fraud, false representation of a Social Security number, and false statements. Waymire, a self-employed notary public, and previously charged co-conspirators contacted homeowners who had defaulted on their home mortgages. They allegedly caused the homeowners to deed their properties to individuals in bankruptcy or to third party entities. Therefore, the homeowners could avoid foreclosure and any resulting detrimental impact to their credit. Waymire and the co-conspirators fraudulently filed for bankruptcy in the name of the third party, and listed the defaulting homes on the bankruptcy filings. As a result of the fraudulent bankruptcy filings, foreclosure proceedings stopped on the homeowners' properties, and mortgage lenders were prevented from collecting outstanding debts. During the pending bankruptcy proceedings, Waymire and the co-conspirators collected rental incomes on the properties and used the money for their personal benefit.

This case involved approximately 200 single family homes, and resulted in the collection of approximately $3 million in rental incomes. The majority of these mortgages were insured by HUD or guaranteed by the Department of Veteran Affairs.

Prior to this indictment, co-conspirators Ray Tomlinson and Penny Lubanko were charged with five counts of bankruptcy fraud, single family equity skimming, conspiracy, false representation of a Social Security number, and false statements in a bankruptcy. Both pled guilty to all counts.

Following a two-week trial, defendants Aniefiok James, Anietie James Okpon, and Oliver Maiben, the president, vice president, and an associate, respectively, of *Countywide Financial Group* in **Los Angeles**, **CA**, were found guilty in federal district court of 21 counts of conspiracy, false statements, wire fraud, and mail fraud. Between 1995 and 1998, the defendants fraudulently originated 22 FHA Title I home improvement single family mortgage loans, which resulted in approximately $600,000 in losses to HUD. The defendants used straw or fictitious borrowers, forged documents, and false identities to originate FHA insured loans in order to receive Title I loan proceeds and broker/agent fees.

Defendant Delma Stevenson pled guilty in federal court to one count of making false statements to HUD. Stevenson was the owner of *Ideal Financial Services*, a **Rancho Cucamonga, CA** mortgage company that was in the business of originating single family FHA insured mortgage loans. Stevenson obtained fraudulent pay stubs, W-2 forms, and other false documents for her customers to qualify for FHA insured Title II home loans. The fraudulently obtained loans resulted in losses to HUD of at least $279,330.

Defendant Kevin Arruda, a real estate broker working at *Antelope Valley Realty* and at *Arruda Realty* in **Palmdale, CA,** was charged by a criminal information in federal district court with two counts of wire fraud. As a real estate broker, Arruda was responsible for obtaining information from clients for the processing and submission of loan applications for the purchase of real properties with FHA insured mortgages. On the behalf of buyers, Arruda allegedly caused mortgage applications, which contained false employment, income, and credit information, as well as false verifications that the down payments were made from either the buyer's personal funds or were a gift, to be completed and submitted to FHA. Arruda was also responsible for the purchase of cashiers' checks that were used as down payments on the properties. His actions resulted in a loss to HUD of approximately $1.38 million and caused about $3.6 million in fraudulent loans to be funded with FHA insured mortgages.

Defendants Toney Chisum, Jr., the president of *American Philanthropy Association* (APA), a non-profit organization, and Terry Lee Rhodes, an employee of APA, were indicted by a federal grand jury on one count of conspiracy, two counts of false claims to the United States, five counts of theft of government funds, and five counts of false statements. APA owned and operated several homeless shelters located in **Los Angeles County**. The defendants allegedly devised a false billing scheme that involved the creation and submission of fraudulent documents in order to receive government reimbursement funding. They submitted documents that included fraudulent "Cold and Winter Shelter Program" attendance logs that falsely claimed that certain persons had received food and shelter free of charge from APA. Between 1994 and 1998, APA illegally received approximately $550,000 in federal funds through its participation in the "Cold and Winter Shelter Program," a program funded by HUD through the City and County of Los Angeles. The Los Angeles Homeless Services Authority administered the program. Chisum was arrested on a federal warrant at a homeless shelter operated by APA in Los Angeles. A federal arrest warrant has been issued for Rhodes.

Defendant Jesse Olivas, a real estate investor and president of *Arivaca Holdings, Inc.*, was indicted by a federal grand jury in **Los Angeles, CA,** on three counts of wire fraud and three counts of false statements. Olivas allegedly purchased three single family properties and flipped them to strawbuyers using fraudulent documentation to qualify the strawbuyers for FHA insured mortgages. The fraudulently obtained loans resulted in more than $375,000 in losses to HUD.

In the same case, defendant John Campos, a self-employed a notary public, was charged by information filed in district court with eight counts of making false statements to HUD. Campos allegedly fraudulently notarized deeds of trust for properties located in the **Los Angeles, CA** area. In doing so, he fraudulently attested that the borrowers personally appeared before him and acknowledged that they were authorized to execute the deed of trust, when in fact as he well knew, the borrowers had not appeared before him and had not acknowledged that they were authorized to execute the deed of trust. The documents were notarized in conjunction with the sales of single family properties for which funding was derived from FHA insured mortgages. The loss attributable to this case is approximately $5.5 million. The loss attributed to Campos is approximately $537,000.

District of Columbia (Greater Metropolitan Area of the District of Columbia)

The table below lists the program, location, and HUD loss for the investigative results reported by the HFI of the District of Columbia. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date
Single Family Loan Origination	D.C. metro area	$2,421,925
Single Family Loan Origination	D.C. metro area	$1,400,000
Single Family Loan Origination	D.C. metro area	$ 300,000
Single Family Loan Origination/ Equity Skimming	D.C. metro area	$1,400,000
Assisted Housing	D.C. metro area	$19,881

Defendants John Quigley and Timothy Blackburn, both property speculators in **Upper Marlboro, MD**, were sentenced to 21 months in prison and three years supervised release, and five years probation and $23,000 in restitution, respectively, for their involvement in a property flipping scheme. Quigley purchased distressed properties, inflated their values, and sold them for a significant profit. He also provided borrowers with funds and fictitious documents so they could qualify for FHA insured mortgages. HUD paid $796,000 in insurance claims as a result of Quigley's fraudulent activities. Blackburn used false documents to qualify for an FHA insured home loan, and received thousands of dollars for his participation in the fraud. He obtained and submitted fraudulent income documents, including pay stubs, verifications of employment, and gift fund letters, in order to qualify for the home. The property subsequently went into foreclosure.

Defendant James E. Golden, who was an FHA approved appraiser, was convicted in federal court on six counts of bribery and one count of conspiracy. Golden, an **Upper Marlboro, MD** resident, accepted bribes from Maryland and Washington, DC property speculators to falsify the value and condition of homes so the properties would meet HUD standards. HUD suffered a $1.3 million loss as a result of FHA insurance claims paid on the foreclosed properties. Golden failed to appear for sentencing and is now the subject of an outstanding fugitive warrant.

Also in this case, defendant Gemma T. Clarke, also a resident of **Upper Marlboro, MD**, and a former Department of Labor employee, was sentenced in federal court to 11 months in prison and three years supervised probation for her involvement in a property flipping scheme. Clarke was also ordered to pay $325,925 in restitution to HUD. She manufactured and provided fictitious documents to unqualified homebuyers for a fee so they could obtain FHA insured home loans. HUD has paid $325,925 in insurance claims to lenders as the result of these foreclosures.

Defendant Kerry Newman, a property speculator in **Washington, DC**, was sentenced in federal court to eight months incarceration and two years probation, and ordered to pay $224,000 in restitu tion. Newman previously admitted to participating in a scheme to purchase as many as 40 run-down homes in the District and then flip them at inflated prices. Newman flipped the properties to buyers whom he assisted in obtaining FHA insured mortgages through the use of false employment information. Many of the mortgages have foreclosed, resulting in a loss to the FHA insurance fund of at least $1.4 million.

Defendant Maritza Ellis, a real estate speculator in **Washington, DC**, pled guilty in federal court to conspiracy to commit illegal financial transactions. Ellis purchased and resold properties at inflated prices. She provided buyers with fraudulent gift funds, earning statements, and verifications of employment so they could qualify for FHA insured mortgages. Ellis' home and bank accounts, with an equity of $450,000, were seized during the investigation. These assets were derived from her illicit real estate transactions. Ellis' scheme resulted in a loss to HUD of $300,000.

Defendants Modou Camara, et al, were indicted by a federal grand jury in **Washington, DC**, on charges including money laundering, single family equity skimming, wire and bank fraud, and conspiracy to commit fraud against HUD for their involvement in a property flipping and Section 8 scheme. The defendants allegedly obtained falsified appraisals for speculators and then aided them in selling properties to strawbuyers at inflated prices. The speculators provided the strawbuyers with fraudulent documents to enable them to qualify for FHA insured mortgages. The speculators then rented the homes to Section 8 tenants and collected housing assistance payments while allowing the mortgages to go into default and subsequent foreclosure. Losses to the FHA insurance fund are at least $1.4 million. Subsequent to the indictment, Camara was arrested.

Northern District of Illinois (Greater Metropolitan Area of Chicago, IL)

The table below lists the program, location, HUD loss and/or potential fraudulent transactions total for the investigative results reported by the HFI of the Northern District of Illinois. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date	Total Potential Loss
Single Family Loan Origination	Chicago	$2,000,000	$10,000,000
Single Family Loan Origination	Chicago	$334,000	$3,200,000
Public Housing	Chicago	$69,666	$69,666
Single Family Loan Origination/Property Disposition	Chicago	$0	$5,700,000
Single Family Loan Origination	Chicago	$250,000	$750,000
Single Family 203(k) Rehab Loan Origination	Chicago	$170,000	$170,000
Single Family Loan Origination	Chicago	$250,000	$250,000
Single Family 203(k) Rehab Loan Origination	Chicago	$380,000	$4,900,000
Single Family Loan Origination	Waukegan	$740,000	$15,000,000
Single Family Loan Origination	Chicago	$250,000	$500,000
Single Family Loan Origination	Chicago	$17,760	$400,000
Single Family Loan Origination	Chicago	$0	$376,000
Assisted Housing	DuPage County	$102,850	$102,850
Assisted Housing	Chicago	$12,000	$12,000
Assisted Housing	Chicago	$15,000	$15,000
Assisted Housing	Chicago	$20,000	$20,000

In **Chicago, IL**, the following defendants were sentenced in federal court to a total of over eight years in prison, 11 months community service, 19 months home confinement, and 18 years supervised release, fined $11,000, and ordered to pay over $2.67 million in restitution. This was the result of investigative efforts relating to a case involving over 80 loans, 40 of which were FHA insured.

Defendant Allison McGowan, a real estate agent, located and prepared sales contracts for approximately 40 properties that were purchased and sold at inflated prices to recruited second purchasers and straw purchasers. McGowan received real estate commissions and kickback payments totaling over $300,000 for her role in the scheme. She also filled out and directed others to fraudulently verify information on mortgage loan documents on behalf of second purchasers. In addition, she recruited at least seven individuals to serve as second purchasers for the flip scheme. For most of these 40 transactions, the second buyer subsequently defaulted on the mortgage loan and the lender foreclosed on the property. McGowan's participation resulted in losses to HUD in excess of $1.5 million.

Defendant Brenda Wince, a mortgagor, purchased three properties, two with a false identity and one under her real name. In each instance, there were numerous false financial and identity documents associated with the loan applications. Andre Sommerset signed and submitted false financial documentation to secure two conventional mortgages. As part of the scheme, he also purchased three properties using his stepson's name and Social Security number. Sommerset cashed proceed checks totaling $7,500. He then concealed the fact that he was receiving the money by having the checks made payable to his mother. In the third property transaction, Sommerset recruited a strawbuyer who eventually backed out of the deal. Nevertheless, Sommerset and his co-conspirators closed the fraudulent deal without the presence of the strawbuyer. Sommerset received a one-third proceeds check in the amount of $2,500 as a kickback for recruiting the strawbuyer.

Defendant Scott Edward Ellis purchased an investment property from Ahmad Martins. In Ellis' capacity as a real estate agent, he signed and submitted false loan documentation to obtain an FHA insured loan to purchase the property. He bought the property with no money down and received a $5,000 kickback for his participation in the scheme. The property went into foreclosure. Ellis also recruited an individual who obtained an FHA insured loan to purchase a property from Martins.

Defendant Robert Voltl, a real estate attorney, perpetrated a number of fraudulent acts including tendering false title commitment documents, forging documents on behalf of end buyers who never appeared at closing, disbursing cash payments to other defendants under alias names, and falsifying the source of down payment funds. Lastly, he profited by collecting exorbitant fees from representing all parties involved in the flip process as well as through kickbacks from the illegal sales. Although the proposed restitution was $3.8 million, the government filed a forfeiture suit against Voltl. As a result, the sentencing judge gave Voltl and his defense attorney a continuance in order to determine what he will personally be responsible for paying and what he will personally forfeit to the government in the way of real estate. Final figures for restitution and forfeiture have not yet been determined.

Defendant Angela Nash was an end buyer in the flipping scheme; she falsified her name, Social Security number, and employment in order to qualify for the loan. After falling into financial trouble, she filed three fraudulent bankruptcies to forestall the foreclosure on both her home and a late model truck she also obtained by submitting fraudulent documents. Defendant Albert Gray, a mortgagor, who assumed an identity and obtained a fraudulent driver's license from the Illinois Secretary of State, purchased two conventional loans through a series of fraudulent income information documents and collected $10,000 in cash as a kickback for his role.

Defendants Richard Nelson, former president of and broker for *Easy Life Realty* in **Chicago**, **IL**, Millie Morales, former office manager, and Robert Ducks and Helen Miller, former real estate agents, were sentenced in federal court for their participa tion in a scheme involving gift funds for FHA insured loans. Nelson was sentenced to 15 months incarceration and two years probation, and was ordered to pay $334,000 in restitution. Morales was sentenced to six months home confinement/six months work release and two years probation. Ducks was sentenced to 16 months incarceration and two years probation. Ducks' prison time increased significantly as a result of his pre-sentence arrest as part of a 14-year-old homicide investigation. This investigation disclosed that, after a warrant was issued for his arrest following the murder, Ducks used an assumed name and Social Security number. He is currently awaiting trial in Cook County for that particular case. Miller was sentenced to six months home confinement and one year probation following her earlier conviction for mail fraud. Miller is the seventh and last individual to be sentenced as part of an investigation of *Easy Life Realty*. As a result of the investigation, the company closed down.

Defendants Larry Waller and Deloris Jones, both contractors, each paid $34,833 to the Department of Justice as a result of a civil case filed against them in the Northern District of Illinois. Waller and Jones accepted payments from the **Chicago, IL** Housing Authority (CHA) for rehabilitation work that was either never completed or was done improperly by each of their companies at CHA developments. Their companies are *L. Waller & Associates and D. Jones and Associates*.

In **Chicago**, **IL**, Theresa Holt, et al, were charged in a 79-count federal indictment with mail and wire fraud in connection with a loan fraud scheme involving more than 111 properties and approximately $5.7 million in loans. Four of the defendants were employees of *Northeast Austin Organization* (NAO), a nonprofit organization previously authorized to participate in HUD's Direct Sales Program, including NAO's executive director (ED).

The scheme began when an investor, one of the former NAO employees who started her own business, known as *Share Development Corporation*, acquired properties in need of rehabilitation. Some of the properties were acquired from NAO, in violation of HUD rules, after NAO purchased them at up to a 30 percent discount through HUD's Direct Sales Program. Other properties, referenced in the indictment, were acquired from non-HUD sources. This investor subsequently arranged for the resale of the properties to buyers, including 37 properties sold to the ED and two other NAO employees. The investor arranged the buyers' financing with certain loan officers/processors, now three of the defendants, who conspired to make it appear that the investor took back second mortgages, eliminating the need for down payment money from the buyers. Many of the applications for the mortgage loans contained false employment information, including information stating that some buyers worked for Share Development. The investor also paid most of the buyers' closing costs and gave the buyers, as well as loan officers/processors, an additional $3,000 to $4,000 in cash outside of closing. As a result, the investor received over $3.3 million in proceeds from her sale of the properties and netted about $1.7 million after costs. Mortgage brokers received about $350,000 in commissions to originate the fraudulent loans.

About $150,000 in assets belonging to the investor were seized simultaneously with a search of her residence. Liens were also filed on three residential properties owned by the investor. In total, over $230,000 has been received in forfeitures related to these properties, all of which were purchased using proceeds from the scheme.

In **Chicago**, **IL**, six defendants, including a real estate agent, an accountant, a loan officer, and three mortgagors, were charged in a multi-count federal indictment. The scheme, carried out by Willie Thurmond, James Wright, Ria Wilson, Sylvia Reynolds, Sandy Trimble, and Latasha Branch, involved the loan officer, accountant, and real estate agent, who allegedly conspired to falsify FHA loan applications in order to qualify unqualified buyers. Some of the false statements in the scheme included false employment documents, earnest money deposits, and Social Security numbers. Of the $750,000 in fraudulent loans, HUD has suffered $250,000 in losses, with more expected in the future.

The accountant allegedly provided each loan applicant with a fake self-employment company name, including false income tax returns and profit and loss statements. The accountant was paid a $300 kickback for each falsified packet. In addition, the accountant has a prior federal felony conviction for providing fraudulent income tax returns.

The real estate agent allegedly falsified down payments by providing bank deposit tickets from a totally separate account. In each of the cases, deposit tickets for the earnest money deposits were identified with a non-real estate yacht club account, disguised as an escrow account when copied for the mortgage file.

The three buyers charged were supplied with Social Security numbers to hide otherwise troubled credit histories. In one case, the buyer filed a fraudulent bankruptcy using the same Social Security number in order to forestall foreclosure.

In **Chicago**, **IL**, defendant Keith Lou Consago, a Section 203(k) general contractor, was arrested on a federal warrant following his indictment on three counts of mail fraud and three counts of forgery. Consago, of *Design Rehabilitation and Development*, rehabilitated 203(k) HUD insured properties and allegedly defrauded at least five mortgagers by forging the homeowners' names on the draw requests and the two party checks written from the lender. Consago would pick up the two party checks from the lender in person and/or intercept the mail delivery to the homeowners and then sign the homeowners' names. The majority of the work was never started or was not completed according to specifications, leading homeowners to take out additional loans to complete the rehabilitation. Further investigation revealed that Consago was writing checks to the personal bank account of the president of the mortgage company. The loss to HUD is approximately $170,000. Consago has been arrested over 45 times by law enforcement agencies throughout the United States and has been convicted of at least 12 felonies including crimes related to theft, drugs, weapons, and assaults. He was termed a "threat to society" and deemed a high flight risk; he is currently detained.

A federal search warrant was executed in connection with an investigation into mortgage fraud in **Chicago, IL**. This case involves the falsification of deeds by speculators and investors to make it appear that they owned certain properties and the subsequent selling of the properties to strawbuyers in order to cash out the phony equity. In one instance, the resale was an FHA insured property. In other cases, after the investor falsified the deeds for vacant properties and absentee owners and made the sales, he rented the properties to Section 8 tenants. Specifically, the warrant was executed in an effort to determine whether or not fire damage to a house was the result of arson. To date, five properties have suffered fire damage following these sales.

Defendant Maurice Cody, a general contractor for *Prime Construction* in **Chicago, IL,** and a property investor, pled guilty in federal court to one count of mail fraud. Cody falsified information in Section 203(k) loan files, including verifications of employment, W-2's, and evidence of down payments. Cody also participated in the falsification of Section 203(k) draw documents by making it appear that rehabilitation work had been completed, when in fact it had not.

Federal search warrants were executed at the office and personal residence of a real estate agent in **Waukegan, IL,** in connection with a single family real estate case. The allegations in this case include the use of fraudulent Social Security numbers, phony income documents, and fake identifications, sellers paying down payments on behalf of buyers, and hidden kickbacks at closing disguised as contractors' fees on approximately 75 FHA insured loans.

In cooperation with local authorities, OIG executed a state search warrant at a storage facility in **Chicago, IL**, rented by a murdered subject of an investigation. During the search, files were found that have been identified as relating to FHA insured mortgages. The search was initiated following the murder of Carmel Lacey, the HUD subject, suspected of flipping FHA insured properties. Lacey, a real estate broker, was also allegedly involved in the submission of false loan origination and closing documentation in order to secure FHA insured loans. The Chicago Police suspect that Lacey's murder was a murder for hire involving the *Gang* *ster Disciples* street gang. It is suspected that Lacey may have been involved in money laundering efforts to conceal drug proceeds for the *Gangster Disciples,* to include the sale and purchase of several FHA insured properties by suspected members of the *Gangster Disciples*.

In **Chicago IL**, defendant Ray Saez, a loan officer who previously pled guilty to submitting false statements to HUD, was sentenced in federal court to six months incarceration (home confinement), four years probation, 200 hours of community service, and restitution of $17,760 to HUD. Saez assisted strawbuyers with fraudulent tax records, W-2s, earnings statements, and wage earnings in order to qualify them for FHA mortgages.

Defendant John Morelli, a loan officer in **Chicago, IL**, was sentenced in federal court to three years probation, 30 days home confinement, and a $5,000 fine. Defendant Deborah Rivera, a closing agent, was sentenced in federal court to three years probation. Morelli and Rivera previously pled guilty to federal charges in connection with their attempt to refinance and cash out on a property that they never actually owned. Specifically, they falsified deeds and verifications of employment and deposit.

Defendant Leasha Tucker, a Section 8 resident who was found guilty in May 2002 of state benefits fraud and theft, was sentenced in state court to 30 months probation and 50 hours of public service, and ordered to pay $300 in restitution. An investigation focused on 12 individuals who were fraudulently receiving housing assistance from the **Dupage County, IL** Housing Authority. To date, the total amount of restitution ordered among the 12 defendants is $102,550.

Defendant Robin Hill, also known as Robin Williams, pled guilty in **Cook County, IL** criminal court to false statement charges. Hill allowed Section 8 benefits to be paid on her behalf when she had actually moved out of the residence in order to occupy a single family residence she purchased as an owner/occupant under an alias and a different Social Security number.

In **Chicago, IL**, defendant Curtis Lewis pled guilty in state court to state benefits fraud and was sentenced to six months incarceration and two years probation. For six years, Lewis rented a Section 8 unit which he did not occupy but for which he received Section 8 benefits. Meanwhile, Lewis occupied a residence on the other side of the state.

Defendant Mark Blakemore, a Department of Labor (DOL) employee, who is also a Section 8 landlord, and defendant Kimberly Vaughn, a Section 8 tenant, were charged in state court with state felony fraud counts in **Cook County, IL**. Blakemore allegedly sublet a Section 8 apartment in order to collect market rate rent and Section 8 subsidy simultaneously. Vaughn allegedly allowed the unit to be sublet, while at the same time splitting half of the market rate tenant's rent from her unit with Blakemore.

District of Maryland (Greater Metropolitan Area of Baltimore, MD)

The table below lists the program, location, HUD loss and/or potential fraudulent transactions total for the investigative results reported by the HFI of the District of Maryland. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date	Total Potential Loss
Single Family Loan Origination	Baltimore	$838,680	$4,400,000
Single Family Loan Origination	Baltimore	$223,000	$223,000
Single Family Loan Origination	Baltimore	$1,500,000	$1,700,000
Single Family Loan Origination	Greenbelt	$135,855	$136,000
Single Family Loan Origination	Greenbelt	$140,000	$140,000
Single Family Loan Origination	Baltimore	$80,000	$80,000
Single Family Loan Origination	Greenbelt	$45,000	$140,000
Single Family Loan Origination	Baltimore	$250,000	$250,000
Assisted Housing	Baltimore County	$53,480	$53,480
Assisted Housing	Baltimore County	$7,250	$25,000

As a result of an investigation of defendant William Otto Schmidbauer, the head Schmidbauer Realty in **Perry Hall, MD,** four people pled guilty in federal court to conspiracy to make false statements and one was sentenced. The case involved 58 **Baltimore** area real estate transactions where $4.4 million in fraudulent loans were obtained. The investigation found that speculator Martin Wyatt, with the assistance of Schmidbauer, falsified documents to obtain government backed mortgages. Wyatt subsequently defaulted on the loans with a loss to the government totaling $245,143. Pamela Cummings prepared and/or submitted numerous false documents to various lenders in connection with applications for FHA insured mortgages. Among the false documents were verifications of employment and rent, drivers' licenses, Social Security cards, pay stubs, W-2's, and letters showing credit accounts of the purchasers with various companies. Based on these fraudulent documents, numerous FHA insured loans went into default and foreclosure.

Steven Schmidbauer made false statements that enabled him to improperly qualify for at least two FHA insured mortgages for residences he purchased from his father, William Otto Schmidbauer. Steven Schmidbauer subsequently allowed both mortgages to go into default and foreclosure, resulting in $161,000 in losses to the FHA insurance fund. Crystal Perry, a property speculator, falsified documents to obtain FHA insured mortgages. Perry subsequently defaulted on the loans, resulting in a $197,025 loss to the government. Speculator Loretta Delora Granum falsified documents to obtain government backed mortgages. She subsequently defaulted on the loans, with a loss to the government totaling $235,512. She was sentenced to four months incarceration to be followed by two years probation.

Defendant Leon Wilkowsky, a speculator who started in the real estate business as a Section 8 landlord, was sentenced in federal court to six months in a halfway house followed by six months home detention, three years supervised release, and 400 hours of community service. He was also ordered to pay $25,000 to two community service organizations that are addressing the effects of property flipping in the **Baltimore, MD** area. Wilkowsky pled guilty to mail fraud in connection with a flipping scheme that targeted investors and defrauded lenders. Over a three and one-half year period, Wilkowsky, operating *B&S Management, Inc.*, conducted a scheme to buy low-cost properties in Baltimore and quickly sell them to investors. The contract sales prices were substantially higher than the actual value of the properties, often two to three times their value. Buyers were told that they would have to put up little or no cash and would get cash back at settlement. Wilkowsky used inflated appraisals, false second mortgages, and other false information to obtain mortgages for the buyers that exceeded the value of the houses. His scheme resulted in lenders being fraudulently induced to issue loans between $1.5 million and $2 million more than the real value of the properties. The majority of the property flips were carried out through *Consumers Title Corporation*, a title company owned by Robert Friedman. Friedman previously pled guilty to mail fraud following a similar mortgage fraud investigation.

In **Greenbelt, MD,** defendant Malcolm Morris, Jr., a Federal Aviation Administration employee, was sentenced in federal court to two years probation, fined $1,200, and ordered to pay $73,000 restitution for his role in submitting false statements to HUD in order to help co-defendant Rose Wright avoid foreclosure of her home. In March 1999, Wright entered into a contract to sell her property to a strawbuyer, who applied for an FHA insured mortgage. In support of the application, the strawbuyer submitted W-2 wage and tax statements for 1997 and 1998 as well as a gift letter for $9,000 from his sister, Cathy Mack. All of the documents were false and created by Morris as a favor to Wright. When a bank employee called Morris to confirm the strawbuyer's stated employment, he lied to the employee to support the false W-2's. After one payment, the property went into foreclosure. HUD paid a claim of $135,855. Cathy Mack was also sentenced in federal court to three years probation and ordered to pay $7,355 in restitution to HUD. Wright has already pled guilty; federal charges are pending against the strawbuyer.

Defendant Patricia Kay Johnson was sentenced in federal court in **Greenbelt, MD**, to 10 months home detention and three years supervised probation, ordered to pay $55,488 in restitution to HUD, and fined $500 for her involvement in a mortgage fraud scheme that resulted in a $140,000 loss to HUD. Johnson and her spouse, who has already been sentenced, falsified documents to obtain a $130,000 FHA insured loan to purchase a home. The home was purchased in the name of their 13-year old son. Johnson and her spouse falsified documents to portray their son as her 24-year old brother. The fictitious documents included a power of attorney that authorized Johnson to purchase the home on the "brother's" behalf while he was allegedly conducting business out of the country. The home subsequently went into foreclosure and HUD paid the insurance claim.

Defendant Joseph P. McMahon, an attorney at *McMahon Home Title Service* in **Baltimore, MD,** entered into a settlement agreement with the Department of Justice wherein he and his firm agreed to pay the government $176,000 in resolution of potential claims arising under the False Claims Act. McMahon participated in closings on three FHA insured homes that had been flipped at least twice and were being sold a third time at prices that were inflated just enough to cover the required down payment from the ultimate purchaser. All three mortgages have gone into foreclosure, resulting in approximately $80,000 in losses to HUD.

Defendant Lincoln Mack, Jr., a mortgagor, was convicted after a three-day federal trial for making false statements to purchase a property in **Greenbelt, MD**, with an FHA insured mortgage. Mack was convicted of acting in concert with others, all of whom previously pled guilty, by purchasing the property as a strawbuyer and using fictitious income information and a fraudulent gift letter provided by two confederates, one of whom was Rose Wright, the seller of the property. Mack never made payments on the FHA mortgage and it subsequently went into foreclosure, resulting in a claim of $45,000 to the FHA insurance fund. Wright, who is a real estate agent, wanted to sell the property to avoid a pending foreclosure.

In **Baltimore, MD**, defendant Philemon Atugbokoh, an owner of *Phil/Fel Tax and Financial Consulting, Inc.*, was indicted by a federal grand jury on false statement charges for his role in creating fraudulent W-2 forms and accompanying pay stubs for individuals attempting to qualify for FHA insured mortgages. The defendant also created fraudulent verification of employment forms, certifying that individuals were employees of his company or other companies. He also supplied, by telephone, fictitious verification of employment information to mortgage company personnel seeking to verify the employment of individuals as employees of his company.

Defendant Joan Wyre, a former Section 8 tenant, was sentenced in **Baltimore County** circuit court to pay $53,480 in restitution to the Baltimore County Section 8 Program. This sentence was based on her previous guilty plea to two counts of felony theft. Wyre filed annual recertifications of income and family composition over a seven-year period that failed to include the residency and income of her live-in boyfriend as well as additional income that she earned.

Defendant Minnie Ruth Colclough, a former Section 8 tenant, was sentenced in **Baltimore County** circuit court to 18 months incarceration (suspended), two years probation, and $7,250 in court ordered restitution to the County Section 8 Office. In recertifying for Section 8 assistance, Colclough initially furnished false information. Colclough failed to report a December 1996 arrest for assault and then failed to report unemployment benefits and income from various jobs she held.

In **Temple Hills, MD**, a Prince George's County grand jury indicted defendant Valerie Strange for theft relating to her participation in HUD's Section 8 Rental Assistance Program through the Prince George's County Department of Housing and Community Development. Strange fraudulently received $19,881 in rental assistance after she allegedly falsified her annual recertifications by failing to disclose her true family income.

Eastern District of New York (Greater Metropolitan Area of New York, NY)

The table below lists the program, location, and HUD loss for the investigative results reported by the HFI of the Eastern District of New York. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date**	Total Potential Los
Single Family Loan Origination	New York	TBD	$82,945,773
Single Family Loan Origination	Hempstead	TBD	$2,200,000
Single Family/Single Family 203(k) Rehab Loan Origination	Long Island	$1,000,000	$1,200,000
Public Housing	Huntington	$115,000	$115,000

** Ongoing Investigation: Amount to be Determined (TBD).

Defendant Ahillia Ramotar, an unlicensed real estate broker and owner of *Tri-Metro Realty*, pled guilty to three violations in U.S. District Court, Eastern District of New York. The plea was the result of three criminal investigations which originally focused on *One Rescue, Inc., Tri-Metro Realty, and Steuben Hill Real Estate Company*, mortgage companies that were known to be creating fraudulent documents. The investigations revealed that Ramotar had used numerous names, businesses, and stand-in doubles while she continued to obtain FHA insured loans, even through she had previously been debarred by the HUD Enforcement Center.

Ramotar systematically used strawbuyers, not-for-profits, and several mortgage companies to purchase and/or pass through 324 properties that were ultimately insured by FHA for $60.6 million. One hundred twenty-six of these properties were insured under the Section 203(b) Program and 198 properties were insured under the Section 203(k) Program.

The first count of Ramotar's plea was related to loan and credit applications generally. The other two counts were for violations involving HUD and FHA transactions. After Ramotar's arrest, several federal search warrants were executed on her place of business and at her residence that resulted in the confiscation of numerous boxes of evidence. Subsequent to the federal arrest and searches, federal seizure warrants were executed against her personal property. As a result of these seizure warrants, two condominiums in **Garden City, NY**, and three luxury automobiles were seized, and 15 bank accounts were frozen in the **State of New York**. Federal seizure warrants were also executed against two properties in **Boca Raton, FL**, and four additional luxury automobiles were seized. The seizure warrants also resulted in the freezing of approximately $9 million in real property assets.

Another two individuals linked to this massive fraudulent scheme were simultaneously arrested on federal warrants in **Brooklyn, NY**, and **Stockbridge, GA**. Defendant Maurice McDowall, a real estate investor and owner of *One Rescue, Inc.*, was arrested in Brooklyn on charges of making false statements involving HUD and FHA transactions. McDowall, along with three other co-conspirators, was responsible for flipping more than 117 properties to *Advance Local Development Corporation*, a not-for-profit entity that was created for the purpose of assisting disadvantaged youths seeking employment. On some of the real estate deals from which he benefited, the kickbacks ranged from $4,000 to $5,000 per transaction. In total, McDowall made approximately $1.6 million from these fraudulent deals. Even though he cashed most of his profits, some of the money and a luxury vehicle were seized through a federal seizure warrant. McDowall is being detained indefinitely due to the fact that he has an outstanding bench warrant from the Philadelphia Police Department for a narcotics violation.

Defendant April Batchelor, a secretary at *One Rescue, Inc.*, and spouse of Maurice McDowall, was arrested in Stockbridge, GA, for making false statements involving HUD and FHA transactions. Subsequent to her arrest, a luxury vehicle was seized. Batchelor was released on a $25,000 bond.

In the Bronx, defendant Robert Dosch, another individual linked to this fraudulent scheme, who was an appraiser and owner of *Steuben Hill Real Estate Company*, forfeited $75,000 to the U.S. Attorney's Office, Eastern District of New York. Dosch previously pled guilty in federal court to making false statements and in state court to a violation of the New York State Penal Code. Prior to sentencing, Dosch agreed to forfeit an additional $25,000.

Shortly after he resigned from his position as a legislator for the **County of Nassau, Long Island,** Patrick Williams, former president of *Amerifirst Mortgage Bank* in **Hempstead**, pled guilty in federal court to 10 counts of fraud involving HUD and FHA transactions and one count of fraud involving loan and credit applications. Williams was responsible for submitting false income documentation for mortgagors who did not qualify for FHA insured financing on properties they purchased through *Amerifirst*. As a result of Williams' actions, individuals using inflated income documentation obtained approximately $2.2 million in fraudulent FHA loans.

In the same case, defendant Ronald Greene, a real estate agent, pled guilty in federal court to one count of conspiracy to commit fraud against HUD. Greene conspired with Williams in this fraud scheme. Defendant Daniel Bernardin, an accountant who also participated in the conspiracy and provided false income documents for loans that Williams originated, pled guilty to conspiracy in August 2001.

In **Long Island, NY**, defendant Gary Westwood, a compliance inspector at Community Home Mortgage Company, pled guilty in federal court to making a false statement during an investigation of a $1.2 million Section 203(k) mortgage fraud scheme. Westwood stated that he performed all the physical inspections noted on the HUD draw request forms for multiple properties. As a result of these alleged inspections, $400,000 in rehabilitation funds were released to a contractor, whose spouse was the mortgagor. The investigation disclosed instances where the rehabilitation work was not done, but Westwood certified that the work was completed.

In the same case, defendant Kasing Cheng, a licensed real estate agent and mortgage broker, pled guilty in federal court to conspiring to defraud

HUD. Cheng was a fugitive for nine months. He fled to the Dominican Republic and Malaysia after being indicted. Cheng acted as a middleman and flipped properties to a real estate investor. The properties were sold at inflated prices, with the investor providing false income and asset information to HUD. All 11 properties involved in the fraud scheme have either been foreclosed or are in foreclosure. Losses to the FHA insurance fund are estimated at $1 million.

Defendant Charles Robinson, former commissioner of the **Huntington, NY** Housing Authority, entered into a civil settlement agreement in state superior court to repay the Authority's mortgage banking corporation $43,000. Robinson took the funds as an alleged salary without Authority approval. Robinson, together with Authority's former chairman, Nathaniel Ham, took over $115,000 from Mortgage Banking Corporation when their terms ended. Ham previously repaid $72,000 that was taken as an alleged loan. Ham used the funds to pay personal expenses, including property taxes and college tuition for his son.

Northern District of Texas (Greater Metropolitan Areas of Dallas and Ft. Worth, TX)

The table below lists the program, location, HUD loss and/or potential fraudulent transactions total for the investigative results reported by the HFI of the Northern District of Texas. Following the table is a description of each case represented in the table.

IDENTIFIED PROGRAM LOSSES
April 1, 2002 through September 30, 2002

Program	Location	Actual HUD Loss to Date	Total Potential Loss
Single Family Loan Origination	Dallas	$1,000,000	$50,000,000
Single Family Loan Origination	Dallas	$881,191	$13,000,000
Single Family Loan Origination	Dallas	$22,000	$22,000
Single Family Loan Origination	Dallas	$1,000,000	$2,600,000
Public Housing	Corsicana	$4,000	$4,000
Assisted Housing	Dallas	$18,000	$18,000

In **Dallas, TX**, defendant Craig Delcambre was sentenced in federal court to three months in prison and three years supervised release, and ordered to pay $29,206 in restitution to HUD and a $200 special assessment. Delcambre was found guilty of one count of submitting false statements and one count of identity theft. He used a Social Security number belonging to another individual in order to obtain an FHA insured loan. He later used that same Social Security number to file bankruptcy. The investigation of Delcambre resulted from a larger investigation involving *Universal Lending Group* (ULG) of **Southlake, TX**. ULG originated over $50 million in loans during a two-year period, $4 million of which are in default, with a loss to HUD of over $1 million.

Defendants Orlando Reyes, Joann Reyes, and Kenneth Gaillard were indicted by a federal grand jury in **Dallas, TX,** for aiding and abetting and false statements. Orlando Reyes is the pastor of a church in **Fort Worth** and is also president of *Kings Land Development Company* (KLD). Orlando Reyes and Joann Reyes, operating as KLD, allegedly purchased homes in the southeastern area of Fort Worth, hired contractors to make repairs, and marketed the homes for sale. In 1994, Joann Reyes, while still involved in KLD, began operating a mortgage company under the name of *Royal Lend* *ing* as a net branch of *American Investment Mortgage Company* (AIM), a direct endorser of FHA insured loans. In order to avoid the appearance of impropriety, brother-in-law Kenneth Gaillard was brought in to handle the day-to-day operations of KLD.

KLD purchased dilapidated homes at low prices, made some repairs, obtained inflated appraisals, and then sold the homes to low-income buyers via FHA insured financing from AIM, with closing costs and down payment assistance through the City of Fort Worth. Joann Reyes allegedly falsified documents to qualify the buyers for the FHA loans and the grants from the City of Fort Worth. Together, the three pushed through these transactions, including signing false statements certifying that KLD had not provided any funding when they knew this was not true. The closing costs and/or down payments were paid in several ways. First, sometimes Gaillard bought a cashier's check payable to the *Commonwealth Title Company* and had the buyer sign the check as the remitter. Second, the church would write "grant" checks to the title company to pay a portion of the buyer's closing costs or down payment. Subsequently, KLD would refund that money to the church. In reality, the church was used as a "front" to make it seem that the buyers were receiving grants when in reality KLD was making the payments. Finally, Gaillard instructed the *Commonwealth Title Company* to take the closing costs directly out of KLD sales proceeds.

As a direct endorser of FHA insured loans, AIM was responsible for determining buyers' qualifications. In addition, FHA requires that if a buyer misses three payments in a row within the first six months of the loan, then the mortgage company is required to pay back the origination fee received for processing the loan. When this occurred, AIM reclaimed the money from Joann Reyes, who was a loan processor. Knowing this, Joann Reyes occasionally made the mortgage payments when the buyers fell behind during the first six months. HUD has paid claims of $881,191 in this case, and the total potential loss to the Department attributable to AIM is more than $13 million.

Defendant Riffat Mahmud Chaudhry was sentenced in federal court in **Dallas, TX**, after pleading guilty to one count of illegal reentry after deportation and one count of false statements. Chaudhry was ordered to serve 120 months in prison and pay a $200 special assessment. Upon release from prison, he will be remanded to the custody of the INS to face deportation proceedings. If Chaudhry is not deported, he will be required to serve a period of three years supervised release. Chaudhry, also known as Roberto Martinez and Joe Robert Perez, is a citizen of Pakistan who had been living in Dallas. He had not applied for readmission to this country since the time of a previous deportation on August 30, 1996. Chaudhry also made false statements on a uniform residential loan application for the purpose of obtaining an FHA insured mortgage using the name and Social Security number of a person named Roberto Martinez. In addition, Chaudhry made a false application to the Social Security Administration for a Social Security number in the name of Joe Robert Perez. Chaudhry was also charged with making a false application to the U.S. Department of State to obtain a U.S. passport in the name of Joe Robert Perez.

Defendant Joey Davis was indicted by a **Dallas, TX** federal grant jury on one count each of conspiracy, identity theft/misuse of a Social Security number, and false statements. Davis was allegedly responsible for causing false documents to be processed in order to originate fraudulent FHA loans for himself and other individuals. *Crest Mortgage Company* of Dallas took advantage of its direct endorsement status and approved in excess of $1 million in fraudulent loans that are in claim status. Davis is responsible for over $225,000 in claims to be paid by HUD. The total potential loss is $2.6 million.

The **Corsicana, TX** Housing Authority board of commissioners accepted the resignation of George Linicolmn, the Authority's executive director, during a special executive session meeting. The meeting was called as a result of an investigation which disclosed that Linicolmn took various Authority assets and used Authority employees to conduct his personal business. The board of commissioners gave Linicolmn the option to resign or to be terminated after he admitted his wrongdoing. The total loss is $4,000.

Defendant Debra Hartfield, a Section 8 recipient, was arrested in **Dallas, TX,** on a state charge of theft of over $1,500. Hartfield received Section 8 subsidies to which she was not entitled based on her income and family composition. Between October 1995 and November 2000, Hartfield allegedly failed to report wage income that would have prevented her from receiving Section 8 rent subsidies. The approximate loss to the Department was $18,000.

HUD Single Family Housing Programs

Single Family Housing Programs are meant to provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we conducted a nationwide review of the Real Estate Owned owner-occupant sales initiative and a follow-up review of down payment assistance from nonprofit corporations.

HUD Single Family Sales to Owner-Occupant Purchasers

Under the Single Family Real Estate Owned (REO) owner-occupant sales initiative, HUD established an initial 10-day priority bidding period open only to owner-occupant buyers. The buyers must certify that they will occupy the property as their primary residence and live in the property a minimum of 12 months. Additionally, the buyers can only purchase one HUD property within a two-year period. Our nationwide audit found that 29 percent of the purchasers did not comply with these requirements. We estimated that from January 1995 to July 2001, purchasers bought 41,547 single family properties, valued at $2.9 billion, that did not comply with residency requirements. Further, 1,550 purchasers bought 1,851 properties, valued at $107.3 million, in violation of purchase frequency limitations. HUD management was not monitoring the requirements, and was therefore unaware of the significance of the noncompliance. Also, HUD's Single Family Accounting Management System did not provide sufficient information to enable the homeownership centers and management and marketing contractors to easily prescreen prospective buyers. The abuses may have prevented a number of prospective owner-occupants from acquiring HUD homes. (Report No. 2002-PH-0002)

HUD Down Payment Assistance Programs

Based on a request from the General Deputy Assistant Secretary for Housing, we reviewed a statistical sample of 1,125 FHA case files to determine the percentage of borrowers receiving down payment assistance (DAP) from nonprofit corporations, and to find out if the DAP assisted loans are more likely to default than loans without DAP assistance. Under DAP, the seller or builder reimburses the nonprofit organization for the assistance. The audit found that the use of DAP assisted loans has increased and is now widespread. In addition, DAP assisted loans have a greater tendency to default than unassisted FHA loans. The review also found that information in HUD's Single Family Data Warehouse is inaccurate, and that stronger controls are needed to ensure that lenders enter correct information so that HUD can accurately evaluate the performance of DAP assisted loans and the associated risk to the FHA fund. We recommended that HUD consider implementing a proposed rule prohibiting seller derived down payment assistance loans. (Report No. 2002-SE-0001)

HUD Multifamily Housing Programs

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

During this reporting period, the OIG reviewed assistance funded by Section 514 of the Multifamily Assisted Housing and Reform Affordability Act of 1997 and the HUD Section 232 Nursing Home Program. These reviews were in addition to our efforts to address multifamily equity skimming.

Equity Skimming

Equity skimming is described as the willful misuse of any part of the rents, assets, proceeds, income or other funds derived from a multifamily project covered by an FHA insured or held mortgage. The use of project assets or income for other than reasonable operating expenses and necessary repairs, or for the payment of unauthorized distributions to the owner, constitutes a violation of the Regulatory Agreement between the owner and HUD and plays a significant part in the realization of losses to the FHA insurance fund. Equity skimming deprives projects of needed funds for repairs and maintenance. This, in turn, contributes to the financial and physical deterioration of projects and the resultant substandard living conditions for the families who depend on the Federal Government to provide housing. The following reflects the results of our equity skimming review activity during this reporting period.

In pre-litigation settlement of a civil multifamily equity skimming case, *Biltmore Properties, Inc.*, in **Phoenix, AZ**, delivered a certified check for $195,000 to the Department of Justice, U.S. Attorney, in Phoenix. The settlement pertains to overcharges by Biltmore between January 1, 1991, and December 31, 1995, in the capacity of management agent for 33 HUD insured multifamily projects. The overcharges were identified in a 1995 OIG audit of Biltmore operations. Biltmore agreed to pay the Justice Department $195,000 without admission of liability, legal fault, or responsibility for any of the $280,000 of overcharges alleged in the civil equity skimming case. The government claimed Biltmore overcharged projects for services and equipment including payroll handling fees, check processing fees, computer equipment, water treatment, and central systems services. Some of the services and equipment were provided by Biltmore, while others were provided by undisclosed identity-of-interest entities.

At the request of the HUD Jacksonville Multifamily Hub, we audited Ashley Crossings Apartment Homes in **Largo, FL**, including project operations, construction activities, and procedures relating to the application, firm commitment, and initial closing on the project. Although we found no irregularities related to construction activities, we did find that the owner improperly disbursed over $312,000 in project operating and trust funds, while defaulting on the $12.9 million HUD insured mortgage and while providing HUD with inaccurate and incomplete information on monthly accounting reports. Because the owner failed to fully disclose all pertinent information concerning Ashley Crossings and the mortgagor entity, HUD approved the loan without full knowledge of all the relevant facts surrounding the acquisition of the property. Had HUD been aware of all the facts, the loan might not have been approved. The misuse of funds contributed to the mortgage default and HUD's recommendation to foreclose on the mortgage. Subsequent to the foreclosure recommendation, HUD decided to dispose of the mortgage in a note sale. The FHA insurance fund stands to suffer a substantial loss when the mortgage note is sold as a result of the assignment. In response to the audit, the Atlanta Enforcement Center agreed, among other things, to pursue debarment action against the mortgagor entity and its individual principals. (Report No. 2002-AT-1004)

In response to a request from the HUD Columbia State Office, we audited Magnolia Lane Apartments in **Conway, SC**, to determine if the owner properly used project operating funds. We found that the owner caused a mortgage default by misusing project funds. The owner disbursed over $185,000 in project operating and trust funds for ineligible purposes. The distributions included nearly $149,000 paid after the mortgage default, constituting an equity skimming violation. The owner improperly encumbered a project escrow account for $100,000 to secure unspecified notes, and spent over $43,000 in tenant security deposits and prepaid rent. Throughout the period of default, the owner ignored HUD's requests for accounting reports and did not remit net project cash as required. We recommended that HUD become mortgagee-in-possession (MIP) of the project, debar the mortgagor principals, and recover the questioned costs. HUD became MIP on April 25, 2002. (Report No. 2002-AT-1001)

Due to concerns raised by the Multifamily Housing Program Office, we audited Casa de Vallejo, a multifamily senior housing project in **Vallejo, CA**, and found that rental income was being used to subsidize the food and maid service programs. We also found that: (1) project funds were being used to pay non-project expenses (unsecured loans, loans to persons outside the project, personal expenses, donations and contributions, excessive management fees, and expenses of projects not related to Casa de Vallejo); (2) tenant security deposits were borrowed by the management agent to supplement rental income; and (3) monthly reports for establishing net income were not properly completed. As a result, more than $110,000 in ineligible costs were paid using project funds, and over $8,000 in costs lacked adequate documentation. The management agent generally agreed with our findings and has already reimbursed the project nearly $14,000. (Report No. 2002-SF-1001)

Assistance Funded by the Multifamily Assisted Housing Reform and Affordability Act of 1997

The Congress was seriously concerned with the manner in which HUD's Office of Multifamily Housing Assistance and Restructuring (OMHAR) has been managed. Consequently, in the 2002 Defense Appropriation Act (Public Law 107-117), Congress required that the HUD OIG audit each provision of assistance funded by Section 514 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 over the last four years administered by OMHAR. This includes 76 Outreach and Training Assistance Grants (OTAG), five Intermediary Technical Assistance Grants (ITAG), and two Public Entity Grants (PEG) totaling about $26 million provided to 40 recipients. The Act also provides that the Secretary recapture amounts not meeting the requirements of Section 514 as determined by OIG audits and to provide no funding to those entities that violate the requirements for a period of four years.

Auditing 100 percent of grants awarded is an extraordinary request requiring commitment of about 42 percent of audit field staff to the effort. Consistent with the Congressional directive, during this semiannual reporting period, we completed our reviews of the eligibility of costs at 32 recipients and issued 33 audit reports, with particular emphasis on identifying ineligible lobbying activities. Generally, we found that lobbying activities occurred at a number of grantees; however, there was no objective way to identify or separate costs associated with the possible lobbying. We have also questioned costs totaling over $1.4 million. We took exception to grant administration at 26 grantees, as discussed below.

Our audit work is continuing. During the next six months, we plan to complete audits of the remaining eight recipients and issue a wrap-up report on the results of our audit work at all 40 recipients. This report will be discussed in our March 2003 Semiannual Report to Congress.

Newark, NJ

We completed an audit of the OTAG and PEG of the Ironbound Community Corporation in **Newark, NJ**. The review found that the grantee was unable to: (1) provide adequate documentation to support rental expenses of over $18,000 that were charged to the OTAG; and (2) support the pre-determined percentages used to allocate nearly $160,000 in total costs incurred among the four HUD prescribed activities of the OTAG. The review did not disclose any instances where the grantee expended grant funds on lobbying activities. (Report No. 2002-NY-1004)

Raleigh, NC

We audited two OTAGs and three ITAGs awarded to the North Carolina Low-Income Housing Coalition, Inc., **Raleigh, NC**. Although we did not identify any ineligible lobbying activities, we did find that the grantee obtained advances in excess of program needs, claimed reimbursement for expenditures not paid, and claimed reimbursement for the same expenses twice, resulting in overcharges of $52,000. Also, the grantee did not use a cost allocation method or plan that complied with guidance in OMB Circular A-122. The lack of an adequate cost allocation plan resulted in overcharges to the grants of at least $9,000. Finally, the grantee hired a nonprofit organization to conduct portions of the grant activities under a cost reimbursable type contract. Of the more than $166,000 in invoices submitted by the contractor, over $73,000 was not adequately supported, and represents potential overcharges to the grants. (Report No. 2002-AT-1005)

Tucson, AZ

In **Tucson, AZ**, we audited the Southern Arizona People's Law Center OTAG. Although the grantee's staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities. We did find, however, that the grantee does not have adequate management controls and failed to properly document and allocate employee salary and other costs in accordance with OMB requirements. Of the $109,000 in OTAG funding the grantee received though June 30, 2002, we determined that claims totaling nearly $80,000 were ineligible and nearly $20,000 were unsupported. (Report No. 2002-SF-1007)

Albuquerque, NM

An audit of the New Mexico Public Interest Education Fund's OTAG and three PEGs disclosed that, contrary to requirements, the Education Fund, located in **Albuquerque, NM**, engaged in lobbying activities. Because the Education Fund recorded its time by grant, it did not document the time expended for specific activities performed under the grant. Thus, the cost for lobbying activities could not be determined. In addition, the Education Fund overcharged the grant more than $13,000 for salaries and could not support another $2,000 in salary costs. The Fund also incorrectly claimed over $1,200 for costs that it did not incur and nearly $3,000 in unsupported costs. (Report No. 2002-FW-1003)

Springfield, MA

An audit of the Anti-Displacement Project OTAG in **Springfield, MA,** disclosed that the grantee charged nearly $7,000 in ineligible costs for lodging and transportation to three National People's Action Conferences. The grantee also incurred questionable costs of nearly $38,000 paid to three consultants for project management, financial and legal services. In addition, the grantee charged the OTAG for staff involved in lobbying activities The lobbying included meetings with Congressional staff from the Senate as well as other lobbying activities. We could not determine the exact cost of lobbying activities because the grantee failed to maintain detailed payroll records. (Report No. 2002-BO-1004)

Richmond, VA

We audited the OTAG awarded to the Virginia Poverty Law Center, **Richmond, VA**, and found that the Center did not maintain personnel activity reports in accordance with OMB Circular A-122 to support $63,000 in personal salaries and fringe benefits charged to the grant. In addition, the grantee could not support nearly $12,000 in indirect costs because it did not prepare a cost allocation plan per the guidance in OMB Circular A-122. According to the grantee's cost allocation procedures, all expenses are allocated based on time spent on each activity; however, since the grantee does not maintain detailed time reports to support its allocation rates, we could not determine whether the grantee's allocation plan was reasonable. Also, according to the grantee's reports to HUD's Office of Multifamily Housing Assistance Restructuring, grantee staff attended a training conference and a number of teleconferences that included lobbying activities. However, due to the lack of adequate time records, we could not determine the total time and associated costs expended for these ineligible activities or verify the grantee's claim that its employees did not participate in the ineligible activities. (Report No. 2002-PH-1002)

Dover, DE

We completed an audit of the Delaware Housing Coalition in **Dover, DE**, and found that the Coalition did not maintain adequate accountability over its OTAG and PEG funds in accordance with OMB Circulars A-122 and A-110. Specifically, the Coalition assisted ineligible properties, did not maintain personnel activity reports to support about $39,000 in salaries and fringe benefits, lacked adequate documentation to support $17,000 in other direct and indirect costs charged to the grants, and paid nearly $22,000 for ineligible expenditures. In addition, according to the grantee's reports to HUD's Office of Multifamily Housing Assistance Restructuring, the grantee attended numerous training teleconferences and conferences that included various ineligible lobbying related activities. However, due to a lack of detailed time records, we could not determine the total time and associated costs expended for these activities. (Report No. 2002-PH-1003)

Philadelphia, PA

We completed an audit of Tenants' Action Group of **Philadelphia, PA**, and found that the Action Group did not maintain adequate accountability over its OTAG funds in accordance with OMB Circular A-122. Specifically, the Action Group assisted ineligible projects, did not maintain personnel activity reports to support nearly $98,000 in salaries charged to the grant, lacked adequate documentation to support over $35,000 in other direct or indirect costs, and disbursed about $14,000 for ineligible expenditures. Also, according to the grantee's reports to HUD's Office of Multifamily Housing Assistance Restructuring, grantee staff attended and participated in a number of training conferences that included ineligible lobbying related activities. However, since the Action Group did not maintain adequate travel and time records, we could not determine the actual costs associated with these activities. (Report No. 2002-PH-1004)

Philadelphia, PA

We completed an audit of the **Philadelphia, PA** Regional Alliance of HUD Tenants and found that the Alliance did not maintain adequate accountability over its OTAG and PEG funds in accordance with OMB Circular A-122. Specifically, the Alliance assisted ineligible properties, did not maintain personnel activity reports to support nearly $16,000 in salaries, lacked adequate documentation to support about $45,000 in direct costs, and paid over $23,000 for ineligible expenditures. In addition, the grantee attended numerous training teleconferences and conferences that included ineligible lobbying related activities. However, due to the lack of detailed time records, we could not determine the total time or costs expended on these ineligible activities. (Report No. 2002-PH-1005)

Baltimore, MD

We audited the FY 2000 OTAG awarded to the Legal Aid Bureau, Inc., **Baltimore, MD**, and found that Legal Aid did not maintain adequate accountability over its OTAG funds. Specifically, Legal Aid did not maintain personnel activity reports to support nearly $91,000 in salaries and fringe benefits charged to the grant and disbursed over $3,000 for ineligible expenditures, which included computers, entertainment, and lobbying activities. In addition, Legal Aid did not prepare a cost allocation plan per guidance in OMB Circular A-122, thus causing nearly $23,000 in unsupported indirect costs to be allocated to the grant. Also, according to the grantee's reports to HUD's Office of Multifamily Housing Assistance Restructuring, the grantee participated in a number of teleconferences that included sessions on how the National Alliance of HUD Tenants affiliates were to lobby legislators. We also identified an instance where the OTAG coordinator participated in a letter writing campaign in an attempt to influence HUD and local elected officials. These activities are prohibited under OMB Circular A-122. Since the grantee did not maintain detailed time records, we could not determine the actual amount of time and associated costs expended for these ineligible activities. (Report No. 2002-PH-1006)

Baltimore, MD

We audited the FY 1998 OTAG awarded to the Legal Aid Bureau, Inc., **Baltimore, MD**, and found that Legal Aid did not maintain adequate accountability over its OTAG funds. Specifically, the grantee assisted ineligible projects, did not maintain personnel activity reports to support nearly $108,000 in salaries and fringe benefits, and disbursed $1,000 in ineligible lobbying expenditures from the grant. The grantee did not prepare a cost allocation plan per guidance in OMB Circular A-122, thus causing $51,000 in unsupported costs to be allocated to the grant. Also, according to the grantee's reports to HUD's Office of Multifamily Housing Assistance Restructuring, the grantee participated in a number of teleconferences and conferences that included sessions on how to lobby legislators. Further, we identified instances where the OTAG coordinator met with a Congressman and local City Counsel delegates to discuss particular properties in the Mark-to-Market Program. Under OMB Circular A-122, these activities are prohibited and any associated costs are considered ineligible. However, since the grantee did not maintain detailed time records, we could not determine the actual amounts of time and associated costs expended for all of these ineligible activities. (Report No. 2002-PH-1007)

San Diego, CA

Although staff of the Legal Aid Society of **San Diego, CA**, participated in conference calls and attended conferences relating to its OTAG, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with possible lobbying activities. All other grant costs appear to have been incurred in compliance with applicable regulations and requirements. (Report No. 2002-SF-1807)

Los Angeles, CA

We audited the **Los Angeles, CA** Center for Affordable Tenant Housing OTAGs and found that although the grantee's staff participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities. Most of the other grant costs appear to have been incurred in compliance with applicable regulations and requirements. However, the grantee did fail to properly allocate employee salary costs in accordance with OMB requirements. (Report No. 2002-SF-1808)

San Francisco, CA

Although staff of the Housing Rights Committee of **San Francisco, CA** (HRCSF) and Tides Center participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities. However, we did find that HRCSF and Tides Center lacked adequate management controls and failed to properly document and allocate employee salaries and other costs in accordance with OMB requirements, resulting in over $4,000 in unsupported costs. In addition, the grantees did not comply with administrative and accounting requirements. (Report No. 2002-SF-1005)

Oakland, CA

We audited the Low-Income Housing Fund's ITAGs and found that the grantee, located in **Oakland, CA**, did not adequately monitor subgrantee activities and charges to the ITAGs. The grantee did not consistently require supporting documentation for subgrantee expenses, confirm allocation methods or payroll records, or confirm that subgrantees did not charge the grant for lobbying related activities. As a result, the grantee obtained insufficient support to confirm nearly $257,000 charged to the ITAGs. In addition, the grantee did not submit timely or complete quarterly reports to HUD. (Report No. 2002-SF-1004)

Honolulu, HI

In **Honolulu, HI**, our audit of the Legal Aid Society of Hawaii's OTAG found that the grantee charged the grant over $6,000 for tenant legal representation not allowed by the 1998 notice of funding availability, OMB, or the grant agreement. In addition, the grantee did not sufficiently confirm nearly $11,000 in questionable subgrantee payroll expenses. (Report No. 2002-SF-1006)

Sacramento, CA

Although staff of the California Coalition for Rural Housing in **Sacramento, CA**, participated in conference calls and attended conferences, both of which included topics that could be construed as lobbying, there was no objective way to identify or separate costs associated with the possible lobbying activities. Other grant costs appear to have been incurred in compliance with the applicable regulations and requirements. However, the grantee did not submit complete quarterly progress reports to HUD in compliance with its grant agreements. (Report No. 2002-SF-1806)

Providence, RI

We issued an interim report on the OTAG awarded to People to End Homelessness in **Providence, RI**. Because of the condition of their internal controls and financial records, we have not yet completed our evaluation of grant expenditures. We will issue a final report covering that area after we finish evaluating the accounting records. Thus far, we have determined that the grantee does not have adequate internal controls to ensure grant funds are properly used. (Report No. 2002-BO-1006)

Frankfurt, KY

An audit of the eligibility of costs of the Homeless and Housing Coalition of Kentucky, Inc., **Frankfurt, KY**, concluded the grantee failed to maintain adequate records to support charges to the grants, and charged the grants for ineligible activities. The ineligible activities included unreasonable consulting fees, lobbying activities that are prohibited by OMB Circular A-122, and unrelated travel and training costs. The grantee's failure to comply with requirements under OMB Circulars A-122 and A-110 resulted in overcharges to the grants of at least $16,000 for ineligible activities. The grantee also failed to use a cost allocation method or plan that complied with guidance in OMB Circular A-122 to allocate indirect costs to the grants. Consequently, the grantee could not support nearly $55,000 of indirect costs charged to the grants. In addition, the grantee failed to submit required supporting data for some payment vouchers. (Report No. 2002-AT-1808)

Honolulu, HI

We audited the OTAG and three PEGs awarded to the Affordable Housing and Homeless Alliance, **Honolulu, HI**, and administered by the Amador-Tuolumne Community Action Agency. The audit found that the grantee overcharged the grant at least $12,000 for salaries, had questioned costs of nearly $3,000, unsupported costs of nearly $2,000, and duplicate billings of about $200, and did not comply with appropriate regulations and other requirements under OMB Circular A-122. We did not identify any instances where grant funds were expended in support of lobbying activities. (Report No. 2002-DE-1002)

New York, NY

We audited the OTAGs and PEG of The Legal Aid Society in **New York, NY**. The grantee refers to its FY 1998 OTAG as OTAG I, and its FY 2000 OTAG as OTAG II. Our review disclosed that the grantee: (1) charged excessive salaries, fringe benefits and administrative costs totaling $12,000 to its OTAG II; and (2) failed to provide supporting documentation for costs totaling nearly $7,800 that were charged to its Other Than Personal Service account under OTAG I. The review did not disclose any instances where the grantee expended grant funds on lobbying activities. (Report No. 2002-NY-1005)

Salt Lake City, UT

The Crossroads Urban Center in **Salt Lake City, UT**, generally used its OTAG and PEG grant funds for eligible activities. The nonprofit documented its lobbying activities and as a matter of policy did not charge these costs to the HUD grants. However, Crossroads did not adequately document costs of the grant and did not have a federally approved cost allocation plan when it charged nearly $24,000 of indirect costs to the grant. Also, Crossroads used over $14,000 in grant funds for ineligible costs. (Report No. 2002-DE-1005)

Des Moines, IA

Our review of the eligibility of costs of the OTAG for the Iowa Coalition for Housing and the Homeless, **Des Moines, IA**, concluded that the grantee is an effective and well run organization, with the exception of the method used to charge salaries. The audit disclosed that the grantee overcharged the grant nearly $5,000 because the method used to charge salaries was not proper. (Report No. 2002-KC-1003)

Colorado Springs, CO

In **Colorado Springs, CO**, we audited the Housing Advocacy Coalition and the CommunityResource Center's OTAG. The Housing Advocacy Coalition and the Community Resource Center jointly submitted a grant application. The two nonprofits share the grant as co-recipients, even though the HUD grant agreement identifies the Housing Advocacy Coalition as the grantee. The audit found that the grantees overcharged the grant nearly $3,900 for salaries and did not comply with other requirements under OMB Circular A-122. In addition, the grantees participated in lobbying activities, contrary to the enabling legislation and OMB Circular A-122. (Report No. 2002-DE-1004)

Topeka, KS

In **Topeka, KS**, we reviewed the eligibility of costs of Housing and Credit Counseling, Inc.'s OTAG and concluded that the grantee has an effective and well-run organization with two exceptions. First, the grantee could not demonstrate that the allocation plans used to distribute salaries and indirect costs to the grant were reasonable. Second, the grantee did not have documentation to support the method of cost allocation used in its plans and did not obtain HUD's approval for the plans. (Report No. 2002-KC-1002)

Dallas, TX

We audited two OTAGs and a PEG of the Texas Tenant's Union, **Dallas, TX**. Overall, Texas Tenant's Union used its grants for eligible activities. However, the Tenant's Union supported the National Alliance of HUD Tenants by attending annual conferences. Although the National Alliance of HUD Tenants provided training opportunities, it also performed lobbying activities. In addition, the Tenant's Union inadvertently claimed a minimal amount in ineligible and unsupported costs. (Report No. 2002-FW-1805)

HUD Section 232 Nursing Home Program

A nationwide survey of HUD's Office of Housing Section 232 Nursing Home Program disclosed that HUD does not have adequate controls in place to ensure that all nursing home Regulatory Agreement violations are identified. Significant control weaknesses occurred because past HUD management did not properly assess and identify risks or design weaknesses and implement proper controls to protect HUD's interests in its nursing home portfolio. A key control to evaluate the financial health of the projects is the annual audited financial statements submitted to the Real Estate Assessment Center's Financial Assessment Subsystem. The survey found that financial statements submitted contained numerous examples of Regulatory Agreement violations; however, HUD does not receive financial statements for leased nursing homes. These significant control weaknesses, in our opinion, have contributed to a high number of defaults and assignments of Section 232 projects.

The current Office of Housing management established a Section 232 Task Force and has initiated actions to identify and correct program control weaknesses. The Task Force identified all the weaknesses that we identified and developed an action plan to address the weaknesses. However, at the time of our audit, Housing did not have a timetable for implementing the proposed corrective actions. (Report No. 2002-KC-0002)

Ridgeview Manor Nursing Home Project

An OIG audit of Ridgeview Manor, a Section 232 HUD insured project in **Hopkins, SC**, found that the project's cost certification included over $223,000 in nonexistent, ineligible, and unsupported costs. In addition to the overstated project costs, we identified ineligible disbursements of nearly $213,000 from construction funds and $62,000 from operating funds. Improper draws of construction (mortgage) funds totaling $209,000 and unauthorized loans facilitated the ineligible expenditures. The improper draws were based on nonexistent and ineligible costs. Further, Ridgeview owners requested mortgage funds for accounts payable but did not pay the vendors in full.

Ridgeview's internal controls were not adequate to ensure proper accounting or timely submission of financial reports to HUD, or to safeguard assets against theft, loss, and misuse. Lastly, A&R Enterprises, a former management company, improperly retained rental income of nearly $20,000 belonging to Ridgeview Manor and inflated prices for goods it provided by nearly $13,000.

Among other things, the audit recommended debarment of A&R Enterprises and its affiliates from participation in HUD programs. (Report No. 2002-AT-1006)

HUD Community Planning and Development Programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. During this reporting period, OIG audited Community Development Block Grant (CDBG) Disaster Assistance Funds in the State of New York, the Economic Development Initiative, CDBG development projects in Utica, NY, Community Planning and Development Programs in Jersey City, NJ, and Pomona, CA, the HOME Investment Partnerships Program, and the Supportive Housing Program.

Disaster Assistance Funds – State of New York

As a result of the September 11, 2001 terrorist attacks, Congress has provided three separate appropriations for HUD to provide a total of $3.5 billion in CDBG disaster assistance funding to the State of New York. In December 2001, Congress specifically tasked the HUD OIG to periodically audit and semiannually report on the expenditure of these funds. The Empire State Development Corporation (Empire State) and Lower Manhattan Development Corporation are serving as administrators of this funding for the State. Each week, hundreds of applications for assistance are processed and millions of dollars are disbursed. The desire to provide disaster assistance as quickly as possible and the size of this operation have made our audit work a formidable task. We have committed a substantial number of our New York staff to this assignment. This commitment will continue as expenditures under this program are expected to continue over the next few years.

When we began our work earlier this year, we quickly realized that weaknesses in certain application processing procedures could result in duplicate or ineligible assistance. As a result, we issued an interim report that noted:

- Empire State may be awarding CDBG disaster grants to applicants who have already received Small Business Administration (SBA) disaster loans. In some instances, applicants may not be eligible to receive both a CDBG grant and an SBA loan.
- Empire State was not requiring applicants to provide any details showing or describing how they determined their estimated economic loss. This estimate is a key component of the calculation that is used to determine whether an applicant is eligible for a grant. It should be noted that in some instances, the amount of the estimated loss is in the millions of dollars.

In discussing our interim report with HUD and Empire State officials, Empire State changed the application process and now requires applicants to provide details as to how they calculate their estimated loss. However, to ensure that the application process is consistent, we believe that Empire State should request the same data from the previous applicants (4,100) who have already received grants.

We recommended that HUD consult with appropriate SBA officials and determine whether duplication of benefits exists, which may necessitate a legal opinion. Also, HUD must ensure that Empire State is complying with Congress' intent regarding the reduction of CDBG disaster grants by any other public benefits that an applicant may have received.

We expect to issue our next audit report by March 31, 2003, covering activities from program inception through September 30, 2002. Also, we plan to issue an audit report by September 30, 2003, covering the six-month period from October 1, 2002, to March 31, 2003, and every six months thereafter. (Report No. 2002-NY-1802)

HUD Economic Development Initiative

In response to a Congressional request, the OIG audited the **Los Angeles, CA** Community Development Bank (LACDB) to determine whether allegations of mismanagement and improper use of funds had merit. We found the allegations were partially correct. LACDB had not fully complied with HUD regulations and Economic Development Initiative Agreement requirements. Specifically, LACDB: (1) approved over $69 million in loans and investments to 101 businesses that had not met the national objective of creating jobs for low- and moderate-income persons; (2) provided loans or investments to businesses that were located outside the Empowerment Zone (EZ) target area in excess of funding limits; and (3) invested over $26 million in venture capital businesses that provided minimal benefit to EZ target area residents. In addition, contrary to OMB Circular A-122, Cost Principles for Non-Profit Organizations, LACDB did not exercise prudent business practices and incurred unreasonable and unnecessary expenses in administering its program activities. Consequently, HUD funds for economic revitalization activities within the EZ target area were not fully used in accordance with the terms and conditions under which the funds were approved and did not satisfy the national objective of low- and moderate-income benefit. (Report No. 2002-SF-1003)

L.A. Community Bank Gets Ultimatum

By MASSIE RITSCH
TIMES STAFF WRITER

The Los Angeles Community Development Bank, created after the 1992 riots to fund businesses in depressed areas of L.A., has 18 months to become self-sufficient or it will be shut down, the City Council decided Tuesday.

The bank, the largest community lending experiment in the country's history, has been racked by bad investments, risky loans, poor management, lawsuits and accusations that it misdirected federal money intended for businesses in the bank's service area, which includes parts of central, east and South-Central Los Angeles as well as Pacoima.

On Tuesday, council members approved a plan from the city's Community Development Department and the bank that aims to improve the bank's financial condition, focus more tightly on creating jobs in the target area and minimize the city's liability if an upcoming audit by the inspector general of the U.S. Department of Housing and Urban Development determines that the bank used federal money improperly.

When the bank was created in 1995, it was given 10 years of federal funding—routed through city government—before it had to become self-sufficient. The 18-month deadline, imposed unanimously Tuesday, accelerates the process. Council members also approved only six months of funding to keep the bank operating. By October, they want to see a business plan.

"This is to keep things on a short leash and to make sure we have continued oversight of what is happening throughout that 18-month period," said Councilman Eric Garcetti, chairman of the council's Economic Development and Employment committee.

"The clock now is ticking," Garcetti added, saying he is confident the bank can become self-sufficient if it can attract outside investors.

Bank officials plan to begin doing that, President and CEO William Chu said Tuesday.

"There's still a need for economic development in the empowerment zone and other low- and moderate-income areas," Chu said. "Obviously, there is a need for us to be there."

According to bank figures, the bank has lent and invested $130 million since its inception, helping to create more than 3,200 jobs at more than 120 businesses. Loans have been as small as $5,000 and as large as one $23-million loan to a company that tanked. Tens of millions more was channeled into venture capital investments that withered in the dot-com collapse.

Critics of the bank say the high-tech venture capital program created almost no jobs for the low-income residents the bank aims to serve, because the companies required highly skilled workers. Furthermore, the companies were in the heart of downtown, outside the bank's target neighborhoods.

"Dot-coms don't employ anybody in South-Central L.A.," said Bruce Dobb, who represents several manufacturing businesses that have applied for loans from the bank and "simply can't get their loans reviewed."

Speaking to the City Council on Tuesday, Dobb advocated shutting down the bank immediately, not giving it more time to right itself.

Times staff writer Lee Romney contributed to this report.

Los Angeles Time, August 7, 2002

Utica, NY Development Projects

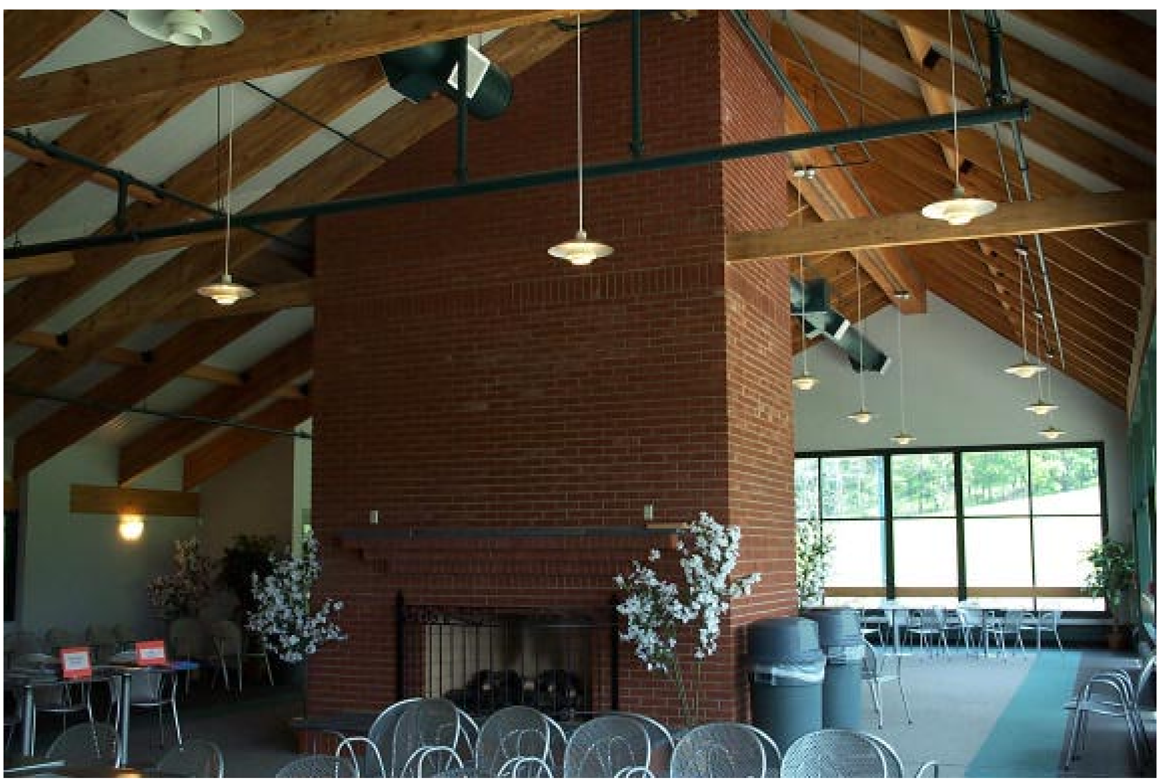
Pursuant to a request from the Director of CPD in HUD's Buffalo Office, we audited two development projects within the City of **Utica, NY**: the Utica Historic Marina Project and the Parkway Recreation Center Project. The Historic Marina Project, shown below, is part of the Canal Corridor Initiative, a HUD initiative.

We found that the Marina Project may not meet its job creation goal because the grantee failed to develop a plan to ensure that the required goal would be met for low- and moderate–income families. The grantee also expended nearly $903,000 of its CDBG entitlement funds on the Marina Project. HUD disagreed with the expenditure of these funds and directed the grantee to reimburse its CDBG Program nearly $903,000.

We also found that, as part of its Parkway Recreation Center Project, the City of Utica used CDBG funds to help finance the renovation of a ski chalet in spite of a warning by HUD that the activity may not meet a national objective of the CDBG Program.

The audit questioned a total of $1.37 million of CDBG funds. The City has already agreed to pay back over $900,000 and reimbursed its CDBG Program $300,000 prior to issuance of our audit. (Report No. 2002-NY-1003)

Historic Marina Project in Utica, NY



Ski chalet at Parkway Recreation Center Project in Utica, NY. Renovated with CDBG Funds.

CPD Programs, Jersey City, NJ

We audited the CPD Programs of the Hudson County Division of Community Development (grantee) in **Jersey City, NJ**. Specifically, we reviewed the grantee's CDBG, Emergency Shelter Grant (ESG), and HOME Investment Partnership (HOME) Programs. The audit disclosed that the grantee did not always comply with program requirements, laws, and regulations, nor did it have adequate controls to ensure that all activities were carried out in an economical, efficient, and effective manner. Specifically, the grantee:

- Provided $1 million in CDBG funds for the purchase of land without obtaining the required HUD approval and applicable environmental clearance from the New Jersey Department of Environmental Protection.
- Charged approximately $64,000 in questionable costs to the CDBG Program.
- Allowed subrecipients to charge over $17,000 in excessive salaries to the ESG Program.
- Failed to monitor the timeliness of subrecipient ESG expenditures, adequately document compliance with federal labor standards, and inspect HOME assisted rental projects. (Report No. 2002-NY-1002)

City of Pomona, CA

In response to a request from the HUD Los Angeles Office, we performed a limited review of the use of HUD CDBG funds by the Latino Chamber of Commerce (LCC), a subgrantee of the City of **Pomona, CA**. Specifically, we were asked to evaluate a complaint alleging that the LCC had used its CDBG subgrantee allocation from the City of Pomona for ineligible activities. The complaint alleged Pomona City Council members sat on the board of directors for the LCC, and that they received campaign contributions from the LCC's CDBG funds. Although we did not find evidence to support the complaint allegation, we did note concerns with the City's oversight of its subgrantees as well as problems with the LCC's management controls and documentation supporting program activities. (Report No. 2002-SF-1803)

HUD HOME Investment Partnerships Program

We completed an internal audit survey of the HOME Investment Partnerships Program (HOME). The survey work primarily concentrated on overall program monitoring and the Community Housing Development Organization (CHDO) approval process. Some of the rationale for the review evolved from our prior audit of Nonprofit Participation in HUD Single Family Programs. We were concerned that nonprofit organizations precluded from participation in Single Family Programs might be participating in HOME and that problems found with nonprofits participating in Single Family Programs could extend to CHDO nonprofits. Specifically, we were concerned that: (1) CHDO nonprofits could be controlled by profit motivated groups or individuals; (2) property resale profit margins could be excessive; and (3) construction or rehabilitation work might not meet minimum standards.

The survey identified some areas of apparent risk and several deviations from program requirements including: (1) monitoring weaknesses at both the HUD field office level and at the Participating Jurisdiction (PJ) level; (2) administrative weaknesses at both the PJ and subgrantee or CHDO; and (3) actual or apparent conflicts of interest. However, for the most part, our concerns that HOME might be experiencing problems with CHDOs similar to those we found for Single Family nonprofits were alleviated. Therefore, we do not believe additional internal audit coverage is warranted at this time. The survey report includes recommendations addressing several departmental and programmatic issues, and a recommendation for a legal opinion as to the applicability of federal cost principles and conflict of interest restrictions to CHDOs. (Report No. 2002-SF-0801)

In a related audit, also performed as part of the national internal audit survey of the HOME Investment Partnerships Program, we reviewed the operations of two Participating Jurisdictions (PJs), the City of **Stockton, CA**, and **San Joaquin**

County, CA, and two Community Housing Development Organizations (CHDOs), Asociacion Campensina Lazaro Cardenas, Inc., and Stocktonians Taking Action to Neutralize Drugs. Generally, the PJs and CHDOs complied with statutory and regulatory requirements. However, the survey identified some areas of apparent risk and several deviations from program requirements including: (1) weaknesses in PJ monitoring of CHDOs; (2) administrative weaknesses at both the PJs and CHDOs; and (3) actual or apparent conflicts of interest. (Report No. 2002-SF-1804)

HUD Supportive Housing Program

At the request of the Director, Office of CPD, HUD Atlanta Office, we audited the expenditures of a three-year 1997 Supportive Housing Program (SHP) grant of $1.88 million by the National Scholarship Service and Veteran's Opportunity and Resource Center (NSS-VORCI) in **Atlanta, GA**. Our objectives were to determine whether grant and matching funds were properly accounted for and expended for eligible costs. We also assessed whether a subsequent 2000 renewal grant was properly accounted for.

We found that NSS-VORCI's management did not establish:

- Accounting system procedures and controls in compliance with federal requirements for grant fund accounting.
- Procedures to ensure only eligible and necessary expenditures were charged to SHP grant funds.
- Procedures to monitor and compare SHP expenditures to the approved budget.

In addition, NSS-VORCI expended about 25 percent of 1997 SHP grant funds for ineligible and unsupported costs. Costs incurred were frequently not in the approved budget, were for unapproved housing facilities, or were not in compliance with SHP regulations. As a result, grant fund expenditures included over $158,000 of ineligible costs and nearly $314,000 of unsupported costs. In addition, over $34,000 of operating expenditures were ineligible for HUD funding because they were not matched by VORCI funds. (Report No. 2002-AT-1003)

HUD Public and Indian Housing Programs

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

During this reporting period, we reviewed the Grants Management Center, the Public Housing Assessment System, and various housing authority activities.

HUD's Grants Management Center Operations

The Office of Public and Indian Housing created the Grants Management Center (GMC) to streamline and increase the efficiency of the administrative functions pertaining to its categorical and formula grant programs. In FY 2000 and 2001, GMC processed grant awards for categorical programs totaling approximately $1.2 billion and formula programs for $12.3 billion. These grants included the categorical grants of the Housing Choice Voucher Program and the Resident Opportunities and Self-Sufficiency Program (ROSS), as well as the formula grants for the Capital and Operating Funds. Our audit of GMC's FY 2000 and 2001 operations showed that staff did not comply with established procedures when rating and ranking ROSS Resident Services Delivery Models applications. This led to scores that were arithmetically incorrect and unsubstantiated by reviewers' written comments. As a result, GMC provided the decision-makers a list of eligible applicants based on unsubstantiated scores. While consolidation has streamlined grant processing activities, GMC's management did not establish baseline/benchmark information and quantifiable indicators that directly relate to its operations and regularly compare these indicators against performance goals. Consequently, GMC management could not demonstrate that grant administrative functions are carried out more efficiently. (Report No. 2002-AO-0001)

HUD's Utilization of the Public Housing Assessment System

We completed a multi-location review of HUD's utilization of the Public Housing Assessment System (PHAS). The PHAS is an assessment system that measures the performance of a public housing agency. Under PHAS, HUD examines four essential areas of operation. These areas are the Authority's: (1) physical condition; (2) financial condition; (3) management operations; and (4) resident satisfaction (through a resident survey) of the Authority's services. Generally, we found that HUD staff have been using the PHAS scoring results in monitoring their agency portfolios and in assisting agencies to improve failing or low scoring components of the PHAS score. However, Conference Report 106-988 restricted HUD from taking any adverse action against an agency receiving a failing PHAS score, hindering HUD's ability to fully implement the PHAS and limiting its effectiveness in improving agency performance. Specifically, the Conference Report did not permit HUD to forward its worst performers (troubled) to one of two Troubled Agency Recovery Centers, where appropriate intervention strategies could be developed and implemented to help troubled agencies perform at an acceptable level. Because of this restriction, local HUD Offices have been using their limited resources to provide targeted technical assistance to these agencies in addressing problem areas identified by the relevant PHAS indicators, using a less comprehensive approach than was provided for under the PHAS regulations. Meanwhile, the Troubled Agency Recovery Center's role and functions in assisting troubled agencies has continued to erode with the Centers now serving only 18 troubled and 29 non-troubled agencies.

Further, not related to the restrictions imposed by the Conference Report, HUD did not always designate agencies with failing management operations scores as troubled and/or forward them to the Troubled Agency Recovery Centers in a timely manner. HUD was also not providing assistance to Agencies that failed the resident service and satisfaction indicator of PHAS.

Lastly, we found that agencies were either not correcting or not correcting in a timely manner Life Threatening Exigent Health and Safety (EH&S) violations identified during the Real Estate Assessment Center's physical inspections. Generally, local HUD Offices' monitoring methods to ensure correction of identified EH&S violations within 24 hours were inconsistent and not effective. (Report No. 2002-PH-0001)

HUD's Up-front Grant Funds

In response to a complaint, the OIG reviewed a $7.7 million Up-front Grant provided to the **Lafourche, LA** Parish Housing Authority. The purpose of the review was to determine if the Authority properly used HUD funds in the development of City Place I & II. In developing the new properties, the Authority awarded a development contract after receiving only one proposal and without soliciting other proposals. The developer then awarded the construction contract totaling $13.6 million without competition. HUD provided information on the cost reasonableness of the new developments and is confident that the amount paid was reasonable. However, due to the developer's financial difficulties, the developer defaulted. As a result, one development was transferred to the Authority and it appears the other development might also be transferred. (Report No. 2002-FW-1802)

Newport, RI Resident Council, Inc.

At the request of the HUD Massachusetts State Office of Public Housing, we performed an audit of the **Newport, RI** Resident Council, Inc. (NRC). Our objective was to determine if the NRC was administering the federal funds that it received in an efficient, effective, and economical manner and in compliance with the terms of its federal contracts and regulations. The NRC received funds from the Housing Authority of the City of Newport through the Comprehensive Grant Program and the Tenant Services Program. The NRC also received funds from the City of Newport through the Rhode Island Small Cities Community Development Block Grant for the Employment Readiness Program.

Our audit disclosed the NRC did not establish accountability over federal funds. Specifically, the NRC failed to maintain adequate accounting and monitoring records over Comprehensive Grant, Tenant Services, and Employment Readiness Program funds provided by the Authority and the City. We also noted nearly $43,000 in questionable costs for personal expenses, cash bonuses, and loans. The deficiencies occurred because the NRC board of directors did not effectively manage and account for its federal funds. (Report No. 2002-BO-1003)

Tupelo, MS Housing Authority

In response to a request from the HUD Mississippi State Office of Public Housing, we audited the Housing Authority of the City of **Tupelo, MS**, and found that the Authority: (1) improperly advanced over $1.4 million of Public Housing Program funds for non-federal development activities; (2) did not maintain its conventional low-income housing in good repair and condition; (3) did not spend nearly $294,000 of Comprehensive Grant Program funds, as approved; (4) inappropriately pledged its assets as collateral for loans totaling over $1.1 million; and (5) did not adequately control its appliance inventory. (Report No. 2002-AT-1002)

Oakland, CA Housing Authority

In response to a citizen complaint, the OIG completed a limited review of the **Oakland, CA** Housing Authority's operations pertaining to the rehabilitation of the 49th Street housing development. We found that the Authority expanded the scope of the $468,000 roof replacement contract into a comprehensive modernization project costing nearly $3 million without following federal requirements. In addition, we identified questionable change orders totaling over $100,000 and problems with the quality of contractor's work. (Report No. 2002-SF-1002)

Houma, LA Housing Authority

We audited the Low-Rent Program of the Housing Authority of the City of **Houma, LA**, to determine whether the Authority maintained adequate controls over cash and procurement. The audit concluded the Authority had inadequate controls and management over cash and procurement. Specifically, the Authority improperly procured $1.1 million in contracts; paid $240,000 in ineligible and unsupported expenditures; did not deposit tenant receipts totaling over $48,000; and allowed employees to abuse their positions. As a result of poor management, lax oversight, and a failure to follow requirements, the Authority mismanaged HUD funds and may have exposed the funds to fraud, waste, and abuse. (Report No. 2002-FW-1002)

Chelsea, MA Housing Authority

We performed an audit of the **Chelsea, MA** Housing Authority's operations. The audit objectives were to determine whether the Authority was administering its Public Housing and Section 8 Programs in an efficient, effective and economical manner; and whether the Authority was complying with terms and conditions of its Annual Contributions Contract, applicable laws and HUD regulations. Under the Section 8 Housing Choice Program, a family with a Section 8 voucher may relocate to another unit outside of the jurisdiction of the public housing authority (PHA) that originally processed the voucher (initial PHA). The vouchers then may be administered or absorbed by the PHA that has jurisdiction over the area of the new unit upon proper notification of the initial PHA. This means that the new PHA may bill HUD directly for units absorbed or may receive payment from the initial PHA depending on their agreement.

We found that the Authority did not effectively manage its Section 8 Voucher Program according to federal guidelines. The Authority did not follow the requirements of a federal district court ruling by obtaining permission from initial PHAs located within Massachusetts before absorbing Section 8 vouchers. Also, the Authority failed to notify out-of-state PHAs that Section 8 vouchers they had issued had been absorbed by the Authority. As a result, for the vouchers it absorbed, the Authority received two payments for each family receiving the subsidy – one from the initial PHA that issued the voucher and one from HUD. The Authority owes the initial PHAs as much as $239,000.

The audit also disclosed that the Authority needs to grant tenants in federal family projects an allowance for maintenance and replacement of a refrigerator when the Authority does not provide one. The Authority owes its tenants as much as $107,000 as an allowance for maintaining and replacing refrigerators. (Report No. 2002-BO-1005)

Other Significant HUD Audits

HUD's Information Technology Plan

In response to a Congressional request, the OIG conducted a review to determine whether the HUD's Multi-Year Information Technology (IT) Plan (FY 01-FY 03) addresses previously reported computer system weaknesses and whether the most critical weaknesses have been assigned sufficient funding priority.

We found that HUD management was well aware of the weaknesses that required corrective action. The Department, however, sometimes initiated system projects before the prerequisite Enterprise Architecture Plan, business processes, and system functionality were fully identified. In addition, we found the Plan did not fully address OIG and GAO open report recommendations to correct long-standing material weaknesses in the computer systems supporting major HUD activities. The weaknesses inadequately addressed included the Department's financial systems, Section 8 rental subsidies, FHA business processes, and FHA funds control. Although HUD's submission is called a Multi-Year IT Plan, we believe that strategic resource planning should entail budget planning for the succeeding five-year period. (Report No. 2002-DP-0801)

HUD's Security Plans

The OIG reviewed security plans prepared for HUD's mission critical systems. The review was made in conjunction with the OIG's FY 2001 financial statement audit and as part of the OIG's annual independent evaluation of the overall effectiveness of HUD's security program, as required by the Government Information and Security Reform Act. The objective was to determine whether security plans prepared for HUD's critical information systems were compliant with OMB Circular A-130 and consistent with National Institute of Standards Technology Publication (NIST) 800-18.

Our review found that the security plans for mission critical systems did not meet the requirements or guidelines of either OMB Circular A-130 or NIST Publication 800-18. HUD has not updated the Department's information security policies and procedures for preparing security plans to conform to current OMB Circular A-130 and NIST Publication 800-18 guidelines. Additionally, the Office of the Chief Information Officer (OCIO) was not coordinating and sharing with the responsible program area officials the results of a contractor's review of the Department's security plans for appropriate corrective action. Without adequate security plans and proper coordination between the OCIO and the program areas, the Department is at risk that critical information systems will not be adequately protected against waste, loss, and unauthorized use. (Report No. 2002-DP-0002)

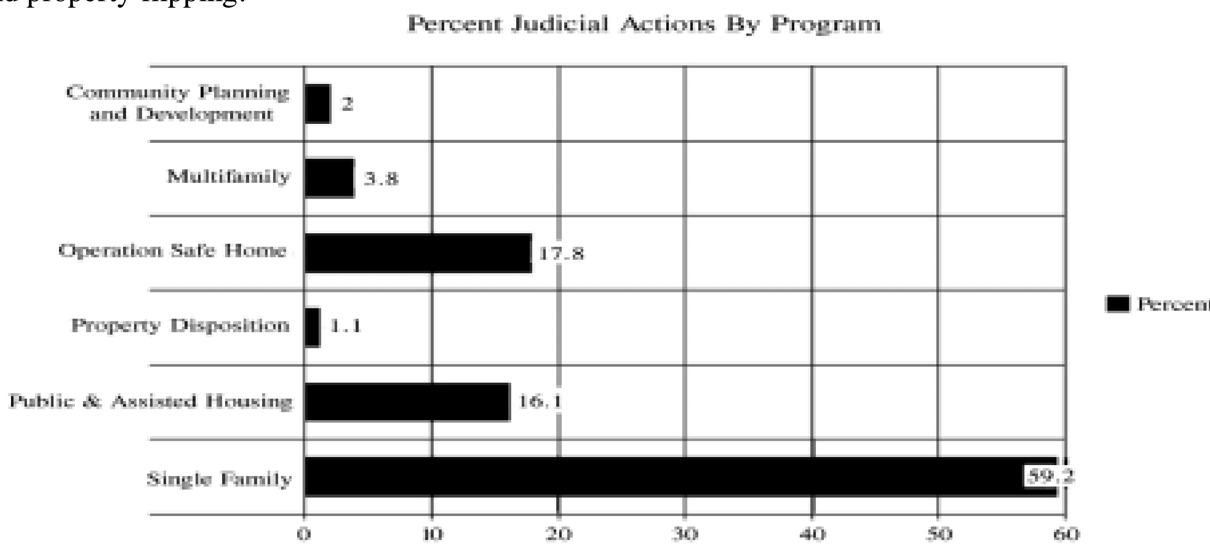
Chapter 4 — Investigations

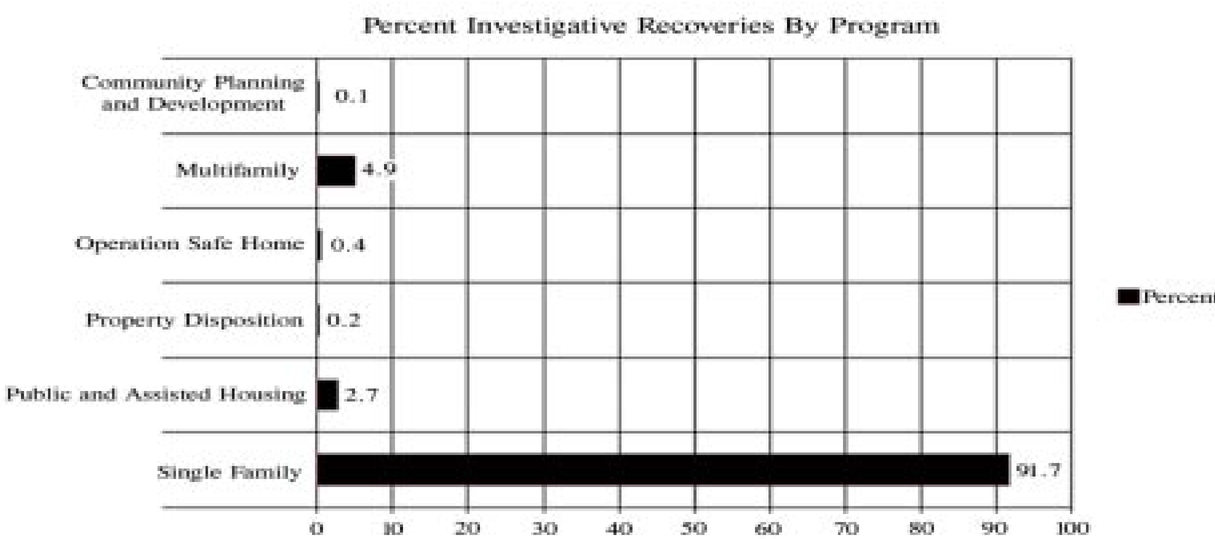
In addition to Housing Fraud Initiative responsibilities, the Office of Investigation investigates all types of potential wrongdoing in HUD's programs and activities. This Chapter presents results from:

(1) white collar investigations relating to HUD's Single Family, Public and Indian Housing, Multifamily, and Community Planning and Development Programs; and

(2) Operation Safe Home (OSH) investigations relating to violent crime and drug trafficking in HUD's Public and Assisted Housing Programs.

Results from this second area are reduced from previous Semiannual Reports to Congress. This reduction has occurred because during the last semiannual reporting period, we systematically phased out OSH investigations. The Congress funded OSH through FY 2002 to allow an orderly and responsible conclusion of the initiative, to cease complete operations by September 30, 2002. Thus, in accordance with the requirements of HUD's FY 2002 Appropriations Act (Pub. Law 107-73), approved November 2, 2001, OIG has closed OSH violent crime investigations and re-deployed staff to focus on investigations involving single family fraud and property flipping. The OSH results discussed in this Chapter stem from investigation cases that were initiated prior to the closing out of the initiative. The tables below show the effect of our shift in focus from OSH to single family fraud and property flipping.





Some of the following cases were conducted solely by the OIG while others were conducted jointly with other federal, state, and local law enforcement agencies, including the Federal Bureau of Investigation, the Securities and Exchange Commission, Drug Enforcement Administration, the Bureau of Alcohol, Tobacco, and Firearms, Secret Service, Internal Revenue Service – Criminal Investigation Division, the Postal Inspection Service, Department of Labor – Department of Labor Wage and Hour Division, U.S. Marshals Service, the State of New York Office of the Attorney General, the New York City Department of Investigation, the Office of Inspector General for the New York City Housing Preservation and Development Department, the U.S. Probation Office – District of New Jersey, the State of Missouri Division of Aging, State of Missouri Division of Social Rehabilitation Services, the Missouri Department of Social Services, Kansas Bureau of Investigation, Kansas Department of Social and Rehabilitative Services, Texas Department of Human Services, local police and sheriff's departments, housing authority police, U.S. Attorney's Offices, local District Attorney's Offices, and the Treasury Inspector General for Tax Administration, Social Security Administration, Department of Education, and Veterans Affairs OIGs. If these joint investigations resulted in seizures of any type of assets, the items were administered by our counterparts with seizure authority, i.e., the Department of Justice, Postal Inspection Service, and the Department of Treasury.

HUD Single Family Housing Programs

HUD Single Family Housing Programs are meant to provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations uncovered schemes of fraud involving loan origination, property flipping, and Title I home improvement loans.

In the biggest real estate fraud scheme in the history of Michigan, defendant Kevin Lasky, the former vice president of *MCA Mortgage Corporation* in **Detroit, MI**, pled guilty in federal court to one count of wire fraud. Additionally, defendants Patrick Quinlan, chief executive officer, Lee Wells, president, and John O'Leary, senior vice president for corporate finance, *MCA Financial Corporation*, were indicted in federal court for a variety of charges, to include conspiracy, making false statements to the Securities and Exchange Commission, and mail, wire and bank fraud. Previously in this case, four individuals, who held prominent positions within the same company structure, pled guilty in federal court.

MCA Financial Corporation owned and operated two subsidiaries, *MCA Mortgage Corporation*, an FHA direct endorsement lender, and *Mortgage Corporation of America*, in addition to controlling *Detroit Revitalization, Inc.*, a HUD approved non-profit. Quinlan and Wells occupied management positions at both *MCA Financial* and *Detroit Revitalization*. Generally, it was alleged that they fraudulently sold investments in mortgages and land contracts they had acquired and assembled into investment pools. This was made possible by misrepresenting to current and potential investors the performance of earlier pools and fraudulently inflating the value of the mortgages and land contracts through a series of transfers between MCA and off-book limited partnerships. Investors' and SEC's losses totaled $200 million. Although HUD was not an investor, it was led to believe that, since 1993, the financial health of the company was in stable condition per MCA's annual direct endorsement certifications, when in fact, these certifications were grossly inflated. This allowed MCA's various companies to continually participate and profit from a HUD non-profit program, the FHA Direct Endorsement Program, and act as an approved FHA 203k contractor, when they otherwise should have been terminated because of their true financial condition.

A complex investigation in **Houston, TX**, resulted in a case involving two distinct schemes to defraud HUD and commercial lenders. The basic scheme used by the contractors was to locate potential borrowers and convince them that they should apply for HUD insured Title I home improvement loans. In exchange, the borrowers would have overdue credit bills paid and would receive cash kickbacks of between $2,000 and $20,000. Minimal work would be performed on the properties and the contractors would retain the rest of the loan proceeds.

The second scheme was to provide false information to lenders to obtain FHA insured and conventional loans on houses that were being flipped at substantially higher prices. Proceeds from HUD insured home improvement loans were also used in some cases as the down payments for these houses. The scheme involved getting inflated appraisals, using straw borrowers, and quickly flipping houses from one borrower to another. Due to the ever increasing number of houses flipped in this scheme, when a home was flipped to the higher loan value, part of the loan proceeds were used to pay off the existing FHA or conventional loan.

The following actions are the results of this ongoing investigation designated "Operation Straw House." The overall scheme may involve three criminal organizations and an estimated $74 million in fraudulent loans obtained by approximately 75 individuals.

Defendant Kevin Mei pled guilty in federal court to one count of money laundering and was sentenced to 97 months in prison and 36 months supervised release, and was ordered to pay $3,398,893 in restitution to commercial lenders and a $100 special assessment. The judge held Kevin, Daniel, and Frank Mei, Jr., responsible for the total amount of restitution. On the same date, defendant Frank Mei, Jr., pled guilty in federal court to one count of money laundering and was sentenced to 78 months in prison and 36 months supervised release, and was ordered to pay a $100 special assessment. Defendant Daniel Mei also pled guilty in federal court to one count of money laundering and was sentenced to 63 months in prison and 36 months supervised release, and was ordered to pay a $100 special assessment. In addition, defendant Frank Mei, Sr., pled guilty in federal court to one count of misprision of a felony and was sentenced to 14 months in prison and 12 months supervised release, fined $6,000, and ordered to pay a $100 special assessment.

Defendant Thomas Polcyn, the president of *Western Lending*, a commercial lender, was sentenced in federal court on one count of bank fraud. Polcyn was ordered to serve 51 months in prison and 36 months supervised release, and was ordered to pay $502,000 in restitution to *Equicredit Corporation*, a subsidiary of *Bank of America*, and a $100 special assessment.

Defendant Vivian Bond, after being convicted of mail fraud, was sentenced in federal court to 12 months in prison, 36 months supervised release, a $100 special assessment, and $195,210 in restitution – $100,767 to *Sunshine Mortgage Company* and $94,423 to *First Preference Mortgage Company*.

Defendant Janet Cooper pled guilty in federal court to one count of mail fraud. Cooper admitted providing false information to commercial lenders to obtain single family mortgage loans. She also admitted acting as a "finder" for the properties to be used in real estate flips for which she was paid $3,000 per property. The amount of fraudulent loans obtained directly in Cooper's name exceeded $1 million. She was sentenced to one year in prison and 36 months supervised release, and ordered to pay $1,196,007 in restitution, payable to *Equicredit Corporation of America*, and a $100 special assessment.

Defendant Christine Nagy, a real estate investor, was sentenced in federal court on one count of bank fraud to one day in jail and 36 months supervised release, and ordered to perform 200 hours of community service and pay $112,980 in restitution to a financial institution. Nagy made false statements on single family mortgage loan applications.

Defendant David Lasko was sentenced in federal court on false statement charges to six months home confinement and 36 months supervised release, and ordered to pay $22,500 in restitution to HUD and a $100 special assessment. Lasko admitted obtaining a $24,000 FHA insured Title I home improvement loan from a Title 1 home improvement contractor. As part of the scheme, he received approximately $19,000 in cash from this home improvement contractor even though no home improvement work was ever performed.

Defendant Iva Hunter, president of *Hunter Acceptance Corporation*, was sentenced in federal court to four months home confinement and 60 months supervised release, and ordered to pay a $100 special assessment and $22,500 in restitution to HUD. Hunter, who submitted false statements to HUD, previously pled guilty to assisting home improvement contractors in obtaining over $1 million in Title I home improvement loan proceeds.

Jim Douglas Kinser, a salesman for *AA Quality Construction*, a Title I contracting firm, was sentenced in federal court to 12 months imprisonment and 36 months supervised release, and ordered to pay $21,792 in restitution to Household Finance and a $100 special assessment. Kinser previously pled guilty to submitting false statements via the U.S. Postal Service to obtain single family mortgage loans and FHA insured Title I home improvement loans.

Defendant John McGrath, the owner of *AA Quality Construction Company*, and defendant Alex McGrath, the general manager, were sentenced in federal court for money laundering. Both previously admitted to fraudulently obtaining over $1 million in FHA insured Title I home improvement loan proceeds. John McGrath was sentenced to 65 months in prison and 36 months supervised release, and was ordered to pay a criminal fine of $20,000 and a $100 special assessment. Alex McGrath was sentenced to 50 months in prison and 36 months supervised release, and was ordered to pay a criminal fine of $5,000 and a $100 special assessment.

Defendant Michael Verona, real estate agent and part owner of *Beacon Realty*, was sentenced in federal court on one count of mail fraud. Verona admitted submitting false statements to lenders to obtain single family loans and to recruiting strawbuyers for additional fraudulent loan transactions in concert with the Kevin Mei organization. Verona was ordered to serve 30 months in prison and 36 months supervised release, fined $6,000, and required to pay a $100 special assessment.

Defendant Yolanda Roy, a former escrow officer for *Citizen Title Company*, was sentenced in federal court on one count of mail fraud and one count of aiding and abetting for her role in fraudulently obtaining single family mortgage loans. Roy was ordered to serve 18 months in prison and 36 months supervised release, was fined $2,500, and was ordered to pay a $100 special assessment fee.

Defendant Craig Garrett, a real estate investor, was sentenced in federal court on one count of wire fraud. He was ordered to serve 18 months in prison and placed on 36 months supervised release. Defendant Leonard Dennis, III, a mortgage broker, was sentenced in federal court on one count of bank fraud to 27 months in prison and 36 months supervised release.

Defendants John Pounds and Jonathan McIntosh were sentenced in federal court after being convicted on charges of mail fraud. Pounds received 12 months in prison, 36 months supervised release, and a $100 special assessment. McIntosh received 15 months in prison, 36 months supervised release, and a $100 special assessment.

Defendant Garron Cross, a real estate investor, was sentenced in federal court on mail fraud charges. Cross previously pled guilty to making false statements to commercial lenders on loan applications for single family mortgages. He was sentenced to one year in prison and three years supervised release, and ordered to pay a $100 special assessment. The amount of restitution will be determined by the court at a later date.

Defendant Joe Bob Moncrief, a real estate appraiser, pled guilty in federal court to conspiracy and was sentenced to 210 months in prison and 36 months supervised release.

Defendant Murray Cutbirth, owner of *Eclipse Funding*, a mortgage brokerage, pled guilty in federal court to one count of mail fraud and was sentenced to 27 months in prison and 60 months supervised release, and ordered to pay a $100 special assessment. Restitution will be determined at a later date.

Defendant Philip Durban, former construction manager with *BCM Builders*, an FHA Title I home improvement contractor, was sentenced in federal court for a prior conviction of one count of mail fraud. Durban previously admitted to submitting false statements to commercial lenders to obtain single family mortgage loans. He was ordered to serve 21 months in prison and 36 months supervised release, and ordered to pay a $100 special assessment.

Defendant Cecil Mann, III, was sentenced in federal court after being convicted on false statement charges. He previously pled guilty to submitting a construction completion certificate stating that he had not received anything of value over $25, but later admitted to receiving over $12,000 in cash kickbacks from *AA Quality Construction*, an FHA home improvement contractor. Due to Mann's prior cooperation with the government, his full repayment of the FHA insured loan prior to sentencing, and his being 100 percent physically disabled due to an accident, the sentencing judge ordered Mann to pay a $1,000 fine and a $25 special assessment.

An information was filed in federal court against defendant Lawrence Preston Meeusen, a real estate investor, charging him with one count of mail fraud. He subsequently pled guilty to one count of mail fraud and one count of aiding and abetting. Meeusen acted as a straw borrower for Kevin Mei by submitting false statements to lenders on loan applications sent through the U.S. Postal Service and obtained $934,950 in fraudulent loans for single family homes in and around the Houston area.

Defendant Eban Dennis, Sr., an investor in a single family mortgage fraud flip scheme, pled guilty in federal court to one count of mail fraud. Dennis admitted that he provided false statements on loan applications to lenders, including that he intended to occupy the house as his principal residence and that he provided a down payment when in fact he did not.

Defendant David Rawls, a real estate investor, pled guilty in federal court to one count of bank fraud for submitting false statements to a bank. Defendant James J. Long, president of *Foresite Mortgage Corporation*, pled guilty to one count of mail fraud and one count of aiding and abetting.

To date, 46 individuals have been charged with federal violations, 40 of whom have pled guilty. One person was convicted, one was acquitted, and one case was dismissed. The rest are pending trial. In addition, over $5 million in real estate and approximately $58,000 in cash have been seized.

Also in **Houston, TX**, defendant John Charles Carlisle pled guilty in federal court to one count of mail fraud and one count of conspiracy. Carlisle, doing business as *Lyle Construction, Southern Builders, Associated Remodelers, Associated Funding, Texas Remodelers Acceptance Corporation, and Champion Renovators*, solicited homeowners to apply for HUD insured home improvement loans and then paid the homeowners cash kickbacks. Carlisle obtained over $400,000 in FHA Title I home improvement loan proceeds. In 1996, he was convicted of making false statements to HUD.

In **Corpus Christi, TX,** defendant Alfonso V. Villarreal was charged in an information filed in federal court with submitting false statements and subsequently pled guilty. He was previously indicted on one count of conspiracy and one count of making false statements to HUD relating to his fraudulently obtaining a $20,900 FHA insured Title I home improvement loan through *BCM Builders* of Houston.

These actions are the result of an investigation which disclosed that Villarreal stated that he had not received any inducement to obtain the HUD insured loan when, in fact, he had received $7,750 and the contractor had paid about $4,000 in bills for him, for a total amount of $11,750. As part of Villarreal's plea agreement, the two counts of the original indictment will be dismissed upon sentencing. This case is a spin-off of "Operation Straw House."

Defendant Tommy Shelton, a Title I home improvement contractor in **Beaumont, TX**, was indicted by a federal grand jury on one count of conspiracy. The indictment charged that Shelton conspired with the owners of *AA Quality Construction* to fraudulently obtain an FHA insured Title I home improvement loan in the amount of $20,600. The indictment was the result of an investigation which disclosed that Shelton received over $17,000 in cash kickbacks from *AA Quality Construction* and failed to repay his loan. This case is a spin-off of "Operation Straw House."

Defendants John D. Garrita and John C. Bykowski, former employees of *PinnFund USA, Inc.*, pled guilty in federal court in **San Diego, CA**. Garrita was the former chief financial officer, and

Bykowski was the former administrative assistant at *PinnFund*.

In March 2002, defendant Michael J. Fanghella, the founder and director of *PinnFund*, pled guilty in federal court to conspiracy to commit wire fraud and money laundering, tax evasion, and filing a false entry with HUD.

PinnFund founder admits guilt, agrees to aid probe

By Mike Freeman
STAFF WRITER

PinnFund USA founder Michael J. Fanghella, ringleader in a seven-year scam that bilked investors out of millions, pleaded guilty yesterday to federal fraud and tax-evasion charges.

In a plea bargain with prosecutors, Fanghella agreed to help authorities pin down "every person" involved in the $330 million Ponzi scheme — one of the largest of its kind in Southern California.

"We're not stopping here," said Patrick O'Toole, U.S. attorney for San Diego. "The investigation is ongoing."

Under the agreement, Fanghella faces 11 to 14 years in prison, said Assistant U.S. Attorney Kevin Kelly. But his sentence may be reduced, based on how much infor-

Michael J. Fanghella faces 11 to 14 years in prison. His sentence could be cut based on how much information he provides to investigators.

San Diego Union-Tribune, March 23, 2002

PinnFund USA was a sub-prime lender as well as a HUD approved direct endorsement lender. In a classic Ponzi scheme, Fanghella, with the assistance of other *PinnFund* officers, concealed from investors the fact that *PinnFund* was losing money from the mortgage business, while at the same time, soliciting new investor money. From 1997 to 2000, through various partnerships, Fanghella gave investors over $200 million that he had falsely represented as earnings or a return of capital. These payments were made from money contributed by new investors. Fanghella's illegal income was over $2.2 million for 1996, over $6 million for 1997, and over $5.7 million for 1998. He also transferred approximately $17.3 million from *PinnFund* to Barbados for the eventual benefit of his girlfriend, Kelly Cook. Cook, also known as Kelly Jaye and Kelly Spagnola, was an adult film actress who did not provide any service to *PinnFund*. Fanghella also falsely reported to HUD that the funds used to support PinnFund's direct endorsement application were personal funds, when in fact *Grafton Partners* loaned the funds to *PinnFund*.

Garrita and Bykowski admitted to being co-conspirators in the *PinnFund* fraud scheme. Garrita prepared and disseminated false financial statements, and participated in a scheme to deceive *PinnFund's* auditors regarding the company's true financial situation. Bykowski admitted to participating in the fraud when he made cash withdrawals from *PinnFund's* accounts for the personal benefit of Garrita, Bykowski, and others, while concealing the cash income from the IRS. Garrita pled guilty to one count of conspiracy to commit wire fraud; one count of conspiracy to commit money laundering, three counts of tax evasion, and one count of filing a false entry with HUD. Bykowski pled guilty to one count of conspiracy to defraud the United States and two counts of subscribing to a false personal income tax return.

In March 2001, *PinnFund* was placed into a court ordered receivership based on an enforcement action by the Securities and Exchange Commission, whose civil action against *PinnFund* was considered one of the largest securities fraud cases in San Diego County history.

In **Norfolk, VA**, defendant Christopher Probst, a real estate speculator, pled guilty to a federal charge of conspiracy to commit wire fraud, mail fraud, and bank fraud, was sentenced to 34 months imprisonment to be followed by three years supervised release, and was ordered to pay $676,000 in restitution, including $65,500 to HUD. Defendant Vanessa Probst, the speculator's spouse, who played a lesser role in their scheme, was sentenced to five years probation, including 120 days home detention, and ordered to pay $103,000 in restitution jointly with her spouse. Beginning in 1996, the couple purchased run-down properties in the Norfolk area and, after performing cosmetic repairs to the properties, sold them to strawbuyers who used stolen identities to obtain conventional and HUD insured mortgages. Using a company that existed only on paper, the speculators created fictitious employment and income documents that enabled the strawbuyers to qualify for the mort gages. The speculators also falsified their own income and employment to purchase homes for themselves. Following his conviction, Probst provided investigators with information about the decade-old homicide of a youth who had been listed as missing, and helped local authorities locate the victim's unmarked grave. Based on Probst's information, police in other states are investigating the alleged killer for other unsolved homicides of missing young men.

Seven **Charlotte, NC** residents were indicted by a federal grand jury on 66 counts alleging conspiracy, wire fraud, bank fraud, making false statements and entries, and money laundering. Defendants James and Macy McLean and Paul and Debbie Zimmerman owned and operated *First Beneficial Mortgage*, a mortgage brokerage corporation. Defendants Richiedean Guess and Alice and Willie Green worked for a local builder.

The scheme entails defrauding HUD and the Government National Mortgage Association (GNMA) whose mission is to support affordable home ownership in America by providing an efficient government secondary market vehicle to link the capital and federal housing markets. A bundle of loans, usually totaling $1 million, is packaged by a lender and sold to investors as a pool for which it is required that an actual existing dwelling is constructed and that a homeowner is submitting monthly mortgage payments. GNMA is the final guarantor of the loan pools and mortgage-backed securities and will fully reimburse the investors should the need arise.

The defendants are alleged to have devised and executed an elaborate mortgage fraud scheme to generate over 100 loans that were purported to be FHA insured loans on nonexistent properties that were ultimately resold to investors in mortgage pools backed by GNMA, as well as the Federal National Mortgage Association (FNMA). GNMA was required to make the investors whole when the fraud was discovered. The defendants would recruit strawbuyers to secure fraudulent FHA insured home loans through a builder and these loans, in most cases, were secured by properties that were vacant lots or for homes belonging to legitimate homeowners. The defendants allegedly received the loan proceeds and used the money for their personal benefit and to advance the fraud scheme. As a result of the fraud, the defendants obtained more than $5 million from FNMA and more than $26 million from GNMA. The investigation was initiated based on GNMA having discovered irregularities during an audit of the builder. The GNMA losses are based on the cost to repurchase each fraudulent loan from GNMA investors.

The defendants also fraudulently obtained a $5 million line of credit with a banking and trust company by submitting straw mortgages and false documents. This investigation has resulted in the seizure of assets worth $8 million.

In **Boise, ID**, the following individuals were indicted and/or sentenced in federal court for their roles in multiple fraudulent loan origination schemes orchestrated by defendant Kevin Everson. Everson, a real estate broker, property developer and loan officer, was indicted in November 2001 for his part in originating 59 fraudulent mortgages worth $5.3 million. Twenty-four of these loans were FHA insured.

Defendant Michael Everson, former loan officer and brother of Kevin Everson, was sentenced to five years probation and 90 days home detention and fined $1,000. Michael Everson was previously convicted for providing down payments and falsifying numerous documents on behalf of unqualified borrowers.

Defendant Matthew Christensen, a former loan officer and Kevin Everson's former business partner, provided down payments and falsified numerous documents on behalf of unqualified borrowers. He was sentenced to three years probation and four months home detention, and fined $3,000. Christensen was the loan officer for nine of 59 fraudulent loan originations, 24 of which were FHA insured.

Defendant Eunice Maria Alexander, assistant and office secretary to Kevin Everson, was sentenced to six months detention at the Port of Hope halfway house and six months home detention as part of a five-year probationary period, and fined $20,000. Alexander pled guilty to one count of misprision of a felony. The plea resulted from an agreement with the U.S. Attorney's Office. Alexander provided down payments and falsified numerous documents on behalf of unqualified borrowers.

A federal grand jury indicted Jeanette Espinosa, a former loan officer, on 10 counts of wire fraud for her part in the scheme to provide down payments and falsify numerous documents on behalf of unqualified borrowers. A federal grand jury also indicted Clay Preuit, a former supervisor at *Transnation Title and Escrow,* on 21 counts of wire fraud, mail fraud, and forfeiture for his part in the scheme to cause *Transnation* to approve numerous fraudulent documents on behalf of unqualified borrowers.

Defendant Claude Blevins, Jr., the single shareholder of the *American Mortgage Exchange* in **Atlanta, GA**, was sentenced in federal district court to 21 months imprisonment, three years supervised release, and 100 hours of community service, and ordered to pay $2,248,745 in restitution and a $100 special assessment. Blevins previously pled guilty to a one-count information charging him with conspiracy to commit bank fraud, wire fraud, using false Social Security numbers, and submitting false documentation to HUD in order to obtain FHA mortgage insurance.

Defendant Deysha Simpson, a former assistant branch manager for *Citizens Trust Bank*, was sentenced to five years probation and six months home detention, and ordered to pay $58,400 in restitution. Simpson previously pled guilty in federal court to conspiracy to submit false documents that were used to obtain mortgage loans. Specifically, Simpson was charged with preparing false verifications of deposit (VODs) that grossly overstated the amount of funds that numerous unqualified borrowers had on deposit with *Citizens Trust Bank*. These VODs were then submitted to various mortgage companies and banks to obtain mortgages on properties that were part of a property flipping scheme.

Defendant Renee Meeks, an employee of the *American Mortgage Exchange*, pled guilty in federal court to a one-count information charging her with conspiracy to commit bank and wire fraud, using false Social Security numbers, and submitting false documents to HUD in order to obtain FHA mortgage insurance. Meeks was a loan processor who prepared mortgage origination documents containing false W-2's, income tax returns, and verifications of employment and deposit.

These individuals were part of a conspiracy that resulted in the origination of $20 million of mortgage loans for properties that were purchased by unqualified straw borrowers in flip transactions that artificially inflated the value of properties. The scheme resulted in losses to both the FHA insurance fund and the Federal National Mortgage Association.

In **New York, NY,** defendant Rudy Lavanture, also known as Jean Lavanture, of *Intrust Investment Realty*, was convicted in state superior court for participating in a real estate securities fraud scheme, as well as grand larceny in the second degree for stealing property worth more than $50,000. Lavanture was sentenced to one to three years for intentional real estate securities fraud, two to six years for grand larceny in the second degree, and a $500,000 confession of judgment that will be passed on to the victims of the scam. Lavanture also received a permanent order of injunction barring him from activities dealing in securities.

Lavanture operated an unlicensed real estate enterprise as a speculator with an office located in the World Trade Center. He duped investors from New York and New Jersey out of over $1 million by first luring the investors with advertisements in the New York Times and other newspapers. He then posed as a broker who had a special relationship with "HUD." This special relationship allegedly enabled him to obtain properties that could be resold at a promised 30 to 70 percent return on investment. Lavanture claimed that he could purchase HUD homes, make cosmetic repairs, and sell the homes within two to three months at greatly inflated prices without investor risk. He told the investors that the homes to be repaired already had purchase agreements and approved mortgages. Several of these properties did not exist or were beyond repair.

To further assure the investors about the security of their investments, Lavanture filed a Certificate of Assumed Name with the State of New York to do business under the assumed name of "HUD." He then opened bank accounts using the assumed name of HUD, deposited checks from investors that were made payable to HUD, and withdrew the funds for personal use. He continued to collect funds from investors, allegedly to be used for repairs to the properties, and told the investors that the closings were imminent.

This investigation was initiated following complaints received by the OIG, State of New York Office of the Attorney General, and the U.S. Attorney's Office, Southern District of New York.

In **Jersey City, NJ**, the following employees of *County Mortgage Company, Inc.*, pled guilty in federal court to one count each of conspiracy to commit mail fraud: defendant Robert Jordan, president, defendant Peter Tortorelli, vice president, defendant Marlene Schill, a loan officer, defendant Philip Noce, attorney, and defendant Ralph Torres, real estate broker.

The fraud was committed for the purpose of causing FHA to insure single family mortgages that were based on false information. The scheme began with the purchase of residential homes in Jersey City, which were then sold at falsely inflated prices. Non-qualified buyers were recruited to purchase these homes, and fraudulent mortgage applications were completed, including false appraisals, employment documents, federal income tax returns, employment verifications, gift letters, attorney trust account gift certification forms, and credit explanation letters. Jordan and Tortorelli participated in this scheme to fraudulently originate and underwrite loans for approximately 32 properties. The scheme resulted in FHA's insuring over $ 4.7 million in fraudulently created loans. To date, the approximate loss to the FHA insurance fund is over $1.9 million. This investigation also resulted in the seizure of a $29,000 luxury automobile that was owned by Torres and purchased with proceeds from the fraud scheme.

Defendant Leonardo Werner, a real estate salesman, doing business as *General Realty*, pled guilty in federal court in **Las Vegas, NV**, to count one of a criminal information charging him with conspiracy to make false statements to HUD and using a false Social Security number in the origination of FHA loans. Werner and others sold homes to illegal immigrants from Mexico. He helped provide false Social Security numbers and fraudulent income and employment information to the buyers to obtain FHA loans to purchase the properties. The investigation has uncovered 28 fraudulent FHA loans valued at over $3.1 million. The loans in default total $1.2 million.

A federal seizure warrant was served on a real estate investor in **East St. Louis, IL**. The warrant ordered $970,000 in alleged laundered proceeds to be turned over to federal officers, and resulted in the seizure of $939,000 in cashiers' checks and $19,000 from a bank account. The investor allegedly generated the seized funds by selling dilapidated properties at inflated values to unqualified buyers in and around East St. Louis. The investor is a community leader and Section 8 landlord. Along with using fraudulent means to sell properties he owned, evidence shows that he also allowed other real estate investors to use his business names as an employer to qualify unemployed individuals for FHA and conventional loans. The seizure warrant in part resulted from a search warrant executed on the investor's business in July 2002. Two days after that warrant was served, the investor transferred over $700,000 in certificates of deposit (CDs) to his daughters' names. A week later, he cashed in the CDs by obtaining several cashiers' checks payable to his daughters and his spouse. At that time, he also was in possession of over $200,000 in additional cashiers' checks. Most of the checks seized were retrieved from the back of a picture frame located in a refurbished automobile in the investor's garage. A total of $958,139 was wired to a Postal Inspection Service account where it will be held in escrow.

Additionally, the investor was arrested on federal charges for allegedly threatening to kill a newspaper reporter who has also been investigating and writing stories related to the investor's alleged property flipping. In a taped conversation, he made several threats of death and serious bodily injury to the reporter an his family. He also allegedly threatened that he had a loaded assault weapon with two clips taped together. In addition to his arrest, Agents seized an assault weapon, an automatic weapon, and three shotguns from the investor's residence. On the same day, the individual was charged in federal court with tampering with a witness.

In **Atlanta, GA,** defendant Sandra Jackson was sentenced in federal court to 57 months in prison and three years supervised release, and ordered to pay over $1.1 million in restitution. Jackson pled guilty to charges of bank fraud, conspiracy to commit mortgage and bank fraud, mail fraud, wire fraud, fraud against HUD, bankruptcy fraud, and fraudulent use of Social Security numbers. She created false documents and companies and used them to qualify borrowers for FHA insured loans.

In **Calhoun, GA**, five individuals were sentenced in federal court for conspiring to defraud HUD. The defendants pled guilty and received the following sentences: loan officers Becky Wilburn and Mary McDonald were each sentenced to one year confinement and three years probation; real estate agent Beth Culbert was sentenced to 120 days home confinement and five years probation; builder Christopher Frix and real estate agent Larry Clark were each sentenced to six months home confinement and five years probation. The combined restitution for the five defendants was $754,220.

McDonald and Wilburn overlooked bad credit histories and forged documents for mortgagors who did not qualify for FHA insured loans. They also conspired with Culbert, former owner of *ReMax Home and Land* in Calhoun. Clark, a real estate agent at *ReMax Homes*, and Frix, a Gordon County, GA builder, conspired to create false documents and provide down payment assistance to people seeking FHA insured mortgages.

Defendant Charles Luessenhop, the president of *Skyline Mortgage* in **McLean, VA**, was sentenced in federal court to four months imprisonment and two years supervised release, and was ordered to pay $223,800 in restitution. Luessenhop participated in a scheme with a borrower to provide a false gift letter to the mortgage company to hide the source of funds being used for the purchase of the property and enable the unqualified borrower to qualify for an FHA insured mortgage. The mortgage subsequently went into foreclosure, causing HUD to pay a $245,000 claim from the mortgage insurance fund.

Defendant Yigal Rappaport, a real estate agent, pled guilty in federal court to submitting false statements to HUD in connection with fraudulent FHA insured mortgages. An investigation disclosed that Rappaport participated in the scheme with Luessenhop.

In **Maricopa County, AZ**, defendant Brenda Trejo, also known as Brenda Cervantes, was sentenced in county court to two years probation as a result of her participation in an extortion scheme against two subjects of an OIG single family loan origination fraud investigation. The investigation revealed that Trejo represented herself as a HUD employee purportedly acting on behalf of the HUD OIG Agent investigating the single family loan fraud matter. Trejo solicited $5,000 from each of the two subjects in return for an offer to make the federal investigative file "disappear." She was interviewed concerning this matter and acknowledged attempting to extort money at the suggestion of a Santeria witchcraft practitioner with whom one of the subjects had consulted. Trejo signed a confession acknowledging her actions. Trejo appeared in the Superior Court of Maricopa County and pled guilty to one class four felony count of extortion.

In the same case, a federal grand jury indicted four employees of *American Financial Resources, Inc.:* Marco Vasquez, the former branch manager, and loan officers Sandra Rodriguez, José Alvarado, and Lorena Soledad. Defendant Lonny Brooks, a self-employed computer technician, was also indicted on one count of conspiracy to submit false statements to HUD. Defendant Stacy R. Ghazi, an employee of *Credit Reporters*, in **Tempe, AZ**, was also included in the indictment.

Federal search warrants were executed at the mortgage company branch office, Brooks' residence, and Vasquez' credit reporting office. The investigation disclosed that the loan officers, with the assistance of Brooks and Vasquez, allegedly produced and submitted to HUD false W-2 forms, pay stubs, and credit reports for the purchase of homes with FHA insured mortgages. The investigation has disclosed that 125 properties, with FHA insured mortgages totaling $11.2 million, were purchased with falsified documents prepared by these co-conspirators. To date, HUD has sustained approximately $66,000 in losses; further claims are pending.

Defendants Alfred Rotiroti and Robert Coyle were sentenced in federal court following their conviction at trial for falsifying inspections and draw requests on Section 203(k) insured properties in **Cleveland, OH**. Both received six months in prison and two years probation, and were ordered to pay a total of $43,000 in restitution.

In **Las Vegas, NV,** defendant Virginia Ly was sentenced to six months home detention and three years supervised release, and ordered to pay $25,000 in restitution to HUD. Ly previously pled guilty in federal court to count one of a criminal information charging her with mail fraud. Ly recruited a strawbuyer to obtain an FHA insured loan by providing fraudulent income and employment information to the strawbuyer. Ly subsequently obtained two HUD Title I loans and profited from the loan proceeds. In these two transactions, she assumed the identities of other individuals to obtain first and second loans on the properties.

In **Buffalo, NY,** defendant William Roland Hayes, an Erie County youth services officer, was sentenced in federal court after previously pleading guilty to one count of making a false statement to HUD. He was sentenced to one year of probation and ordered to pay $7,000 in restitution to HUD. Hayes falsely certified that he would use a home purchased under the Officer Next Door Program as his primary residence for a period of three years from the date of closing, as required. Instead, he sold the property to his brother, a New York State corrections officer, who rented the residence to a Section 8 tenant.

In **Evansville, IN,** defendant Timothy Wathen, a former underwriter for *First Indiana Bank*, pled guilty and was sentenced in federal court for his role in a fraud scheme whereby down payment funds provided by a real estate developer were falsely reported as gifts made by purchasers' relatives. The scheme resulted in numerous defaults on FHA insured mortgage loans. Wathen was sentenced to four months home detention and two years probation, and was ordered to pay $14,735 in restitution.

In **St. Louis, MO,** defendant Tyrone Valentine was sentenced in federal court to 28 months imprisonment and 36 months supervised release, and ordered to pay a $300 special assessment. Valentine obtained four different Missouri drivers licenses using false names and Social Security numbers. He used the identities to obtain credit cards, vehicles, and vehicle loans, as well as Section 8 housing assistance payments as a landlord using the name and identification "Roy Jones." Valentine also sold heroin and was arrested with over 50 ounces in his possession. Valentine was previously charged in two separate indictments with possession with intent to distribute heroin, credit card fraud, and vehicle forfeiture. The second indictment charged him with five counts of misuse of a Social Security number and one count of submitting false statements to HUD. The first indictment was superseded by the second.

In the same case, an individual was arrested after she was indicted on multiple federal charges, including submitting a false statement in order to obtain an FHA insured mortgage loan. She used a fraudulent Social Security number and false wage and bank account information. The FHA insured loan has foreclosed. The individual was also charged with false use of a Social Security number and with three counts of bank fraud.

In **Denver, CO**, defendant Michael Slavens, also known as Lee Abihai and Anthony Makaha, pled guilty in federal court to count 13 of a third superseding indictment, which charges him with committing, and aiding and abetting in the commission of mail fraud. He was sentenced to four months home detention and five years probation, and ordered to pay a $100 special assessment fee. Slavens was previously charged in an indictment with one count of conspiracy to commit offenses, three counts of mail fraud, and two counts of fraudulent use of a Social Security number for his part in a property flipping scheme in Denver. Slavens was strawbuyer on a number of the properties.

Defendant Jason Lacerte, owner of *Lacerte Realty, LLC*, in **Manchester, NH,** was sentenced federal court to one year probation and 100 hours of community service, and fined $10,000. Lacerte previously pled guilty to count one of a two-count indictment charging him with falsely claiming he was purchasing a HUD real estate owned property as an owner/occupant, when in fact he flipped the property for a $21,000 profit on the day of closing.

In **St. Louis, MO**, defendant Clyde Pate pled guilty in federal court to a two-count information charging him with misuse of a Social Security number and filing false bankruptcy petitions. Pate pled guilty to two different schemes. First, he admitted to purchasing four properties using different false identifications and setting or causing the homes to be set on fire. He then applied for and received $170,126 in insurance proceeds. Second, he admitted forging and recording false deeds at the St. Louis Recorder of Deeds Office and selling properties without the true owners' knowledge or consent. Along with recording the false deeds, Pate falsely completed and filed bankruptcy petitions in the name of the true owners in order to keep the City from selling the properties for delinquent taxes. Pate admitted causing a $956,210 loss as a result of the second scheme. The total loss resulting from both schemes is over $1.1 million.

In a separate case also in **St. Louis, MO,** defendants Preston Randall and Latina Randall pled guilty in federal court to conspiracy to commit mail fraud. Preston Randall also signed a Stipulation of Facts admitting to using his property investment company, *HyRizing Investments*, in a conspiracy to illegally flip properties for an inflated value, obtain loans using false identities, steal identities, and use false income documentation. Randall stipulated to causing $650,000 in losses due to his illegal property flipping schemes. Latina Randall, who also worked for *HyRizing Investments*, used the identities of others to obtain mortgages. Among the victims was a man whose identity was stolen by the Randalls, who used the identity to sell four properties and to obtain four mortgages. Latina Randall was sentenced to 24 months probation and ordered to pay a $100 special assessment.

Additionally, defendant Jesse Gater pled guilty in federal court to one count of committing fraud and swindles. As an employee of the Postal Credit Union, Gater used his position to set up false accounts and submit false verifications to mortgage companies. He committed the fraud to aid *HyRizing Investments* in the flipping scheme. Along with setting up false accounts, Gater also obtained two $5,000 loans through the Postal Credit Union using false identifications. Gater was sentenced to six months imprisonment and three years probation, and ordered to pay $10,000 in restitution.

Defendant Edward Maier, Jr., a **Philadelphia, PA** speculator, pled guilty in federal court to making false statements to enable first-time, low-income mortgagors to purchase FHA insured homes for which they ordinarily would not have qualified. An investigation found that Maier purchased and then resold at least 64 homes over a three-year period by providing prospective purchasers with false gift letters and employment documentation. To date, at least seven of the mortgages have foreclosed, resulting in $344,000 in claims to the FHA mortgage insurance fund. Maier has already agreed to repay the lending institution almost $1.6 million in profits he earned from the sale of homes with fraudulent mortgages.

Defendant Kimberly MacDonald, a loan officer at *Accent Mortgage Services, Inc.*, in **Atlanta, GA**, pled guilty in federal court to conspiracy. MacDonald was previously charged with mail fraud and making false statements to HUD. She was responsible for originating over $2 million in fraudulent FHA insured loans, representing a potential loss to HUD of approximately $500,000. Defendant Rosemarie Thomas, a real estate agent and co-conspirator, was charged with tampering with a witness and pled guilty to one count of conspiracy to defraud the United States. Thomas created false documents concerning the loans originated by MacDonald and gave the documents to a witness to provide to the OIG.

In **Reading, PA**, defendant Shawn Huntzinger, a loan officer with *Avstar Mortgage Corporation,* and defendant Philip Horvath, an underwriting chief at *Avstar* and who is a former HUD employee, pled guilty in federal court to participating in a scheme to generate fraudulent FHA insured mortgages valued at over $2 million. The third defendant in this case, property speculator Twila Nazario, is presently returning from Spain to answer to the charges. An investigation found that the three defendants formed several companies which purchased at least 35 homes in and around the Reading area and resold them at inflated prices to unsuspecting first-time homebuyers, many of whom are of Hispanic origin. The defendants provided the buyers with false documents, including verifications of employment, credit histories, and gift letters to enable them to qualify for the mortgages. Some of the buyers were so naïve that they thought they were renting rather than buying. Many were saddled with monthly mortgage payments far above their true means, resulting in numerous foreclosures. As a result of this investigation, HUD sued *Avstar* and won a $192,000 judgment.

In **Tampa, FL,** defendant Michael Mittler, a former employee of the *Great Stone Mortgage Company*, pled guilty in federal court to a criminal information charging him with obstruction of a proceeding before a Department of the United States. During an interview, Mittler made a false statement to an OIG Special Agent. The Agent was attempting to interview Mittler as part of an investigation of alleged fraud committed by the owners and principals of *Great Stone Mortgage Company* against FHA, GNMA, and several financial institutions. Great Stone issued over $1.5 billion in GNMA certificates, with over $150 million resulting from the conspiracy.

In **Seattle, WA,** defendants Mario Cacho Figueroa and Leslie Charlene Reisig were convicted on 21 counts of conspiracy, mail fraud, wire fraud, and bank fraud. The convictions followed a two-week jury trial in federal court involving hundreds of documents and approximately 50 witnesses — most of whom spoke only Spanish. A third co-defendant, Jaime Garcia Abrego, pled guilty to one count of wire fraud and one count of bankruptcy fraud prior to the September trial.

The investigation focused on 24 single family homes for which the defendants arranged sham sales to obtain the homes for their own benefit and/or to obtain a portion of the mortgage proceeds. The three used Spanish-speaking strawbuyers, who could read or speak very little or no English, to obtain the properties. After the closings, the strawbuyers did not occupy the properties. In some cases, the defendants rented out the properties. The Hispanic victims were under the impression that the documents they signed were being used to improve their credit or to assist others in purchasing homes. The strawbuyers were unaware they were signing documents to buy and sell properties to new strawbuyers.

After the defendants obtained control of the properties, they failed to make the mortgage payments and the lending banks foreclosed. Some of these loans were FHA insured and HUD ultimately suffered the loss along with those banks holding the conventional loans. In an effort to delay foreclosure on one property, Abrego forged the signature of and impersonated a buyer/borrower in the filing of a Chapter 13 bankruptcy proceeding. Many of the Spanish-speaking victims knew nothing of the properties purchased in their names until their credit was ruined by the foreclosures.

In **Indianapolis, IN,** defendant Linda Stone pled guilty in federal court to one count of conspiracy to defraud HUD's Single Family Mortgage Insurance Premium (MIP) Refund Program. Defendant George Herman Ruth pled guilty in federal court to one count of conspiracy to commit mail fraud and make false claims to the government. Stone and Ruth forged and submitted fraudulent MIP claim forms, forged U.S. Treasury checks received as a result of the false claims, and diverted the money obtained from those checks, amounting to more than $30,000, for their personal benefit. Ruth, who was incarcerated at the time of these offenses, was able to make it appear that by using aliases, he was due MIP refunds from HUD. This investigation averted over $100,000 in attempted fraudulent MIP claims.

In **Florissant, MO,** defendant Yolanda Smith pled guilty in federal court to making a false statement on an FHA insured loan application. She also pled guilty to bank fraud charges in an unrelated matter. Smith's loan application contained a fraudulent Social Security number, false employment and income information, and fraudulent bank account information. The FHA loan has gone into foreclosure, and HUD has suffered a loss of over $35,000.

Defendant Melvin Rice, Jr., was found guilty in federal court on two counts of making false statements. Rice, a **Memphis, TN** Police Officer since 1993, participated in the Officer Next Door Program, agreeing to live in a discounted HUD property for three years after the purchase. In fact, Rice rented the property and falsified certifications as to his residency. When the renters refused to lie for Rice, he had them evicted. Testimony was provided by HUD OIG and HUD program officials during the course of the one-day trial. The Director of the REO Division at the Atlanta Homeownership Center was designated as the expert witness in the prosecution. Though 78 Officers in Memphis participated in the program, Rice was the first to be prosecuted of the few believed to have defrauded the government through this program in the Memphis area.

In **Atlanta, GA,** defendants Leonard and Lynda Bohannon were indicted by a federal grand jury for obtaining mortgages and other loans through the use of Social Security numbers that were not assigned to them. The couple allegedly purchased two homes with mortgages totaling over $300,000, four vehicles with loans totaling over $100,000, and jewelry. They also obtained a HUD insured Title I home improvement loan in the amount of $5,500 and a student loan, all by using Social Security numbers that were assigned to others. They did this in order to conceal their true credit situation. The defendants have defaulted on the Title I loan, and HUD has paid a $5,500 claim to the lender. Other lenders have initiated foreclosure and repossession procedures.

Defendant Michael Hutchison was indicted by a federal grand jury in **Springfield, MA**, on one count of wire fraud and one count of mail fraud. Banking and real estate records found during a search of Hutchison's residence revealed a land flipping scheme and indications of public corruption. The evidence revealed that he had filed fraudulent insurance claims on property and personal items in excess of $4,000 that were reported as stolen. These reportedly "stolen" items were later seized at the subject's residence. Further investigation disclosed that Hutchison used the facsimile machine at the *Hampden County Training & Employment Consortium*, a federally funded (to include HUD funds) nonprofit organization affiliated with the City of Springfield, to file his insurance claim. He then allegedly used the Postal Service to further the scheme.

In **Cleveland, OH**, Otis Bevel, et al, were charged in a 100-count indictment in federal court, five of whom had a specific nexus to HUD Single Family Programs. Specifically, three Section 8 landlords, one FHA mortgagor, and one Section 8 tenant, who simultaneously received Section 8 assistance on behalf of their own residences, were charged with conspiracy, mail fraud, bank fraud, money laundering, misuse of Social Security numbers, wire fraud, and false statements in connection with their false loan applications for single family houses in the Cleveland area. Fraudulent statements by these individuals included false names, Social Security numbers, and employment information, as well as fabricated down payments.

Defendant Donald Tarner, a former HUD real estate asset manager (REAM), pled guilty in federal court in **Harrisburg, PA**, to making false statements to evade outstanding requirements and to obtain at least three HUD owned homes to which he would not ordinarily be entitled. An investigation found that Tarner used an employee to purchase the homes for him and supplied the employee with whatever funds were required to complete the sales. He then used them as rental properties. HUD used REAMs to manage and market properties prior to the awarding of nationwide contracts several years ago.

HUD Public and Indian Housing Programs

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

During this reporting period, investigations discovered instances of fraud, false statements, conspiracy, theft, and bribery involving Public and Indian Housing Programs.

Defendant Bertha Gilkey, a nationally known public housing activist in **St. Louis, MO**, was sentenced in federal court to five years probation and ordered to pay $19,019 in money she embezzled from HUD. Gilkey admitted that when she was the unsalaried head of the Cochran Gardens Tenant Management Corporation Board, she used $888 in HUD money to pay for airline tickets. Instead of flying from St. Louis to Washington in November 1996 to attend a HUD conference for the tenants' group, Gilkey used the tickets to fly to Philadelphia for her company, *Urban Women, Inc*. Gilkey also admitted that on multiple occasions she had an official from Urban Women ask the Cochran Gardens tenant group to buy her airline tickets. Sometimes she exchanged these tickets to go to cities she needed to visit for Urban Women. Other times she put the expenses on the Cochran Gardens credit card. In total, the Cochran Gardens tenant group spent $28,586 for Urban Women travel expenses. Gilkey repaid $2,710 after a HUD audit, and $6,857 was deducted from her claims of expenses. As part of her plea, Gilkey and Urban Women were debarred from HUD contracts for one year.

Defendant Claire Freeman, the former director of the Cuyahoga Metropolitan Housing Authority in **Cleveland, OH**, was sentenced in federal court to 18 months incarceration and two years probation. A fine and restitution were waived based on an earlier civil court's order for Freeman to pay back more than $450,000 to the Housing Authority. Freeman, who previously served as HUD Assistant Secretary for Administration and who held a high level position at the Department of Defense, was previously charged with theft of public funds, mail fraud, and making false statements on loan documents. Specifically, Freeman diverted monies from a Housing Authority fund for her own benefit, including paying off a $50,000 personal loan and making $62,000 in mortgage payments on her rental property in Virginia by using forged authorization letters from the board of commissioners.

Also in **Cleveland, OH**, defendant Fernando Newcomb pled guilty in federal court to felony possession of a firearm. The plea resulted from the controlled delivery of counterfeit Cuyahoga Metropolitan Housing Authority checks and the subsequent execution of a search warrant for evidence of the fraudulent checks at Newcomb's residence. During the search, a revolver, a semi-automatic handgun, and an assault rifle were seized. Future charges relative to Newcomb's involvement with the counterfeit checks are on hold pending the final completion of that aspect of the case.

In **Newark, NJ**, defendant Kehinde Ayinde, an employee of *P&C Printing and Convenience Center* and *Power Electronics*, was sentenced in federal court. This sentencing was a result of Ayinde's conviction for one count each of conspiracy to commit mail fraud, mail fraud in connection with federally subsidized housing, mail fraud in connection with credit cards, and identity theft. Ayinde worked at a storefront business specializing in producing fraudulent documents. He was the main subject of an almost four-year investigation conducted by members of the West African Task Force (WATF). Citing Ayinde's role in the "pervasive fraud operation," the judge sentenced Ayinde to 37 months incarceration in federal prison (including time served beginning in June of 2001), and three years probation following his release. Ayinde was also ordered to pay $601,340 in restitution, $570,124 of which was payable to HUD ($465,880 to the Section 8 Program, and $104,244 to the FHA Program), and was also ordered to pay a $700 special assessment.

Defendant Rosebud Agyei, one of over 20 individuals arrested, pled guilty in federal court to a one-count theft of government funds involving the Section 8 Lower-Income Rental Assistance Program. Agyei was sentenced to two years of probation and ordered to make restitution to HUD in the amount of $13,936.

In the same case, defendant Frank Quansah was sentenced in federal court to five years probation, ordered to make restitution to HUD in the amount of $23,380, and pay a special assessment of $100. Additionally, defendant Ronke Forson was sentenced to six months home detention, five years probation, and ordered to make restitution to HUD in the amount of $47,146. Quansah and Forson were sentenced after each pled guilty to one felony count of theft of U.S. Government funds.

Defendants Evelyn Williams and Monica Ross pled guilty in federal court to conspiracy to solicit and accept bribes by a public official. Williams collaborated with Ross, a former **St. Louis, MO** Housing Authority employee, to move Section 8 applicants up on the waiting list in exchange for monetary bribes. Applicants were placed on the waiting list despite the fact that the Housing Authority was not accepting applications at the time. The applicants, who paid cash and whose applications were backdated, received HUD Section 8 vouchers authorizing them to receive as much as $899 per month in rental subsidies ahead of those legitimately on the waiting list. The applicants paid $250 to $350 in bribes.

Ross' duties included entering preliminary registration forms for the Section 8 Program into a computer system, maintaining the Section 8 waiting list, and assisting applicants in obtaining their Section 8 vouchers once they were chosen from the waiting list. Beginning in the spring of 2001, Ross agreed that, in return for money from potential Section 8 applicants, she would backdate preliminary registration forms submitted by applicants and place them near the top of the waiting list. She would place applicants on the waiting list despite the fact that the Housing Authority was not accepting applications at the time. The applicants who paid cash, and whose applications were backdated, received HUD Section 8 vouchers ahead of those legitimately on the waiting list.

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

In **Lakewood, NJ**, defendant Dallas Jerome McGirt, also known as John Parsley, was sentenced in federal court. McGirt was sentenced to one year and one day confinement, ordered to pay a $100 court assessment and restitution of $63,999. This restitution was to be paid to the Housing Authority for the City of Lakewood, in the amount of $27,500, with the remaining $34,499 being paid to Sovereign Bank. The sentencing was the result of a conviction based on a scheme wherein McGrit created his alias and cashed a $27,500 check that was made to resemble those used by the Housing Authority.

In **Cleveland, OH**, two individuals were arrested in connection with attempting to pass counterfeit Cuyahoga Metropolitan Housing Authority (CMHA) payroll checks. Further, charges of burglary are being considering against two of the three who, in an attempt to evade capture, fled their vehicle and ran into an occupied home. Cases are being presented both federally and locally, with an estimated loss to date in excess of $150,000. The OIG involvement in this case began in October 2000 with a controlled delivery of 2,000 CMHA payroll checks and the subsequent execution of a federal search warrant. The search warrant produced the checks, two handguns, and an assault rifle, plus ammunition. This investigation is a spin-off of another counterfeit case.

In **Philadelphia, PA,** defendants Arthur Quinn and Yvette Quinn, both of whom posed as Section 8 landlords, were arrested and charged by the State of Pennsylvania with theft of a home from a senior citizen and other related theft charges. An investigation disclosed that the defendants expressed interest in purchasing the home while engaged in home improvement repairs for the absentee owner. When the owner refused to sell, the defendants allegedly prepared and had notarized and filed a false quit claim deed transferring the property to them. They subsequently rented the property to a family member. They received about $7,000 in housing assistance payments to which they were not entitled.

As a result of the investigation, the District Attorney charged the couple, but the charges were dropped subsequent to the death of the property owner. The couple repaid the estate of the deceased owner $7,000, or the amount that they received under Section 8 that should have been paid to the actual owner.

Defendant Dominic DeSalvo, owner of *Doctor Backflow Plumbing*, pled guilty in federal court to making a false document and knowing the same to contain false and fraudulent information. This charge resulted from a false bid submitted by DeSalvo on behalf of his plumbing business for a **Buffalo, NY** Municipal Housing Authority project.

In **Cleveland, OH**, a state search warrant was executed at four properties owned by the same individual. The search warrant at one address, an FHA insured single family property, yielded five handguns and one shotgun, a police badge, a bullet proof vest, multiple rounds of ammunition, drug paraphernalia, and $54,500 in cash. One handgun was listed as stolen. He was charged federally with possession of a short barrel shotgun. The individual, who was also a Section 8 landlord, was suspended from the Section 8 Program for housing code violations on two of the four properties.

In **Eugene, OR**, defendant Larry Johnson pled guilty in federal court to a total of 14 counts regarding mail fraud, making false statements, theft of public money, possession with intent to distribute marijuana, and possession of fraudulent or stolen identification documents. Seized pursuant to the federal search warrant were false identity documents, approximately 162 marijuana plants and approximately 50 firearms, including a sawed-off shotgun. Also seized was a document of Last Will and Testament belonging to Larry Johnson that revealed that Johnson had been using various aliases including Mike Wilson. Found in the residence were business cards showing a business named "*Wil-Ber Enterprises*" with principals that included Johnson. Johnson, as a tenant, received HUD funded rental assistance totaling $21,820 for the 35 months between April 1998 and March 2001. Johnson claimed to be renting his residence to Mike Wilson and Kevin Berry, doing business as "*Wil-Ber.*"

Fraud in Public Housing Administration

The following section highlights other frauds committed by individuals involved in managing Section 8 Programs. The table summarizes possible losses in cases where indictments have occurred or sentences have been levied. Following the table is a brief synopsis providing further information regarding each listed case.

RESTITUTION & POTENTIAL HUD LOSSES
April 1, 2002 through September 30, 2002

Location	Indicted - Potential HUD Loss	Restitution	Months in Prison	Months Probation
Yonkers, NY	$300,000			
La Joya, TX	$194,814			
Rochester, NY	$90,000	$90,000		60
Eutaw, AL	$32,000			
Westchester, NY	$30,000	$25,840	6	36
Honolulu, HI		$23,800		60
San Antonio, TX		$6,658		60
Newburgh, NY	$108,000		5	36
Indianapolis, IN			6	
Arkadelphia, AR	$22,731			
Decatur, AL	$5,000			
Texarkana, TX	$3,500			
Vidor, TX	$500			

Defendant Edward Zamborski, the former site supervisor for the **Yonkers, NY** Municipal Housing Authority**,** was indicted in federal court on one count of theft of government funds. Zamborski arranged for Norman Scotland to exclusively receive general contracting work at Authority sites in exchange for free work performed by Scotland at private sites owned by Zamborski and his son. The potential loss to HUD totals $300,000.

Defendant Ovidio Ramirez, former Section 8 director at the Housing Authority of the City of **La Joya, TX**, and defendant José Reynaldo Trevino, former executive director, each pled guilty in federal court to one count of conspiracy and one count of conspiracy to embezzle. An investigation found that from January 1997 through December 1998, Ramirez and Trevino misappropriated $194,814 from the Authority's Section 8 funds. The two defendants duplicated Section 8 landlord checks and used the proceeds for their personal benefit.

In **Rochester, NY**, defendant Mark Fulmer, who previously pled guilty to one count of theft or bribery concerning programs receiving federal funds, was sentenced in federal court.

Between 1993 and 1999 Fulmer, a former housing rehabilitation specialist for the Rochester Housing Authority, solicited and received kickbacks from Authority contractors. Fulmer used several methods to encourage contractors to provide kickbacks to him. He either increased the contract amount, which allowed the contractors to complete the work at full salary with an additional amount remaining for Fulmer, or he would give them a job that required little or no work to be performed.

Fulmer was sentenced to five years supervised probation, 200 hours of community service, six months home confinement, ordered to pay $90,000 in restitution to HUD and a $100 special assessment to the Court. Fulmer faces sentencing for income tax evasion.

Defendant Terrence Lee Witherspoon, the former executive director of the **Eutaw, AL** Housing Authority, was indicted by a federal grand jury on one count of embezzling approximately $32,000 of Authority funds. An investigation disclosed that Witherspoon allegedly embezzled the funds from tenants who paid their rent in cash. He used the money to gamble at a local racetrack and for other personal expenses. An audit by the Authority's fee accountant disclosed the discrepancy between the amounts on the receipts issued to tenants and the amounts of cash deposited into the Authority's bank account.

Defendant Evelina Jones, an eligibility specialist with the Westchester County Department of Social Services, **Westchester, NY,** was convicted in federal court for defrauding HUD's Section 8 Low-Income Rental Assistance Program. Jones was terminated from employment pursuant to the testimony of an OIG Special Agent at a civil service hearing. Jones was arrested by OIG Special Agents at her place of employment on charges that she deliberately concealed her employment and true household income from 1989 through 1999 in order to obtain nearly $30,000 in HUD Section 8 rental assistance payments for which she was ineligible. She also falsely reported that she was unemployed in 1999 and that she was employed as a part-time salesperson from 1990 through 1998. As a Westchester County civil servant responsible for determining and approving the eligibility of persons participating on public assistance programs, her annual income is over $46,000. Jones was sentenced in federal court to six months home detention, three years probation, ordered to pay HUD $25,840 in restitution, to pay a $100 special assessment to the court, and to forfeit a $5,400 savings account to HUD as part of her restitution payment plan.

In **Honolulu, HI,** defendant Faith Tanner, the former president of the Waimanalo Housing Resident Association (WHRA), was sentenced in federal court to five years probation and ordered to pay $23,800 in restitution and a $100 special assessment fee. In addition, Tanner was ordered to perform 200 hours of community service during the first year of probation and 100 hours each remaining year of the probation, for a total of 600 hours. Tanner pled guilty to embezzling funds from a Tenant Opportunity Program (TOP) grant received from HUD in 1995. The TOP grant was awarded to the WHRA to promote and encourage tenant opportunities in public housing. The ultimate goal was to promote self-help initiatives that would enable residents to create a positive living environment and increase resident satisfaction in their public housing communities. Tanner admitted using the TOP grant money for her own personal benefit.

Defendant Juanita S. Sandlsaz, a former **San Antonio, TX** Housing Authority management aide, was sentenced in Bexar County District Court to five years probation, fined $1,000, and ordered to pay $6,658 in restitution to the Authority for misapplication of fiduciary property. The sentencing followed an investigation which disclosed that Sandlsaz embezzled $6,658 from the residents of the Villa Veramendi Apartments by accepting rental deposits from tenants and failing to turn over the funds to the public housing complex.

Two **Newburgh, NY** Housing Authority employees were sentenced in federal court. Defendant Dwight Parker, a former maintenance supervisor, was ordered to serve five months incarceration and three years probation. Defendant Rene Gayle Parker was sentenced to three years probation. Dwight and Gayle pled guilty to conspiring to fraudulently convert to their own use in excess of $100,000. Dwight created fake work orders for which Gayle would type false invoices and process them for payment under the name of an accomplice posing as an independent contractor. Gayle gave the checks to Dwight who would accompany an accomplice during the cashing of the checks. Approximately $108,000 was to be paid from several Authority accounts for work never performed.

Defendant Paul Lamberg, a former housing inspector for the **Indianapolis, IN** Housing Agency, pled guilty to one count of conflict of interest, a felony under the State of Indiana's criminal code. Lamberg was sentenced to six months probation and ordered to pay fines and court costs totaling $139. An investigation disclosed that Lamberg falsified housing quality inspection reports for a Section 8 landlord, for whom he was performing additional property management duties outside the scope of his normal employment. Lamberg was previously terminated from his job with the Housing Agency pursuant to this investigation.

Defendant Anthony Jenkins, the **Arkadelphia, AR** Housing Authority Section 8 manager, was arrested and charged by the state with one count of theft of property and one count of forgery in the second degree. Jenkins allegedly stole $5,700 in Authority grant and Section 8 funds between December 2001 and March 2002. In his position with the Authority, Jenkins had access to Authority bank accounts and wrote checks to himself by forging the executive director's signature.

A federal grand jury returned an indictment against Brenda Ford, an employee of the Regional Housing Authority in **Decatur, AL**, for embezzling federal funds and submitting false information to a federal agency. The indictment charged the employee with two counts of knowingly converting to her own use over $5,000 of funds received by the Authority, and two counts of submitting false information to HUD regarding salary expenditures of the Authority's maintenance department.

Defendant Melinda Washington, a **Texarkana, TX** Housing Authority clerk, along with her spouse Lester Washington, also known as Lester Jones, were arrested on federal warrants. In February 2001, they were each indicted in federal court on one count of conspiracy and four counts of embezzlement of Authority funds. Lester Washington was also charged with four counts of identity fraud and four counts of misuse of a Social Security number. An investigation disclosed that the clerk and her spouse allegedly embezzled funds from the Authority and conspired to defraud HUD.

In **Vidor, TX**, defendant Karen Patterson, a former intake clerk for the Orange County Housing Authority, was arrested in Beaumont, TX. In March of this year, the state charged Patterson with theft after an investigation found that she had converted Authority funds for personal use. Patterson allegedly had prospective tenants provide blank money orders for deposits on apartments, and then cashed the money orders. She did, however, repay the Authority in some instances; however, the loss to the Authority is between $500 and $1,000. Patterson was released on bond and no further judicial proceedings are scheduled at this time.

Tenant/Landlord or Tenant Fraud

The following section highlights other frauds committed by subsidy recipients, whether as landlord or receiving the benefit of the housing itself. Following the table is a brief synopsis providing further information regarding each case listed in the table.

RESTITUTION & POTENTIAL HUD LOSSES
April 1, 2002 through September 30, 2002

Location	Indicted - Potential HUD Loss	Restitution	Federal Employee
Staten Island, NY	$670,000		
Freeport, NY	$147,000		
San Francisco, CA		$78,707	
Yonkers, NY	$65,800	$56,121	
Columbia, MO	$41,140	$41,140	
St. Louis, MO	$86,058		
Cleveland, OH	$35,994		
Topeka, KS	$30,000		
Oklahoma City, OK		$26,000	
Indianapolis, IN	$25,000		
Omaha, NE	$24,000		
Brooklyn, NY	$23,000		Postal
Huntington, WV	$21,105		
Dimmitt, TX	$20,844		
Wilkes Barre, PA	$20,000		
Cambridge, MD	$20,000		
Harrisonburg, VA	$16,000		
Conroe, TX	$15,869		
Kansas City, MO	$13,950		
Roanoke, VA	$13,000		
Columbia, MO	$12,798	$12,798	
Pittsburgh, PA		$9,272	
Richmond, CA		$5,900	Postal
San Diego, CA	$5,000		
St. Louis, MO	$1,229		
Houston, TX	$0		

In **Staten Island, NY**, ten people from at the Parkhill development were arrested for allegedly defrauding the Section 8 Program, causing approximately $670,000 in overpayments of subsidies. Vincent Esoga, Presley Albert Hanson, Oluremi O. Soneye, Odiakosa Ofili, Lafayette Rogie Curtis, Joy Pope, Jeneba Swaray, Edwin E. Erhabon, Adekunle Banky-Alli, and Taiwo Oduniyi were arrested pursuant to federal warrants. The ten arrestees, who lived in Section 8 subsidized units at the development, an FHA insured, HUD subsidized multifamily housing complex, provided false documents and statements in order to receive excess subsidies. The investigation disclosed that many of these tenants also owned real property and were unlawfully subletting the subsidized units to third parties. Four of the ten arrests were executed out of state. The defendants were charged with submitting false statements, submitting false statements to HUD and mail fraud.

In **Freeport, NY**, defendants Wanda Anderson, also known as Wanda Rhodes, and Matthew White were arrested on federal warrants and charged with one count of mail fraud and one count of making false statements to HUD. Anderson received Section 8 rental assistance through the Freeport Housing Authority. As a Section 8 recipient, she failed to report her full household income, which included her employment and the employment of White, who resided with her. While Anderson was receiving Section 8 assistance, she also purchased an FHA insured home where she lived and listed White as the owner of record so she could continue to receive Section 8 subsidies.

In **San Francisco, CA**, defendant Carolyn Matthews, a former Section 8 tenant, was sentenced in federal court for fraudulently obtaining Section 8 housing despite being a millionaire and property owner. Matthews, who previously pled guilty to eight counts of submitting false statements on her 1998–2000 Section 8 certifications to HUD, was sentenced to five months in prison, five months electronic monitoring, and two years supervised release. She was also ordered to pay $78,707 in restitution to HUD, which she had paid in full by the time of her sentencing hearing. In addition to the restitution, Matthews was fined $3,000 and required to pay an $800 special assessment fee.

From August 1993 through July 2001, Matthews resided at Northridge Cooperative Homes, a HUD subsidized multifamily housing development in San Francisco. Beginning in 1995, Matthews began acquiring substantial wealth, none of which was ever reported to HUD. While HUD paid $976 to $1,747 per month in rent on her behalf from 1995 to 2001, Matthews accumulated more than $1.7 million in various investment accounts, acquired a house in San Francisco, and purchased a newly constructed six-bedroom house in Antioch, CA, for $548,832. Despite her wealth, Matthews continued to submit annual certifications in 1996, 1998, 1999, and 2000 to HUD, claiming that she had no assets or income for those years.

BAY AREA REPORT

SAN FRANCISCO

Millionaire sentenced for fraud

An Antioch millionaire who bilked the government out of $78,000 in low-income housing benefits in San Francisco was sentenced Wednesday to five months in federal prison and five months of house arrest.

Carolyn Matthews, 43, pleaded guilty in February to eight counts of making false statements to the federal Department of Housing and Urban Development in order to obtain Section 8 housing.

Matthews was entitled to receive Section 8 housing when she first applied in 1993, and moved into Northridge Cooperative Homes at 71 Bertha Lane in San Francisco.

On Wednesday, U.S. District Judge William Alsup sentenced Matthews to five months in federal prison, five months of home detention with electronic monitoring, a fine of $3,000, repayment to the government of $78,707.36, an $800 assessment fee, and a two-year period of supervised release.

San Francisco Chronicle
June 5, 2002

Defendant Latonia Pierce, a Section 8 recipient in **Yonkers, NY**, was sentenced in federal court to five years probation, six months house arrest, and 250 hours of community service, and ordered to pay $56,121 in restitution for making false statements to HUD. Pierce, along with her spouse Edmond Pierce, participated in the Section 8 Voucher Program that was administered by the Yonkers Municipal Housing Authority. The Pierces were also the owners of two homes that had been fraudulently obtained through loans that were insured through the Section 203(b) Insurance Program. The FHA insured properties were designed to be two family dwellings that the Pierces rented out to subsidized tenants under the Section 8 Voucher Program. The Pierces have defaulted on both FHA loans. Edmond Pierce has been charged in a separate complaint.

In **Columbia, MO**, defendant Amy Holmes was sentenced in federal court to 30 months incarceration and 24 months supervised release, and ordered to pay $41,140 in restitution. Holmes, a Section 8 tenant who received rental subsidy from the Columbia Housing Authority, previously pled guilty to multiple counts of submitting false statements on her certification forms by failing to report her earned income. She also pled guilty to making false statements on her student loan applications.

In **St. Louis, MO,** defendant Bobby Ross pled guilty in federal court to a two-count indictment charging him with Social Security fraud and false statements. Ross illegally obtained Social Security benefits by using two different Social Security numbers and falsifying Social Security applications. He admitted to collecting Social Security disability payments while at the same time working for General Motors. This resulted in a loss to the government of $86,058. Ross' crime was discovered when he made false statements to obtain Section 8 housing.

Defendant Samuel Dabney, a **Cleveland, OH** Section 8 landlord, was indicted in federal court for allegedly defrauding the Social Security Administration (SSA) and HUD's Section 8 Program. Specifically, the indictment alleges that Dabney failed to report the death of his mother, who was his Section 8 tenant. By concealing her death, Dabney was able to receive both HUD and SSA benefits, which he received from August 1987 through February 2002. Losses to the SSA amount to $80,709, while losses to HUD amount to $35,994.

Defendant Verel T. Westover, a Section 8 tenant in **Topeka, KS,** was indicted in federal court for making false statements to HUD. An investigation found that Westover failed to report his employment for a period of five years while he was receiving Section 8 benefits. Westover received nearly $30,000 in benefits to which he was not entitled.

In **Oklahoma City, OK,** defendant Jimi Dawn King, also known as Jimi Dawn Abernathy, was sentenced in federal court to 60 months supervised release and ordered to pay $26,000 in restitution and a $100 assessment fee. King was found guilty of one count of theft from an Indian Tribal organization and causing a criminal act. The sentencing is the result of an investigation which found that King stole money from the Miami Tribe of Oklahoma by making false statements to receive monies to purchase a home through a financial assistance program offered by the Tribe and funded by HUD.

In **Indianapolis, IN,** defendant Carson Shepard, a Section 8 Pprogram landlord, and defendant Beverly King, a Section 8 tenant, were convicted in a state court jury trial on one count of theft. An investigation disclosed that Shepard lived with King while collecting Section 8 rent payments. Shepard fraudulently received over $25,000 from the Housing Agency over a six-year period.

In **Omaha, NE,** defendant Charles Meckna was indicted in federal court on two counts of submitting false statements. Meckna is a Section 8 recipient representing himself as disabled. While receiving Section 8 assistance, he has been gainfully employed at several places of business. To date, the government has sustained losses in excess of $24,000.

Defendant Libretia Daise, a U.S. Postal Service mail handler in **Brooklyn, NY**, was indicted in federal court on one count of theft of government funds. Along with Orlene L. Pestano, Daise submitted fraudulent documents and forged signatures in order to benefit from Section 8 Low-Income Rental Assistance subsidy payments.

Daise moved into Pestano's Section 8 subsidized apartment in Brooklyn while Pestano relocated to another Section 8 subsidized apartment in Pennsylvania. Daise did not apply for Section 8 rental assistance under her own identity or income but continued to use Pestano's information. Daise was able to fraudulently benefit from overpayments of Section 8 subsidies amounting to approximately $23,000 by continuing to submit bogus verification documents. Had Daise provided true and accurate information with regard to herself and her household income, she would not have been eligible to participate on the Section 8 Low-Income Rental Assistance Program.

Pestano moved back into her former Section 8 subsidized apartment and sued the Daise on the "People's Court" for nonpayment of rent for which she was awarded a judgment of $1,000.

In **Huntington, WV,** defendant Ralph Mayes, a Section 8 landlord, pled guilty in federal court to mail fraud for his participation in a scheme to defraud the HUD's Rental Assistance Program over a period of several years. Mayes lived with his Section 8 tenant and received $21,105 in rental assistance on her behalf from the Point Pleasant Housing Authority.

In **Dimmitt, TX,** defendant Peggy Marquez, also known as Peggy Montemayor and Peggy Scott, was indicted in state court on one count of tampering with a government record with intent to defraud. An second indictment with the same charge was returned earlier for welfare fraud. This current indictment is the result of an investigation which determined that Marquez failed to report the income of her common-law spouse, and that they jointly owned the mobile home where they lived together and where their child received Section 8 rental assistance for the last six years. The falsification resulted in a loss of $20,844 to HUD and $23,616 to the Texas Department of Human Services.

Defendant Joseph Lefkoski, a former Section 8 tenant in **Wilkes Barre, PA,** pled guilty in federal court to submitting false information to obtain rental assistance benefits to which he was not entitled. An investigation conducted at the request of the Wilkes Barre Housing Authority, disclosed that Lefkoski failed to report his annual income of at least $15,000 over a five-year period, enabling him to receive $20,000 in excess rental assistance over that time.

In **Cambridge, MD**, as a result of an investigation conducted at the request of the Maryland Department of Housing and Community Development, local theft charges were filed in state court in separate cases against two Section 8 recipients, Larry Stewart and Ravonya McMillan, for failing to properly report their income. In one case, Stewart allegedly failed to report income over a three-year period from two separate employers. In the other case, McMillan allegedly failed to report income over a three-year period from full time employment at an auto body shop. The aggregate overpayment on behalf of both tenants is $20,000.

In **Harrisonburg, VA,** defendant Helen Elliott, Section 8 recipient, was charged in federal court with making false statements to the Shenandoah

County Department of Social Services (the Department) to obtain rental assistance to which she was not entitled. An investigation revealed that Elliott failed to disclose her annual income of approximately $20,000 on recertification forms furnished to the Department from October 1996 through March 2001. She received excess benefits of at least $16,000.

Defendant Brenda Lee Becerra of **Conroe, TX,** pled guilty to a state charge of felony theft. Becerra was ordered to pay $15,869 in restitution to HUD, fined $1,000, and ordered to perform 165 hours of community service. The sentencing is a result of an investigation which found that Becerra failed to report a monthly insurance annuity of $684 that she received throughout her participation in the Section 8 Program. By submitting fraudulent Section 8 recertification documents from October 1995 through June 2001, Becerra received $15,869 in Section 8 subsidies to which she was not entitled. The Assistant District Attorney advised that this is the first HUD related theft case to be prosecuted in Montgomery County.

In **Kansas City, MO**, defendant Monae L. Taylor pled guilty in federal court to two counts of making false and fraudulent statements to HUD and the Department of Agriculture. Taylor failed to report her income from the IRS while receiving Section 8 assistance from the Housing Authority of Kansas City, and food stamps from the State of Missouri. The loss to HUD is $13,950 and the loss to the State of Missouri is $4,258. As part of the plea agreement, Taylor agreed that she would resign from her employment at the IRS and will not seek to be employed by any governmental agency during the period of her supervised probation.

Defendant Melvin Sykes, a former Section 8 tenant, pled guilty in federal court in **Roanoke, VA**, to three counts of a 39-count indictment and to a criminal information, both of which charged him with submitting false statements or claims to several federal and state agencies for public assistance, including Social Security and Medicaid benefits, food stamps, and housing assistance. Sykes failed to report his income from self-employment over a five-year period, resulting in his receipt of over $40,000 in benefits, including over $13,000 in Section 8 assistance.

Defendant Jeanette Nicole Enyart of **Columbia, MO,** entered into an agreement in federal court for pre-trial diversion. Enyart knowingly made false statements on Section 8 certifications and recertifications to the Columbia Housing Authority in order to receive rental assistance to which she was not entitled. The amount of overpayment and restitution is $12,798.

Defendants Richard C. Miller and Mary C. Miller, former **Pittsburgh, PA** Section 8 tenants, were sentenced in federal court to a one-year federal pre-trial diversion program and ordered to pay $4,636 each in restitution, in lieu of criminal prosecution. The Millers, who lived in HUD subsidized housing from 1997-2001, were previously indicted on three counts of making false statements. An investigation disclosed that the Millers failed to report Mary's income and Richard's $20,000 401(k) retirement withdrawal on recertification documents. As a result of their nondisclosure, they received more rental subsidy than that to which they were entitled.

In **Richmond, CA**, defendant Evelyn Gulley, a former Section 8 tenant, was sentenced in federal court to three years probation and ordered to pay $5,900 in restitution. Gulley previously pled guilty to one count of making false statements for failing to disclose her true employment with the U.S. Postal Service on her recertifications with the Richmond Housing Authority. Instead, Gulley reported working at a day care facility.

The **San Diego, CA** County District Attorney's Office filed a seven-count felony complaint charging defendant Patricia Wylie with making false statements and unlawfully obtaining over $5,000 in Section 8 subsidies. An investigation revealed that Wylie illegally received funds from Child Development Associates, Inc., an agency funded by the State of California, by allegedly forging her mother's name on child care payment checks. She also allegedly made false statements regarding her income on her Section 8 application.

In **Houston, TX,** defendant Ricky Paul Simien, a Section 8 landlord, was charged by the Harris County District Attorney's Office with tampering with a government record. Simien allegedly submitted a fraudulent leasing voucher to the Housing Authority of the City of Houston in order to obtain payment. No payments were disbursed to Simien by the Authority.

HUD Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations disclosed multifamily equity skimming, criminal contempt, conspiracy, and wire fraud.

In **Cleveland, OH**, defendants Edward Gorges and Andrew Sandor were each charged federally with one count of concealment and one count of false statements in criminal informations, while defendant Robert Gregorek was charged federally in a 27-count indictment with one count of conspiracy and 26 counts of concealment and falsification. The defendants, who subsequently pled guilty, were subcontractors performing work for *Gatehouse Construction Company*, the general contractor for the Northridge and Green HUD insured multifamily residential developments. Specifically, they were charged with and pled guilty to entering a conspiracy to reduce the general contractor's costs on the projects by paying workers less than the required prevailing wages, known as "Davis Bacon" wages, and to subsequently concealing these acts. The conspiracy was made possible by the falsification of payroll forms, which were ultimately sent to HUD, to make it appear that the employees were paid the prevailing wages as approved by the government. These employees were illegal alien immigrants, many of whom did not know the English language and knew nothing of "Davis Bacon" or prevailing wages, as outlined by the Department of Labor.

A two-count federal felony information was also filed in this case against Robert Adkins of *Adkins Drywall*, a subcontractor, alleging conspiracy and false statements. Adkins allegedly submitted false certified payrolls on the Enclave, Terraces at Northridge, and Terraces on the Green, all HUD insured multifamily developments.

The other significant aspect of this case is not only how much was underpaid to the employees, but the fact that a phony change order for $4 million put forth by the contractors was terminated and denied after HUD program staff were provided information relative to the case.

Defendant Douglas S. Wasserman, the former owner of the Mott Haven housing development located in **Bronx, NY**, pled guilty in federal court to equity skimming for illegally diverting to personal use approximately $894,000 in funds. These funds were received from HUD at a time when the Mott Haven development was in disrepair and the mortgage remained unpaid. Wasserman also pled guilty to tax evasion for calendar year 1995.

Wasserman unlawfully transferred approximately $894,000 out of the Mott Haven account and used these funds for purposes unrelated to Mott Haven, including paying personal expenses and expenses related to his other properties and businesses. He diverted the money through several different methods, including paying personal expenses directly out of the Mott Haven account, making checks payable to cash, and distributing funds to companies he controlled as purported payments for repairs, when in fact the companies performed no work on the buildings. Wasserman used these funds to pay numerous personal and business expenses, including legal fees for his divorce as well as a civil lawsuit, personal credit card charges, car leases, and expenses at another multifamily development he owned that was not insured by HUD. On March 12, 1997, Wasserman assigned his ownership of Mott Haven to HUD and HUD became mortgagee-in-possession, causing a potential loss to the government of over $3 million.

Wasserman also admitted that he illegally attempted to evade paying taxes for calendar year 1995. He took several measures to conceal his income, including funneling the income through various corporate entities under his control and causing these corporations to pay his personal expenses, using nominees to conceal his control over the corporations paying his personal expenses and causing the corporations to provide him with income by making checks payable to cash.

Wasserman was sentenced to two and one-half years on the charge of equity skimming and an additional two and one-half years on the charge of tax evasion, to be completed consecutively. He will also pay restitution in an amount not determined at this time.

Defendant Darlene Starkey, a contractor doing business as *Starkey Enterprises*, pled guilty in federal court to theft of funds from at least four HUD assisted developments in and around **Charleston, WV**. Starkey admitted that, between 1998 and 2002, she conspired with the manager of the developments, who is also a target of this investigation, to prepare false invoices for labor and materials that were never provided. Upon payment for the labor and materials, Starkey returned half the money to the manager. The approximate loss as a result of this scheme is $400,000. Starkey, pursuant to her plea agreement, has agreed to repay $175,000, but this is subject to review and possible adjustment by the court.

Defendant Michael B. Kuimelis, doing business as *MBK Insurance*, pled guilty in federal district court in **San Francisco, CA**, to one felony count of criminal contempt and was fined $20,000 and sentenced to three years probation, six months electronic home detention, and 150 hours of community service. Kuimelis submitted invoices for insurance premiums under *Eugene Burger Management Corporation's* (EBMC) master insurance policy that included a commission and a service fee of 15-18 percent, in addition to the true cost of insurance. The service fee was then split between MBK and EBMC. Kuimelis failed to disclose the true percentage that he retained from the master insurance policy, and tried to cover up his acts by tampering with a government witness. In addition, EBMC's portion of the service fee was paid to the *Friandes Group, Inc*. Eugene Burger's wife is the president of *Friandes*.

HUD Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. OIG investigations of these programs disclosed cases of embezzlement, bankruptcy, wire fraud, money laundering, false statements, and forgery.

Defendant Martin G. Barnes, the Mayor of **Paterson, NJ**, pled guilty in federal court to falsifying tax returns, embezzling campaign funds, and stealing money from HUD and the City of Paterson by fraudulently seeking reimbursement from the City's HUD sponsored HOME (Rental Rehabilitation) Program.

Defendant Sara Bost of **Irvington, NJ**, was indicted in federal court on five counts of bribery concerning programs receiving federal funds, wire fraud, and tampering with a witness, victim, or informant. Bost allegedly received cash payments from a contractor who paved a community center parking lot. The cash came from HUD Community Development Block Grant funds. The indictment also alleges that Bost received cash from the owners of a HUD insured multifamily development in Irvington.

A federal jury convicted defendants Charles M. Barber, his spouse, Helen J. Barber, and their son, Charles H. Barber, on 27 counts of bankruptcy fraud, wire fraud, money laundering, and concealing assets. In addition, the father and son were found guilty of misusing public funds, and the son was convicted of providing false statements to a federal Agent. *AMG Industries Inc.*, in **Queensbury, NY**, a company owned and operated by the defendants, was awarded a $370,000 Community Development Block Small Cities grant (CDBG) for the construction of a new metal fabricating facility. *AMG Industries* submitted fraudulent and misleading invoices in support of the CDBG loan, and then diverted the funds for personal use.

In **San Antonio, TX**, defendants Juan Carlos Estevez and Ricardo Estevez pled guilty in federal court to indictments issued in November 2001 and January 2002. The indictments charged money laundering, mail fraud, and bank fraud. Additional defendants were charged in these indictments. The defendants obtained a Rental Rehabilitation Program loan from the City that was funded through HUD's Community Development Block Grant Program. They used the U.S. Postal Service by mailing false statements to the City. They also conspired with another individual to produce false income tax return statements, and used the Postal Service or a commercial interstate carrier to provide false loan origination documents to obtain the loan.

A federal search warrant was executed at the Williamsburg Heights Community Block Club Association in **Milwaukee, WI**, a recipient of HUD block grant funds. Employees of the association who are family members of local alderman Rosa Cameron allegedly submitted cost reports for the Association. Cameron allegedly hid the fact that she was related to these employees, in spite of the fact that she was on the committee to approve their grant award.

Defendant Stanley L. Jackson, an employee of the City of **Albany, NY** Department of Community Planning and Development (ACPD), was charged by the Dougherty County District Attorney with one count of first degree forgery and one count of theft by conversion. Jackson allegedly wrote a $2,800 check on the ACPD checking account to pay a personal debt.

Violent Crime in HUD Public and Assisted Housing

OIG investigations of violent crime and drug trafficking in HUD's Public and Assisted Housing Programs began in February 1994 as part of an initiative known as Operation Safe Home (OSH). The investigations were conducted in coordination with various federal, state, and local law enforcement task forces. During the last semiannual reporting period, we systematically phased out OSH investigations. The Congress funded OSH through FY 2002 to allow an orderly and responsible conclusion of the initiative, to cease complete operations by September 30, 2002. Thus, in accordance with the requirements of HUD's FY 2002 Appropriations Act (Pub. Law 107-73), approved November 2, 2001, OIG has closed OSH violent crime investigations and re-deployed staff to focus on investigations involving single family fraud and property flipping. The OSH results discussed below stem from investigation cases that were initiated prior to the closing out of the Safe Home initiative.

State of Illinois

Federal, state, and local law enforcement officers arrested 34 members of the *Gangster Disciples* street gang. The *Gangster Disciples* are known nationwide as one of the largest and most violent street gangs in the country. **Chicago, IL,** is home to the largest contingent of the *Gangster Disciples,* and Chicago public housing developments serve as their main base of operation for selling narcotics and committing violent acts. It is estimated that the *Gangster Disciples* control the sale of narcotics in approximately 90 percent of Chicago's public housing developments.

This operation was the culmination of a two-year narcotics investigation into the *Gangster Disciples*. During that time, over 70 undercover purchases of crack cocaine were made from the defendants. Since drugs were purchased from virtually everyone in the organization, Offices and Agents established enough probable cause to initiate a Title III wire intercept on the organization's leaders. Enough evidence was secured from the wire intercept to implicate high ranking *Gangster Disciples* in the criminal conspiracy.

Thursday, September 19, 2002 Chicago Sun-Times

METRO

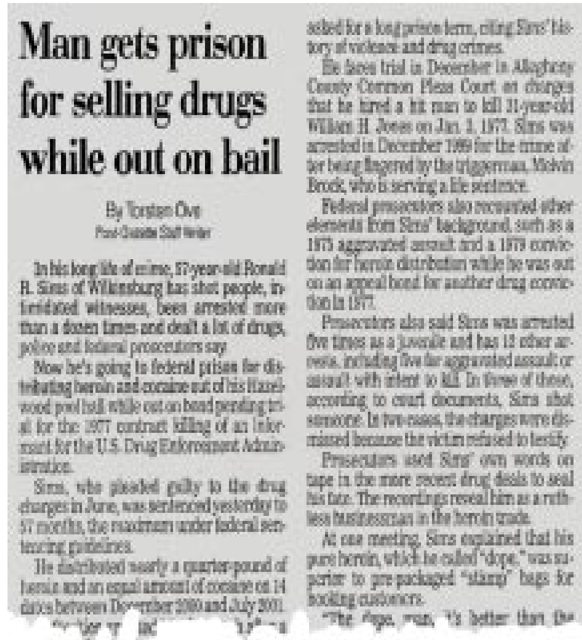
Alleged gang drug ring targeted in 34 arrests

Chicago Sun-Times, September 19, 2002

In a 114-page federal criminal complaint, Richard Epps, et al, all 34 of whom were members of *Gangster Disciples,* were charged with conspiracy to possess and distribute crack cocaine and heroin. The complaint documents in detail the intense investigative efforts put forth by law enforcement officers in an attempt to dismantle the narcotics distribution network of the *Gangster Disciples* in the Rockwell Gardens public housing development. Items seized during the September 18 round-up included four fully loaded semi-automatic handguns, approximately 80 grams of crack cocaine, drug paraphernalia, narcotics manufacturing and packaging materials, and a small amount of cash.

State of Pennsylvania

In **Pittsburgh, PA**, defendant Ronald Sims, a drug dealer, was sentenced in federal court to 57 months incarceration and three years probation based on his previous conviction for distributing heroin and cocaine in and around Pittsburgh public housing communities. Forfeiture proceedings are still in process against real property owned by Sims. Sims' conviction and incarceration are the culmination of a four and one-half year investigative effort to interdict drug trafficking and violent crime in Pittsburgh's public housing communities. On 14 separate occasions, Sims sold extremely pure quantities of heroin and cocaine. This cocaine and heroin could have been diluted and packaged for individual sale in as many as 25,000 "stamp" bags, with a street value between $600,000 and $1 million.



Man gets prison for selling drugs while out on bail

In his long life of crime, 57-year-old Ronald R. Sims of Wilkinsburg has shot people, intimidated witnesses, been arrested more than a dozen times and dealt a lot of drugs, police and federal prosecutors say.

Now he's going to federal prison for distributing heroin and cocaine out of his Hazelwood pool hall while out on bond pending trial for the 1977 contract killing of an informant for the U.S. Drug Enforcement Administration.

Sims, who pleaded guilty to the drug charges in June, was sentenced yesterday to 57 months, the maximum under federal sentencing guidelines.

He distributed nearly a quarter-pound of heroin and an equal amount of cocaine on 14 dates between December 2000 and July 2001.

... asked for a long prison term, citing Sims' history of violence and drug crimes.

He faces trial in December in Allegheny County Common Pleas Court on charges that he hired a hit man to kill 31-year-old William H. Jones on Jan. 3, 1977. Sims was arrested in December 1999 for the crime after being fingered by the triggerman, Melvin Brock, who is serving a life sentence.

Federal prosecutors also recounted other elements from Sims' background, such as a 1973 aggravated assault and a 1979 conviction for heroin distribution while he was out on an appeal bond for another drug conviction in 1977.

Prosecutors also said Sims was arrested five times as a juvenile and has 13 other arrests, including five for aggravated assault or assault with intent to kill. In three of these, according to court documents, Sims shot someone. In two cases, the charges were dismissed because the victim refused to testify.

Prosecutors used Sims' own words on tape in the more recent drug deals to seal his fate. The recordings reveal him as a ruthless businessman in the heroin trade.

At one meeting, Sims explained that his pure heroin, which he called "dope," was superior to pre-packaged "stamp" bags for hooking customers.

"The dope, man, it's better than the ...

Pittsburgh Post-Gazette, September 6, 2002

Intelligence indicated both that Sims was a major source supplier of heroin and cocaine to Pittsburgh public housing communities and that law enforcement efforts had been focused on him for nearly three decades; however, these prior efforts were not successful. Sims enjoyed a notorious reputation for secrecy and brutal retaliation against those who dared to cross him. He was on bail for ordering the contract killing of a DEA informant during the period he sold drugs in this investigation. Sims is facing state trial for the 1997 contract killing of the DEA informant.

OIG brought critical law enforcement resources to bear, including case related funding and state-of-the-art electronic surveillance equipment, during this investigation. Sims' arrest and subsequent conviction have served to both eliminate him as a source supplier, thought to supply between 50-75 kilograms of heroin annually to the Pittsburgh drug trade, and to dismantle his drug trafficking organization.

State of Kansas

"Operation Isolation," "Operation Street Corner," "Operation Divert," and "Operation Candid Camera" were undercover operations that identified individuals distributing drugs in public housing developments in **Topeka, KS**. The operations culminated in the arrest of 70 individuals; 11 of these were recently sentenced.

Defendant Johnnie Dodds was sentenced in state court after being found guilty of possession of drugs with intent to sell. Dodds was sentenced to 40 months in prison and 18 months supervised release, required to attend a substance abuse program, and ordered to pay $1,146 in court fees. Defendant James Lee Johnson was found guilty in state court of possession of drugs to sell and criminal threat. He was sentenced to 20 months imprisonment and 12 months supervised release and required to attend a substance abuse program. Defendant L.J. Edwards was sentenced in federal court after pleading guilty to felon in possession of a firearm. He was sentenced to 46 months in prison and 24 months supervised release, and must attend a substance abuse program. Dodds, Johnson, and Edwards were arrested during "Operation Isolation."

Defendant Wendell Parker was sentenced in state court on one count of first degree murder, one count of felony theft, and one count of child endangerment. Parker was sentenced to life imprisonment plus 12 months, and was ordered to pay $12,705 in restitution and court fees. He was arrested for murder and felony theft after stabbing a public housing tenant to death and leaving her young child in a crib. The homicide occurred during "Operation Isolation."

Defendant Odell Stewart was sentenced in state court to 12 months imprisonment and 12 months supervised release after pleading guilty to possession of drugs with intent to sell. Stewart was ordered to pay $503 in court fees. He was arrested during "Operation Street Corner."

Defendant Torrence L. Peppers was sentenced in state court to 11 months imprisonment and 12 months supervised release after pleading guilty to possession of drugs with intent to sell. Peppers was also ordered to pay $581 in court fees. Defendant James B. Richards pled guilty in state court to possession of drugs with intent to sell. The court suspended his sentence for imprisonment and placed him on 12 months supervised probation, and ordered him to pay $478 in court fees. Defendant Leola Tyree was sentenced in state court to 22 months imprisonment and 24 months supervised release after pleading guilty to possession of drugs with intent to sell. She was also ordered to pay $485 in court fees. Defendant William J. Brackett was sentenced in state court after pleading guilty to carrying a concealed firearm. Brackett was sentenced to 12 months confinement and 12 months supervised release, and is required to attend an approved substance abuse program. Defendant Dean Clifford James was sentenced in federal court to 100 months in prison and 48 months probation, and ordered to pay $1,200 in restitution to the Kansas Bureau of Investigation. James was arrested after selling over 13 grams of crack cocaine to an undercover Agent. All five individuals were arrested during "Operation Divert."

Defendant Westley Anderson was sentenced in state court after pleading guilty to possession with intent to sell drugs. Anderson was sentenced to 24 months in prison and 18 months supervised release, required to attend a substance abuse program, and ordered to pay $2,200 in restitution. Anderson was arrested during "Operation Candid Camera."

Defendant Efrain Valadez-Dela Cruz was sentenced in federal court to 87 months imprisonment and five years probation. Cruz previously pled guilty to one count of a federal indictment for distributing 428 grams of methamphetamine and 1,760 grams of marijuana. The plea resulted from "Operation Clean Up," the second operation conducted by the Capital City Safe Home Task Force. The operation was initiated to identify individuals who were distributing drugs in both Deer Creek and Pine Ridge public housing developments as well as assisted housing developments in Topeka. "Operation Clean Up" has resulted in the arrest of 37 individuals.

State of Massachusetts

Operations by the Chelsea Drug Task Force in **Chelsea, MA**, recently resulted in six sentencings. Defendant Lena White was sentenced in state court to seven years in prison after being found guilty of cocaine trafficking and cocaine possession with intent to distribute within 1,000 feet of a school zone/100 feet of a playground. White was arrested by Task Force members in December 2000. A state search warrant executed at her Section 8 apartment netted 36 grams of cocaine and $152 in cash. After the matter was referred to the Chelsea Housing Authority, White's Section 8 certificate was cancelled.

Defendant Adiel Medina was convicted in state court of trafficking over 200 grams of cocaine and conspiracy to traffic cocaine. In addition, defendant Gustavo Pino pled guilty in state court to the same charges. Both Medina and Pino were sentenced to 10 years in jail. The Task Force arrested Medina and Pino in November 1999 after conducting a two-month narcotics investigation. Medina was arrested at his apartment, which was located in a high density Section 8 area. Pino was arrested at the Fitzpatrick housing development, a federally subsidized complex.

Defendants Orlando Rivera and Randy J. Wilson pled guilty in district court to possession of heroin with intent to distribute within a school zone. They were each sentenced to two years and one day in jail. In February 2001, Task Force members conducted an undercover buy/bust operation and executed four state search warrants at a public housing development and at other locations in Chelsea. Rivera, Wilson, and three other individuals were all arrested and charged with several different narcotics violations. Approximately four grams of heroin, several bottles of pills, $330 in cash, two hunting knifes, and drug paraphernalia were seized. The three other individuals have not yet gone to trial.

Defendant David Prey was found guilty in state court of cocaine trafficking and was sentenced to 10 years and one day in prison. In January 2000, Task Force members arrested Prey after a one-month drug investigation during which Prey attempted to purchase one kilogram of cocaine from an undercover Officer. The arrest took place in the Fitzpatrick housing development. During the arrest, Officers and Agents seized $23,089 in cash from Prey.

State of Missouri

Two defendants were sentenced in federal court for distributing a controlled substance in **Kansas City, MO** public housing. After pleading guilty to distributing cocaine base to an undercover Agent, defendant Marcus Timothy Barnes was sentenced to 84 months imprisonment and five years supervised release. He was also ordered to pay a $100 court assessment. Anthony Christopher Holoman was sentenced in federal court to 50 months imprisonment and five years supervised release, and ordered to pay a $100 court assessment. Holoman pled guilty to selling cocaine base.

State of New Jersey

In **Camden, NJ**, defendant Rasheed Smith was sentenced in federal court to 262 months incarceration (including time served since his arrest in November 1999) and four years supervised release, and was ordered to pay a $100 special assessment. Smith was previously charged with conspiracy to distribute crack cocaine. He was the last of 10 co-conspirators to be sentenced following the resolution of a three-year investigation by members of the Project Safe Home Task Force, which was instructed by the Department of Justice to investigate instances of widespread illegal narcotics distribution in the Camden Housing Authority's public and assisted housing developments. The crack cocaine distribution organization was based in the Peter J. McGuire public housing development.

State of New Mexico

In **Albuquerque, NM**, defendants Leandra Fuste and Lorenzo Gonzales, both of whom were indicted on federal drug violations in July 2001, pled guilty to one count of intent to distribute drugs. Following his guilty plea, Gonzales was sentenced to 150 months in federal prison and 48 months supervised release.

Defendant Michelle A. Montano was sentenced to 82 months in prison and 5 years supervised release. Montano previously pled guilty in federal court to one count of conspiracy to distribute 50 grams or more of crack cocaine and one count of carrying a firearm during the commission of a drug trafficking offense.

Defendant Maria Isela Chavez-Marquez was sentenced in federal court on one count of conspiracy to possess with intent to distribute. Chavez-Marquez was ordered to serve five years in prison and four years supervised release. Since Chavez-Marquez will be deported to Mexico upon her release, she was also ordered not to re-enter the United States.

These sentencings resulted from operations by the Albuquerque Safe Home Task Force.

State of Ohio

"Operation Rolling Thunder" was a nine-month investigation of cocaine/crack cocaine sales at Longwood Estates, a project-based Section 8 development in **Cleveland, OH**. Undercover Officers and Agents made multiple buys of crack cocaine within the development. Thirty-one individuals were sentenced in federal court as a result of this initiative. With these sentencings, the case is now in its final phase. In February 2002, 40 people were indicted in federal court for possession with intent to distribute more than 50 grams of a substance containing cocaine base and/or for possession with intent to distribute more than five kilograms of cocaine. The sentencings ranged from 28 months to 140 months in prison. Longwood Estates is currently under a $111 million reconstruction plan. The following individuals recently pled guilty, were convicted, or were sentenced in this case:

Defendants Halleem Hudson and Keith Wilson pled guilty in federal court to conspiracy to possess with intent to distribute and distribution of cocaine base. Raymond O'Neal, also known as Big Head, pled guilty in federal court to conspiracy to possess with intent to distribute and distribution of between two and three and one-half kilograms of cocaine, and filing a false IRS Form 1040 for calendar year 2000. O'Neal agreed to forfeit all rights, interest, title, and claim relating to four vehicles.

Defendants Terrel Howard, Andre Fuller, Cedric Tate, Theodore Johnson, Mitchel King, Regal Edgeson, Charles Haywood, Antwan McDonald, James Singleton, Terry Davy, Joseph Wells, Harold Worley, Michael Stubbs, Michael Burge, Linda Kelly, Marvin Robinson, Shaun Wade, and Shaun Jones pled guilty in federal court to their role in distributing crack cocaine at Longwood Estates.

Defendant Donaze Gaines was convicted in federal court of possession with intent to distribute and being an armed career criminal. Gaines was affiliated with a group of individuals who were indicted in February 2002 for conspiracy to distribute crack cocaine near Longwood Estates.

Defendant Darnell Graham was sentenced in federal court to 84 months incarceration and five years supervised release following his earlier conviction on charges of possession with intent to distribute 267 grams of crack cocaine. Graham was also charged in February 2002 for his role in the drug sale conspiracy at Longwood Estates.

State of Texas

As a result of Safe Home initiatives conducted at the Lincoln Park and Kelly Village public housing developments in **Houston, TX**, three individuals were sentenced, one pled guilty, one was indicted, and one was arrested. Defendant Cornelius Clark, a drug dealer who was indicted by a federal grand jury in July 2001 and pled guilty in October 2001, was sentenced on one count of possession with intent to distribute 105 grams of crack cocaine. Clark was ordered to serve 151 months in prison and 60 months supervised release, and fined $2,500. Clark was a major narcotics dealer and gang member in Lincoln Park.

Defendants Sterling Thomas and Troy Guidry, both major drug dealers in Kelly Village, were sentenced in federal court to 120 months in prison and 96 months supervised release, and 188 months in prison and 60 months supervised release, respectively. Thomas was sentenced on charges of aiding and abetting to possess with intent to distribute five grams or more of a substance containing cocaine base. Guidry was sentenced on one count of conspiracy for possession with intent to distribute. Over

190 grams of crack cocaine and $11,775 in cash were seized from his residence, where Officers and Agents executed a state search warrant.

Defendant Terry Armstrong pled guilty in federal court to one count of possession with intent to distribute crack cocaine and one count of aiding and abetting. Armstrong sold approximately 22 grams of crack cocaine to an undercover Officer. He was a major narcotics dealer in Kelly Village. Armstrong has also been arrested and charged by the State of Texas in an unrelated case on capital murder charges and is awaiting trial.

Defendant Hilton Guillory, another dealer in Kelly Village, was arrested and was placed in the custody of the U.S. Marshals Service. Guillory was indicted in federal court in June 2002 on one count of aiding and abetting to possess with intent to distribute five grams or more of a substance containing cocaine base. Defendant Andre Mills, another drug dealer, was indicted in federal court for selling 23 grams of crack cocaine in Kelly Village.

Defendant Dwight Deon Jones, who was indicted by a federal grand jury in May 2001, arrested in August 2001, and pled guilty in February 2002, was sentenced to 188 months in prison. Jones was indicted on one count of possession with intent to distribute. He was identified as a major narcotics distributor in the Plymouth Village Section 8 and Maida public housing developments in **Beaumont, TX**. On the same day, defendant Eric Dewayne Bell was sentenced to 37 months in prison. Bell was indicted by a federal grand jury and arrested in August 2001 and pled guilty in January 2002 to possession with intent to distribute. He sold over 10 grams of crack cocaine to an undercover Officer during two buy/walk operations in a Section 8 complex.

Chapter 5 – Joint Efforts

Many successful OIG criminal and civil investigation cases stem from the joint efforts of both Criminal Investigators (Special Agents) and Auditors. In a joint effort, Investigators bring to a case knowledge of criminal statutes, administrative regulations, evidence necessary to prove a crime, interviewing techniques, procedures for obtaining written statements and evidence, and a general working knowledge of the judicial process. Auditors provide the education, background, and training to conduct the review of accounting records and documents that is often required. Based on their expertise, Auditors can also be considered witnesses should a case go to trial. Further, when considered appropriate, Auditors can accompany Investigators on certain key witness/target interviews. Their in-depth knowledge of financial books, records, and accounting procedures can be extremely valuable.

The joint effort is an effective means to completing an investigation, and is often the only way to put together the necessary pieces of an investigation case. The OIG has had considerable success in conducting joint investigations. Some of these cases are conducted strictly by the OIG; some involve participation by other federal, state, or local law enforcement agencies, including the Federal Bureau of Investigation, the Drug Enforcement Administration, the Internal Revenue Service Criminal Investigation Division, the Postal Inspection Service, the Social Security Administration OIG, the HUD Enforcement Center, and local police departments. Following are the results of successful joint efforts conducted during this reporting period.

Defendant Richard Waters, owner of *Waters Mortgage Company* in **Ft. Lauderdale, FL**, pled guilty to two counts of bank fraud in connection with false statements he made to originate fraudulent FHA insured mortgages and have them entered into GNMA pools. Waters participated in a scheme to fraudulently originate Section 203(k) mortgages for over 80 properties, with mortgages totaling over $4.5 million, by not making the required down payments. Waters was sentenced in federal district court to 21 months imprisonment and 36 months supervised release, and ordered to pay over $2.9 million in restitution. Defendant Dennis Stewart, the closing attorney, previously pled guilty and was sentenced to 33 months in prison and 36 months supervised release, and ordered to pay $81,421 in restitution.

A civil settlement was reached in federal court between the U.S. Government and Michael LaMelza, the owner of the Water's Edge Convalescent Center, a HUD subsidized facility in **Trenton, NJ**. The settlement agreement requires that LaMelza repay $1.65 million within a nine-month period. An OIG review conducted approximately five years ago disclosed equity skimming. The audit documented over $1 million in improper/unallowable expenditures that were disbursed while the mortgage on this facility was in default, in violation of the Regulatory Agreement.

Defendant Helen Zapesochny pled guilty in federal court to knowingly making a false or fraudulent statement and agreed to make restitution to HUD in the amount of $871,204. In April 2001, Zapesochny and Juel Karns, a HUD consultant/inspector, were indicted on 30 counts, including conspiracy to defraud the Federal Government and making false statements. Shortly after Karns' indictment, he died from a serious illness. The indictment of Karns was dropped.

Zapesochny purchased approximately 74 homes in the **Rochester, NY** area that were subsequently insured through the Section 203(k) Rehabilitation Home Mortgage Insurance Program. Zapesochny and Karns conspired to steal the rehabilitation funds by not completing the specified work on the houses or doing the work with inexpensive materials in an unacceptable manner. To date, 71 out of the 74 homes are in default and HUD has paid claims on 67 of these properties. The estimated loss to the FHA insurance fund is over $3.6 million. Zapesochny was sentenced to six months home confinement and five years probation, and was ordered to pay $871,000 in restitution.

Louise Corporation/Carnegie Associates, as representatives of the ownership entities of the HUD assisted developments Westgate Village I and II and Carnegie Towers in **Pittsburgh, PA**, entered into a settlement agreement with the Department of Justice wherein they agreed to pay $556,663 to avoid potential litigation under the federal False Claims and Anti Kickback Acts. This matter stemmed from previous litigation in California involving *Insignia Financial Group*. An investigation disclosed evidence that over a six-year period, *Insignia*, as managing agent for the three developments, returned approximately 50 percent, or $1 million, in management fees to the ownership entities as a way for them to extract cash substantially in excess of what was allowed by HUD.

The U.S. Attorney's Office in **Philadelphia, PA**, filed a 41-count superseding indictment in federal court against defendant Albert R. Coccia, Jr., the former owner of *Arco Redevelopment Corporation*, and a federal grand jury returned a true bill against him for the same charges. Coccia was previously indicted and charged with 39 counts of fraud, including 18 counts of wire fraud, 13 counts of making false statements to obtain HUD insured loans, and eight counts of money laundering. The new money laundering charges were imposed based on recent federal case law for this type of activity. Coccia was a Title I contractor/dealer in the Philadelphia market who originated fraudulent Title I and conventional home improvement loans. He derived more than $150,490 in income as a result of his criminal activities. The superseding indictment adds two additional counts of wire fraud to the original charges. Both indictments stemmed from a multi-year investigation that focused on Coccia's predatory lending practices. Coccia has pled guilty to eight of the charges listed in the indictment.

Defendant Edwin Rafael Cornier-Ortiz, a management agent and president of *Erco Enterprise, Inc.*, **San Juan, PR**, was found guilty on seven of the eight counts contained in a federal grand jury indictment. The charges include conspiracy, bribery, money laundering, extortion, and embezzlement. Cornier-Ortiz paid Juan Irizarry-Valentin, a HUD employee in the San Juan Office, over $195,000 through Irizarry-Valentin's brother, Samuel Valentin-Toro, who was employed at *Erco*. The management agent also received kickbacks from vendors doing business with Erco for the awarding of contracts for repairs through a $28.6 million contract that Erco had with the Puerto Rico Public Housing Authority (PRPHA). Defendants Juan Irizarry-Valentin and his brother Samuel have pled guilty to charges of extortion, conspiracy, and theft. Irizarry-Valentin was sentenced to 21 months in prison and three years supervised release, while Valentin-Toro was sentenced to three years probation.

Defendant Federico Matthew, a former contract employee at the PRPHA, pled guilty in federal court to three counts of conspiracy, bribery, and violation of the Anti-Kickback Act. Matthew reviewed bid documents for the PRPHA and provided information to contractors to allow them to win bids. In exchange for the bid information, Matthew received over $40,000 in kickbacks from the contractors and defendant Edwin Rafael Cornier-Ortiz.

In a related case, defendant Miguel Maldonado-Lopez, the owner of *Centrex S.E. Housing* in **San Juan, PR**, pled guilty in federal court to paying kickbacks to Freddy Valentin, a former Senator for the Commonwealth of Puerto Rico, in order to get a $4.8 million contract to manage PRPHA developments. Maldonado-Lopez paid Valentin $129,700 in kickbacks to use his influence as a Senator to cause a contract to be awarded to *Centrex*, a property management company. Valentin was a silent partner in *Centrex* and conspired with Maldonado-Lopez, Jose Cobian, a New Progressive Party finance official, and Fernando Vigil, an engineer, to approve the contract. Defendants Cobian, Vigil, and Valentin have pled guilty and have been sentenced.

Defendant Arturo Paz-Guzman was sentenced in the District of Puerto Rico in **San Juan, PR**, to 10 months imprisonment and 36 months supervised release, and fined $10,000. On the same day, defendant Andres Barbeito-Cambiella was sentenced in the District of Puerto Rico to 12 months imprisonment and 36 months supervised release, and fined $10,000. Defendant Robert S. Prann-Laborda was also sentenced in the District of Puerto Rico to 9 months home confinement, 36 months supervised release, and fined $10,000. All three individuals were previously indicted, along with two others, on 13 counts of money laundering and extortion. The individuals included three former employees of the Department of Liquidation for CRUV (OLACRUV), the predecessor of the Puerto Rico Public Housing Authority (PRPHA), and two contractors. The OLACRUV employees conspired to pay more than $500,000 in kickbacks in exchange for OLACRUV contracts for the renovation and construction of housing units at the PRPHA.

Defendant Roni Oz, the owner of *Professional American Mortgage Institute* in **Miami, FL**, was sentenced in federal court to 12 months imprisonment and 36 months supervised release, and ordered to pay $94,227 in restitution to HUD. Oz previously pled guilty to one count of wire fraud. He was charged with submitting false documents to Corinthian Mortgage, an FHA approved lender, and causing them to wire transfer funding for a mortgage. Defendant Bruce Hollander, who was a closing agent, was also sentenced in federal court to 51 months imprisonment and 36 months supervised release, and ordered to pay $469,329 in restitution, $443,429 of that amount to HUD. Hollander was previously found guilty at a jury trial. In addition, defendant Eric Silverman, the owner of *American Redevelopment Corporation* (ARC), a company that purchased properties and sold them at inflated prices, was sentenced in federal court to 12 months imprisonment and 36 months supervised release, and ordered to pay $642,128 in restitution, $616,228 of that amount to HUD. Silverman previously pled guilty in federal court to conspiracy to commit bank fraud. He was indicted in September 2001 on 13 counts of conspiring to commit wire fraud, submitting false statements to HUD, and money laundering. Nine other defendants have already pled guilty in federal court to conspiracy to commit wire fraud, HUD fraud, and mail fraud.

These defendants were members of an organization that from 1996 to 1999, conspired to fraudulently originate over 125 FHA insured loans, through seven banks and nine mortgage companies. They did this by creating false gift letters and income information for individuals who would not otherwise qualify for the loans. The loans totaled over $11 million. In addition, the loan amounts were inflated as a result of flip sales from the original sellers to the defendants, who then sold the properties at inflated prices to the unqualified buyers on the same day. The properties were inflated an average of over $15,000 each. The average loss on each property is over $30,000 and the total loss to HUD is expected to be over $3.7 million. The defendants included closing attorneys, real estate brokers, mortgage brokers, loan officers, loan processors, title company employees, and the owner of a printing company, who created the false documentation. Nine members of this organization have already been prosecuted, with sentences ranging from one to three years imprisonment and restitution to HUD of over $1.3 million.

In **Rapid City, SD**, defendant Gerald “Jump” Big Crow was sentenced in federal court to three years probation and ordered to pay $59,115 in restitution to the Oglala Sioux Tribal Housing Authority. Big Crow was previously convicted of theft from a Tribal organization. He leased a low-rent housing unit on the Pine Ridge Indian Reservation and failed to pay rent.

Additionally, defendants Ted and Ramona Pedregon pled guilty in federal court to one count of theft from an Indian Tribal Organization. Ted was sentenced to 10 months confinement and Ramona was sentenced to two years probation. They were also ordered to pay $14,888 in restitution. The Pedregons did not report their actual income and family size to the Oglala Sioux Authority from January 1995 to December 1999.

Defendant Maxine Holley, former chairperson of the board, **Benson, NC** Housing Authority, was sentenced in federal court to six months home detention, two years probation and 100 hours of community service, and ordered to pay $48,762 in restitution and a $100 special assessment fee. In February 2002, Holley pled guilty to one count of making false statements to HUD. She underreported her income as a teacher’s assistant, a North Carolina State Magistrate, and an Assistant Sergeant at Arms for the North Carolina State General Assembly, as well as retirement benefits she received. Holley also misrepresented the number of her household members and their incomes.

In **Macon, GA**, defendants Lydia Faircloth, a former HUD employee, Elaine Dunn, a former Real

Estate Asset Manager (REAM), George Dunn, a REAM employee, and Michael East, a contractor, were sentenced in federal court. Elaine and George Dunn were each sentenced to three years probation, fined $1,000, and ordered to pay $19,667 in restitution, for a total amount of $39,334. Lydia Faircloth and Michael East were each sentenced to three years probation and fined $500. These individuals were previously indicted on 29 counts of conspiring to submit false claims to HUD, submitting false claims to HUD, mail fraud, and perjury. The indictment alleged that from 1992 to 1996, Elaine Dunn submitted invoices for work not performed or for properties no longer owned by HUD. In addition, the indictment alleged that Dunn hired East to do repair and maintenance work on HUD owned properties. Dunn would then approve the fraudulent invoices and submit them to HUD for payment. Faircloth would approve the fraudulent invoices or cause the invoices to be approved. HUD would then issue a check to East, who would deposit the payment in the bank accounts of Dunn and/or Faircloth.

In **St. Louis, MO**, defendant Charles Robinson pled guilty in federal court and was sentenced to two years probation and fined $500 for making false statements to HUD. Robinson stipulated that while employed as a loan officer for The Loan Store, Inc., he obtained false income documentation and knowingly submitted the false documentation, along with a false Social Security number, to HUD in order to qualify a client for a $66,618 FHA insured loan. Another defendant, Alicia Payne, was charged in federal court with wire fraud for obtaining approximately $300,000 in loans brokered through The Loan Store, Inc.

Defendant Andrew Gusty, a former president of the **Stony River, AK** Traditional Council, was found guilty at a bench trial of one count of embezzlement and theft from an Indian Tribal organization. Defendant Mary Macar, a former treasurer of the Council, previously pled guilty to the same charge. The two defendants withdrew Stony River housing project funds from the bank and used the funds for their own benefit.

Defendant Elizabeth Waldon, the former chairman of the board of commissioners of the **Parrish, AL** Housing Authority, signed a pre-trial diversion agreement. Waldon misused the Authority's credit card by charging over $13,000 worth of merchandise for her personal use. She entered into the agreement for 12 months and agreed to pay restitution in the total amount of the fraudulent charges.

The OIG Offices of Audit and Investigation, along with FBI Agents, are coordinating their efforts to identify police officers and teachers who violated occupancy requirements under HUD's Officer Next Door and Teacher Next Door Programs (OND/TND). The purpose of the OND/TND is to improve neighborhoods by offering homeownership opportunities to law enforcement officers and teachers in revitalization areas at 50 percent of appraised value. In consideration for the deep discount, the officer or teacher must agree to reside in the property for three years. This OND/TND joint effort was initiated as a result of our nationwide audit of the OND/TND Program (Report No. 2001-AT-0001) that found about 21 percent of randomly selected OND/TND homebuyers violated occupancy requirements.

Our efforts are ongoing. We are performing detailed examinations of more than 500 cases. To date, we have documented 43 officers and 13 teachers in violation of occupancy requirements. In five of the identified violations, the OND/TND homes remained vacant, appearing to have been purchased as investments rather than as residences. In at least six of the identified violations, officers or teachers sought personal profit by renting their OND/TND homes while living elsewhere. We are referring violations for possible prosecution by U.S. Attorneys or administrative action by HUD program officials. At the conclusion of our work, OIG Regional Offices will convey the results to HUD Regional Officials by memorandum. Eliminating abuses under the OND/TND Program is important to achieving HUD's goal of strengthening distressed communities by encouraging officers and teachers to purchase homes and live in those communities. (Report No. 2002-KC-0801)

Making recommendations on legislation, regulations, and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. During this 6-month reporting period, the OIG reviewed 124 HUD regulations and directives. To accomplish this mission, we are engaging program managers at an early stage based on a shared commitment to improve program operations and effectiveness. Often this collaboration results in our recommendations being implemented at an early stage in the clearance process that can expedite the issuance process. This Chapter highlights some of the more significant changes to proposed issuances made as a result of OIG recommendations.

Regulations

Housing Choice Voucher Program Homeownership Option: Eligibility of PHA Owned or Controlled Units

This interim rule provides that properties owned or controlled by a public housing agency (PHA) are eligible for purchase under the Housing Choice Voucher Program Homeownership Option. Essentially, HUD's interim rule has increased significantly the likelihood that an individual with a voucher can purchase an affordable house by increasing the supply of low-priced units. The interim rule would also establish procedures to remove any potential conflicts of interest where the PHA is also the seller. Specifically, the interim rule would provide that an independent entity must perform certain administrative duties for which the PHA would normally be responsible. These provisions are modeled on the conflict of interest requirements for PHA owned units in the Voucher Program.

We did not concur with this interim rule because it did not result in the publication of revisions to the rules associated with the interim rule at the same time that the homeownership regulations are published. Specifically, the interim rule did not provide requirements for revising the annual plan submission to incorporate the policy and procedures for selling a unit to an individual with a Section 8 voucher. Further, the interim rule did not provide procedures for counting the number of low-income units in the PHA inventory to assure no units are developed in excess of the number in inventory at October 1999, as required by the Quality Housing and Work Responsibility Act. Units developed in excess of the number in the inventory at October 1999 are not eligible for subsidy. Without this procedure in place, the PHAs are reluctant to develop replacement units because they may not be eligible for subsidy.

HUD's Office of Public and Indian Housing (PIH) decided not to include regulations associated with other requirements in the homeownership regulation. Instead, PIH will revise the rule for the capital fund to provide procedures for the unit counts and for the agency plan to provide for disposition procedures when these regulations are revised.

Prohibition of Property Flipping in HUD's Single Family Mortgage Insurance Programs

This final rule addresses property "flipping," an abusive practice whereby a property recently acquired is resold with FHA financing at an excessive profit based on an inflated appraisal of the home's value. The property "flip" is often abetted by collusion between the sellers, loan officers, appraisers, and real estate agents, who share in the profiteering. When implemented, the rule will establish new requirements to prevent abusive property flipping and protect innocent borrowers, especially first-time purchasers, from becoming victims of this predatory activity.

We provided recommendations, and the Department concurred, that would help strengthen the rule by ensuring that the enforcement burden is at a level that could reasonably be implemented by HUD. The recommendations included discretion for HUD staff in determining when the resale price of a property warrants additional documentation to support the valuation, and exclusion of properties with a low resale price, and therefore a low dollar mark-up. The final rule had not been issued at the close of the semiannual reporting period.

Handbooks

HUD Electronic Mail Policy

This proposed Handbook change would revise policy for using HUD's standard electronic mail system, which established an automated timetable for regularly purging the production mail system of "outdated" mail documents.

We commented on the proposed changes to HUD Handbook 2400.1 REV-1 IRM policies because HUD failed to obtain disposition authority to delete electronic mail from the U.S. National Archives and Records Administration (NARA). We pursued this issue because it is important for HUD to safeguard against the destruction of any agency records that have not been authorized for disposal by the Archivist of the United States in accordance with Section 3301-3314 of Title 44. As a result of HUD not obtaining this applicable disposition authority, we notified the Office of Administration's Record and Directives Branch of this weakness; they were in agreement that NARA approval should be obtained.

The Office of the Chief Information Officer agreed with our comments and has incorporated these changes into the revised Handbook. The Handbook had not yet been published at the close of this semiannual reporting period.

Other Directives

The Departmental procedures for responding to Anti-Deficiency Act (ADA) violations and actions for preventing ADA violations were being revised because existing procedures were not adequate for preventing or acting upon ADA violations.

We made several comments on the proposed procedures to clarify the requirements for obligating funds and dealing with possible violations. We recommended the procedures mention that the required notice of fund awards in the Federal Register, in accordance with the HUD Reform Act, cannot be published until after point of obligation. Also important to note was that grant obligations cannot be entered into the HUD accounting system without the documents identifying the point of obligations. Moreover, award letters or other instructions cannot allow grantees to incur any cost until point of obligation.

We recommended that HUD obtain clarification from OMB on the handling of multi-year contracts and funding sources as these issues are not addressed by OMB Circular A-34. Also, the grant agreements or contracts need to clearly identify the multi-year source and year of funds being obligated. This would include being specifically identified in the Notice of Fund Availability, award letters, and final grant or contract.

Also, we recommended that any ADA violation review by HUD should include the assistance of the Office of General Counsel to identify if actions on the part of HUD officials created a legal obligation prior to the point of obligation established by the program offices and the Chief Financial Officer. All ADA reviews need to be performed by staff who have no real or apparent conflict of interest in the review. The reviewers should report to the Deputy Secretary to avoid any undue influence from the program offices.

Our recommendations are being considered for inclusion in the revised ADA violation procedures.

Chapter 7 – Audit Resolution

In the audit resolution process, the OIG and HUD management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant pending issues where resolution action has been delayed, where a management decision has been revised, or where OIG disagrees with a final management decision. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 9/30/02," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/02."

Delayed Actions

Audits of HUD's FY 1991 through 2001 Financial Statements

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 11 fiscal years, beginning with Fiscal Year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for FY 2001, we were able to express an unqualified opinion on HUD's principal financial statements.

The results of our FY 2001 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; (2) ensure that subsidies are based on correct tenant income; and (3) improve monitoring of housing subsidy determinations. In addition, our report also includes two material weaknesses about the need to: (1) enhance FHA's information technology systems to more effectively support its business processes; and (2) improve FHA's controls over budget execution and funds control. Corrective action plans to resolve these issues have continued to change over the last decade.

Audits of FHA's FY 1991 through 2001 Financial Statements

First issued March 27, 1992. FHA has been preparing financial statements for 11 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2001 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes; (2) place more emphasis on early warning and loss prevention for single family insured mortgages; and (3) monitor and account for its single family property inventory. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and application level security controls. This weakness was expanded in FYs 1999 and 2000 to include improvements needed in FHA's data integrity. FHA did resolve a material weakness in FY 2001 and part or all of three reportable conditions. In addition, the FY 2001 audit identified a material weakness in internal controls relating to the need to improve FHA's controls over budget execution and funds control. FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The FY 2002 financial statement audit will assess FHA's accomplishments in correcting these conditions.

Empowerment Zone Program, Cities of Chicago, Philadelphia, and Atlanta

Issued September 28, 1998, September 30, 1998, and October 15, 1998. Audits of the Cities of Chicago, IL, Philadelphia, PA, and Atlanta, GA, found that the Cities used empowerment zone funds inappropriately. The questioned amounts totaled over $2 million for the three Cities. The unique nature of the Empowerment Zone Program, authorized by the Omnibus Budget Reconciliation Act of 1993, provided HUD the authority to oversee the program, but provided funding through tax credits and Social Services Block Grant funds from the Department of Health and Human Services (HHS). HHS has responsibilities for resolving questions concerning the permissible use of zone funds.

In 1999, HUD management agreed with our findings and promised to have the Cities repay, by June 2000, program funds spent inappropriately. HUD, however, did not take corrective actions timely. In February 2000, HUD's Community Planning and Development (CPD) Comptroller started taking corrective actions and planned to have the outstanding recommendations closed by July 2001. In July 2001, the CPD Comptroller requested that HHS decide whether the Cities' use of zaone funds to provide services to non-zone residents was an eligible use of funds. If HHS decides that the Cities used zone funds improperly, HUD plans to execute a repayment agreement with the Cities requiring repayment within two to three years. At present, HHS has not responded to the Comptroller's request.

On September 10, 2002, the Deputy Assistant Secretary for Operations, CPD, sent a letter to HHS' Director of Community Services outlining the outstanding issues relating to OIG Empowerment Zone audit reports. CPD requested HHS' decision on the eligibility of the questioned costs for which the OIG recommended repayment. The letter also included HUD's suggestions for resolving the outstanding issues. HUD has no control over HHS' actions, but will continue to pursue these issues until they are resolved. (Report Nos. 1998-CH-1005, 1998-CH-1006, and 1999-CH-1002)

City of Lynwood, CA, Community Development Block Grant (CDBG) Program

Issued August 19, 1999. The City of Lynwood could not demonstrate its compliance with CDBG requirements for activities administered by subgrantees. The subgrantees operated a community based program which provided business training and incubator space for the benefit of low- and moderate-income residents. The training component included businesses outside of the grantee's City limits. However, the City could not provide documentation to support the number of jobs for low- and moderate-income persons created or retained, or document future benefits accruing to its residents. We recommended that HUD require the grantee to submit documentation of job creation and retention activities or return any unsupported amounts to its letter of credit, from non-federal funds. In December 1999, the Los Angeles Office of CPD agreed with our recommendations and agreed to complete actions by October 31, 2000.

In November 2000, the Los Angeles Office of CPD requested revised management decisions, because the City's program benefited low- and moderate-income persons. Therefore, it would not be necessary for the City to repay the program. We disagreed with the Los Angeles Office of CPD and referred the matter to the Acting General Deputy Assistant Secretary for CPD for decision in February 2001. In July 2001, the CPD Comptroller agreed with OIG's position and the Los Angeles Office of CPD advised the City to reimburse about $732,000 to its line of credit. A demand for repayment was sent to the City in February 2002. During the last six months, CPD and the Office of General Counsel requested additional information from the City. The City did not provide any new information. Accordingly, HUD has decided to pursue legal action. (Report No. 1999-SF-1003)

Revised Management Decisions

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

Housing Authority of New Orleans (HANO)

Issued June 29, 1994. HANO split one contract into three contracts, resulting in their spending more money than necessary and in unnecessary expenditures totaling $430,512. In April 2002, the Assistant Secretary for Public and Indian Housing requested our concurrence in revising the original management decision that required repayment of unnecessary expenditures. Rather than HANO's repaying the amount from non-federal funds, the Assistant Secretary requested that amounts due be forgiven because: (1) HANO did not have the resources available to repay the funds; (2) the Department has taken over HANO through an administrative receivership; and (3) the Assistant Secretary is confident that HUD will monitor HANO closely to avoid similar findings in the future. In June 2002, we agreed with the revised management decision. (Report No. 94-FW-201-1005)

Issued January 19, 2000. The audit concluded that Anderson Consulting and HANO's Executive Monitor, an official from Tulane University, violated federal regulations in obtaining the services of Moten & Associates. Further, the audit concluded that Tulane had paid Moten & Associates $421,760 in unsupported labor. In April 2002, the Assistant Secretary for Public and Indian Housing requested our concurrence in revising the original management decision that required repayment of unsupported amounts. Rather than HANO's repaying the unsupported amount, the Assistant Secretary requested that amounts due be forgiven because: (1) HANO did not have the resources available to repay the funds; (2) the Department has taken over HANO through an administrative receivership; and (3) the Assistant Secretary is confident that HUD will monitor HANO closely to avoid similar findings in the future. In June 2002, we agreed with the revised management decision. (Report No. 00-FW-201-1001)

CDBG Program, City of St. Louis, MO

Issued September 28, 1999. A special economic development activity totaling approximately $700,000 did not meet a national objective of the Housing and Community Development Act. The project was intended to meet the national objective of "benefiting low- and moderate-income persons with an eligible activity of job creation." The audit found that the City created no jobs for low- and moderate-income persons. In January 2000, HUD agreed with our recommendation and indicated that the City would need to demonstrate that the activity met another national objective or repay the amount of ineligible assistance. Actions were to be completed by January 2001.

Subsequently, the City changed the national objective to "an activity to aid in the prevention or elimination of slums or blight." However, the City did not produce documentation to support that the area of the activity was deteriorating, was declared a slum or blighted area, or that there were conditions existing in the building that would qualify it as "spot blight." Nonetheless, in March 2001, the Office of CPD advised that they considered the project to meet the national objective of prevention or elimination of slums or blight and subsequently the Assistant Secretary for CPD affirmed this position.

The OIG believes it is inappropriate to change a national objective once an objective has been selected and funds expended. A St. Louis Development Corporation Resolution stated that the purpose of the grant was to reimburse the Union Pacific Railroad for past expenditures. Since this was a reimbursement for past expenditures, the City should have known whether or not jobs were actually created for low- and moderate-income employees, and therefore, whether the national objective was met.

Because OIG and CPD could not agree on an appropriate course of action, OIG, in March 2002, referred the matter to the Deputy Secretary for final decision. On May 1, 2002, OIG met with the Deputy Secretary to discuss the disagreement. The Deputy Secretary made the final management decision that the current directives do not prevent the changing of national objectives once an objective has been selected and funds expended. He did not believe repayment of funds by the City was appropriate. (Report No. 1999-KC-1002)

Storefront Operations

Issued March 30, 2000. A nationwide audit of HUD's Storefront Operations found that HUD had spent millions of federal funds and used its limited resources to implement a new outreach and customer-relations initiative, but could not assure taxpayers that they were receiving the maximum return for their investment. HUD opened new storefront offices to serve as national models for more responsive government; however, their impact was minimal and overall benefits could not be measured.

The audit included a number of recommendations for improving the Department's implementation and management controls over the initiative. HUD agreed to take actions to address our recommendations, resulting in management decisions in August 2000.

In April 2002, the Director, Office of Departmental Operations and Coordination, requested our concurrence in revising the previous management decisions for implementing the recommendations. The revisions were necessary because the new Administration changed the Department's focus, including the structure and operations of HUD's field offices. On August 12, 2002, we concurred with the request to revise the management decisions since the Department has no plans to continue Storefront Operations. Therefore, no further corrective actions are needed. (Report No. 2000-AO-0001)

Significant Management Decision With Which the OIG Disagrees

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

Review of Alleged Violations of the Anti-Deficiency Act and the HUD Reform Act by the Office of Multifamily Housing Assistance Restructuring

Issued March 22, 2002. In response to Congressional and Departmental requests, the OIG reviewed alleged violations of the Anti-Deficiency and HUD Reform Acts in awarding Section 514 Technical Assistance Grants by the Office of Multifamily Housing Assistance Restructuring (OMHAR). We concluded that HUD did not violate the Anti-Deficiency Act in awarding the grants for FYs 1998 through 2001. However, HUD did not fully comply with the HUD Reform Act because they did not publish the required notifications in the Federal Register identifying the grantees and award amounts. The audit recommended that: (1) HUD's Chief Financial Officer adjust HUD's accounting records for Section 514 Technical Assistance Grants to address prior year errors; and (2) the Assistant Secretary for Housing take appropriate actions to ensure future grants are timely awarded and properly recorded in HUD's accounting system.

On September 30, 2002, the Deputy Secretary made final management decisions on the recommended actions. The Deputy Secretary advised that the Secretary concluded that an Anti-Deficiency Act violation had occurred and, in accordance with Section 1517 of Title 31 of the United States Code, notified the President, the Director of the Office of Management and Budget (OMB), the President of the Senate, and the Speaker of the House of Representatives.

We disagree with this determination and stand by the conclusion in our March 22, 2002 report. Our conclusion was based on thorough analyses of Comptroller General precedent and HUD's own policy in effect at the time. We applied these analyses in determining the events necessary to establish the dates at which time HUD incurred legally binding obligations with respect to the award of the Section 514 Technical Assistance Grants. In contrast, the Secretary made his determination without providing any comparable legal analysis nor did the Department provide any Comptroller General precedent that would refute our legal conclusions. Indeed, a July 16, 2002 memorandum to the

Deputy Secretary from the General Counsel advised that they had conducted a legal review and concurred with the OIG that violations of the Anti-Deficiency Act did not occur. Further, OIG's audit report and the General Counsel's opinion were not attached to the Secretary's letters to the President, the OMB Director, the President of the Senate, and the Speaker of the House of Representatives. OMB Circular A-34, Section 40, "Requirements for Reporting Anti-Deficiency Act Violations," explicitly requires the inclusion of "…any germane report by the agency's Inspector General and/or the agency's counsel."

Notwithstanding our disagreement as to whether an Anti-Deficiency Act violation occurred, the Deputy Secretary did agree with our recommendation to revise the Department's grant award and funds control policies and procedures. In our March 22, 2002 report, we concluded that weaknesses in HUD's management controls resulted in errors in the award of the Section 514 Technical Assistance Grants. These errors, as well as management decisions that unnecessarily limited the period of funds availability, led to the appearance of potential violations of the Anti-Deficiency Act. (Report No. 2002-DE-0801)

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial system requirements within three years or obtain the Office of Management and Budget's (OMB) concurrence if more time is needed. FFMIA requires us to report, in our Semiannual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of FY 2001, the Department reported that 17 systems were not in substantial compliance with FFMIA. The number of reported non-conforming systems was increased from the 11 reported at the end of FY 2000 because nine systems that were previously assessed as conforming were reclassified as non-conforming systems. HUD also discontinued two systems and corrected deficiencies in one non-conforming system. Our audit of HUD's FY 2001 financial statements cites additional financial management system weaknesses, which we reported as reasons for the Department's FFMIA noncompliance. These include noncompliance with: (1) federal financial management systems requirements; (2) federal accounting standards; and (3) the standard general ledger at the transaction level. HUD has submitted plans to OMB to correct material system weaknesses with a target completion date of December 31, 2005.

Report fraud, waste and mismanagement in HUD programs and operations by:

Calling the OIG Hotline:

1-800-347-3735 Nationwide
1-202-708-4200 in the DC area
1-800-304-9597 by TDD
1-202-708-4829 by fax

Sending written information to:

OIG Hotline
Office of Investigation
400 Virginia Ave., SW., Suite 120
1-800-304-9597 by TDD
1-202-708-4829 by fax

send email to: hotline@hudoig.gov

or contacting your local HUD OIG District Office:

New England District
Thomas P. O'Neill, Jr. Building
10 Causeway St.
Boston, MA 02222-1092
Tele: 617-565-5293
fax: 617-565-6916
States: CT, MA, ME, NH, RI, VT

New York/New Jersey District
26 Federal Plaza, Room 3437
New York, NY 10278-0068
Tele: 212-264-8062
fax: 212-264-4933
States: NJ, NY

Mid-Atlantic District
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3390
Tele: 215-656-3410
fax: 215-656-3409
States: DE, MD, PA, VA, WV, and Washington, DC

Southeast/Caribbean District
Richard B. Russell Federal Building
75 Spring St., SW
Atlanta, GA 30303-3388
Tele: 404-331-3359
fax: 404-331-1243
States: AL, FL, GA, KY, MS, NC, SC, TN, and Puerto Rico

Midwest District
Ralph Metcalfe Federal Building
77 W. Jackson Boulevard, Suite 2646
Chicago, IL 60604-3507
Tele: 312-353-4196
fax: 312-353-3188
States: IL, IN, MI, MN, OH, WI

Southwest District
819 Taylor St., 13A09
Ft. Worth, TX 76102
Tele: 817-978-9310
fax: 817-978-9373
States: AR, LA, NM, OK, TX

Great Plains District
Gateway Tower II
400 State Ave.
Kansas City, KS 66101-2406
Tele: 913-551-5866
fax: 913-551-5496
States: IA, KS, MO, NE

Rocky Mountains District
Denver Federal Center, Bldg.16
P.O. Box 25327
Denver, CO 80225-0327
Tele: 303-236-1450
fax: 303-236-1456
States: CO, MT, ND, SD, UT, WY

Pacific/Hawaii District
Phillip Burton Federal Building & Courthouse
450 Golden Gate Blvd., Room 8-5139
San Francisco, CA 94102-3448
Tele: 415-436-8108
fax: 415-436-8114
States: AZ, CA, HI, NV

Northwest/Alaska District
Seattle Federal Office Building
909 1st Ave., Suite 125
Seattle, WA 98104-1000
Tele: 206-220-5380
fax: 206-220-5160
States: AK, ID, OR, WA

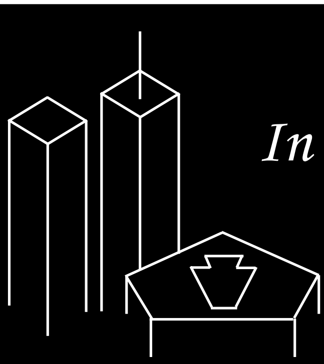
All information is confidential and you may remain anonymous.

U.S. Department of Housing and Urban Development

Semiannual Report to Congress

as of September 30, 2002

www.hud.gov/oig/oigindex.html



In remembrance.

9/11/01 — 9/11/02

No. 48 *HUD-2002-24-IG*

Appendices

APPENDIX 1 - AUDIT REPORTS ISSUED

FOR THE PERIOD

APRIL 1, 2002 THROUGH SEPTEMBER 30, 2002

Internal Reports

Audit Reports

Single Family

2002-PH-0002	Single Family Sales to Owner-Occupant Purchasers, 6/10/02.
2002-SE-0001	Follow-up on Down Payment Assistance Programs Operated by Private Nonprofit Entities, 09/25/02.

Multifamily

2002-KC-0002	HUD's Office of Housing Section 232 Nursing Home Program (Nationwide Survey), 7/31/02.

PIH

2002-AO-0001	Grants Management Center's Operations, 7/12/02.
2002-PH-0001	HUD's Utlization of the Public Housing Assessment System (Multi-location reviews), 5/23/02.

Miscellaneous

2002-DP-0001	HUD Network Security Assessment, 7/11/02.
2002-DP-0002	Review of Departmental IT Security Plans, 9/27/02.

Audit Memoranda

Single Family

2002-KC-0801	Officer/Teacher Next Door Occupancy Violations (Region 7), 5/29/02.

Multifamily

2002-FW-0801	Annual Audited Financial Statements Completed by George Baugh III & Company, Houston, TX, 5/31/02.
2002-SE-0802	Foreclosure Sale of the Rose Pointe Retirement Community, Ft. Worth, TX Property Disposition Center, 5/16/02.

Internal Reports - continued

Audit Memoranda - continued

Multifamily

2002-SE-0803 HUD's Approval of a Section 232 Project J.A.M. Davis Incorporated, dba, Loganhurst Health Care, Spokane, WA, 9/30/02.

PIH

2002-AO-0801 Bridges Over Troubled Waters Cooperative Agreement awarded to the International Faith Community Information and Services Clearinghouse and Training Center, Washington, DC, 4/5/02. Questioned: $15,734; Unsupported: $15,734.

2002-SE-0801 Staffing Resources of the Real Estate Assessment Center's Tenant Assessment Subsystem, Seattle, WA, 4/23/02.

CPD

2002-SF-0801 HOME Investment Partnerships Program, 7/31/02.

2002-DP-0801 HUD's Multi-Year Information Technology Plan, 5/1/02. Better Use: $5,800,000.

External Reports

Audit Reports

Multifamily

2002-AT-1001 Magnolia Lane Apartments Project Management Operations, Conway, SC, 6/05/02. Questioned: $185,129; Unsupported: $3,207.

2002-AT-1004 Ashley Crossings Apartment Homes, Largo, FL, 9/26/02. Questioned: $324,478.

2002-AT-1005 North Carolina Low-Income Housing Coalition, Inc., Raleigh, NC, Outreach and Technical Assistance Grants and Intermediary Technical Assistance Grants, 9/27/02. Questioned: $136,818; Unsupported: $73,361.

2002-AT-1006 Ridgeview Manor Apartments, Hopkins, SC, 9/30/02. Questioned: $325,362; Unsupported: $50,833.

2002-BO-1004 Anti-Displacement Project, Springfield, MA, Outreach and Training Assistance Grant, 9/30/02. Questioned: $44,344.

2002-BO-1006 People to End Homelessness, Providence, RI, Outreach and Training Assistance Grant (Interim Report), 9/30/02.

2002-DE-1002 Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Technical Assistance Grants, 9/30/02. Questioned: $16,867; Unsupported: $4,388.

2002-DE-1004 Housing Advocacy Coalition, Colorado Springs, CO, Outreach and Training Assistance Grant, 8/26/02. Questioned: 2,897; Unsupported: $9,070.

External Reports - continued

Multifamily

Audit Reports - continued

2002-DE-1005 Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants, 9/25/02. Questioned: $38,000; Unsupported: $23,600.

2002-FW-1003 New Mexico Public Interest Education Fund, Albuquerque, NM, Outreach and Training Assistance Grants and Public Entity Grant, 9/30/02. Questioned: $19,495; Unsupported: $5,012.

2002-KC-1002 Housing & Credit Counseling, Inc., Topeka, KS, Outreach and Training Assistance Grant, 9/19/02.

2002-KC-1003 Iowa Coalition for Housing and the Homeless, Des Moines, IA, Outreach and Technical Assistance Grant, 9/19/02. Questioned: $4,945.

2002-NY-1004 Ironbound Community Corporation, Newark, NJ, Outreach and Technical Assistance Grant and Public Entity Grant, 9/23/02. Questioned: $18,600; Unsupported: $18,600.

2002-NY-1005 Legal Aid Society, New York, NY, Outreach and Technical Assistance Grants and Public Entity Grant, 9/23/02. Questioned: $19,882; Unsupported: $7,822.

2002-PH-1002 Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant, 9/30/02. Questioned: $75,000; Unsupported: $75,000.

2002-PH-1003 Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grants, 9/30/02. Questioned: $77,518; Unsupported: $55,965.

2002-PH-1004 Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant, 9/30/02. Questioned: $146,988; Unsupported: $133,269.

2002-PH-1005 Philadelphia Regional Alliance of HUD Tenants, Philadelphia, PA, Outreach and Training Assistance Grant and Intermediary Outreach and Technical Assistance Grant, 9/30/02. Questioned: $84,172; Unsupported: $60,750.

2002-PH-1006 Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant, 9/30/02. Questioned: $116,778; Unsupported: $113,580.

2002-PH-1007 Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant, 9/30/02. Questioned: $159,999; Unsupported: $158,955.

2002-SF-1001 Casa De Vallejo, CA, Multifamily Senior Housing Project, 9/4/02. Questioned: $119,079; Unsupported: $8,263.

2002-SF-1004 Low-Income Housing Fund, Oakland, CA, Intermediary Technical Assistance Grants, 9/30/02. Questioned: $249,073; Unsupported: $249,073.

2002-SF-1005 Housing Rights Committee of San Francisco/Tides Center, San Francisco, CA, Outreach and Training Assistance Grants, 9/26/02. Questioned: $4,114; Unsupported: $4,114.

2002-SF-1006 Legal Aid Society of Honolulu HI, Outreach and Training Assistance Grant, 9/30/02. Questioned: $17,312; Unsupported: $17,312.

2002-SF-1007 Southern Arizona People's Law Center, Tucson, AZ, Outreach and Training Assistance Grant, 9/30/02. Questioned: 9,540; Unsupported: $19,686.

External Reports - continued

Audit Reports - continued

PIH

2002-AT-1002 City of Tupelo, MS Housing Authority, Housing Programs Operations, 7/3/02. Questioned: $1,353,368; Unsupported: $625,209.

2002-BO-1003 Newport, RI Resident Council, Inc. 4/30/02. Questioned: $42,887.

2002-BO-1005 Chelsea, MA Housing Authority, 9/30/02. Questioned: $465,644; Unsupported: $119,156.

2002-FW-1002 Houma, LA Housing Authority, Low-Rent Housing Program, Cash & Procurement Controls, 9/18/02. Questioned $504,880; Unsupported: $247,852.

2002-SF-1002 Oakland, CA Housing Authority, Rehabilitation of the 49th Street Housing Development, 9/17/02. Questioned: $105,201; Unsupported: $92,901.

CPD

2002-AT-1003 National Scholarship Service and Veteran's Opportunity and Resource Center, Atlanta, GA, Supportive Housing Program Grant, 7/25/02. Questioned: $506,584; Unsupported: $313,811.

2002-NY-1002 Hudson County Division of Community Development, Jersey City, NJ, CPD Programs, 4/15/02. Questioned: $1,081,105; Unsupported: $1,063,625; Better Use: $126,173.

2002-NY-1003 City of Utica, NY Community Planning and Development Programs, 9/5/02. Questioned: $1,371,707; Unsupported: $1,371,707; Better Use: $250,000.

2002-SF-1003 Los Angeles, CA Community Development Bank, Economic Development Initiative Grant, 9/25/02. Questioned: $2,673,096; Unsupported: $2,628,446; Better Use: $6,320,465.

Multifamily

Audit Memoranda

2002-AT-1808 Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Technical Assistance Grants, 9/20/02. Questioned: $70,912; Unsupported: $54,625.

2002-AT-1809 Florida Housing Coalition, Inc., Tallahassee, FL, Outreach and Technical Assistance Grants and Intermediary Technical
2002-BO-1802 Assistance Grants, 9/27/02.
2002-CH-1803 Affordability Housing Coalition, Boston, MA, Outreach and Training Assistance Grants, 8/29/02.
2002-CH-1804 HOME Line, Minneapolis, MN, Section 514 Outreach and Technical Assistance Grant, 9/24/02.
2002-DE-1802 Coalition Homelessness & Housing, Columbus, OH, Section 514 Outreach and Training Assistance Grants, 9/24/02.
2002-DE-1804 Pikes Peak Towers, Colorado Springs, CO, Section 202/Direct Loan for Elderly Housing, 5/10/02.

External Reports - continued

Audit Memoranda - continued

Multifamily

2002-DE-1805	Tamarack Property Management Company, Billings, MT, Multifamily Management Agent, 7/26/02.
2002-FW-1803	Cox and Associates, Washington, DC, Section 514 Outreach and Technical Assistance Training Contract, 8/21/02.
2002-FW-1805	Apache Trace Apartments, Guymon, OK, Cost Certification Review, 6/3/02. Questioned: $16,006.
2002-KC-1802	Texas Tenant's Union, Inc., Dallas, TX, Outreach & Training Assistance Grants and Public Entity Grant, 8/21/02.
2002-NY-1803	Golden Oaks Apartments, Kansas City, MO, Survey of Section 8 Housing Assistance Payments, 4/19/02.
	New York State Tenant and Neighborhood Information Service, New York, NY, Outreach and Technical Assistance Grant
2002-SF-1805	and Public Entity Grant, 9/23/02.
	Amador-Tuolumne Community Action Agency, Sonora, CA, Intermediary Outreach and Technical Assistance Grant,
2002-SF-1806	9/30/022.
2002-SF-1807	California Coalition for Rural Housing, Sacramento, CA, Outreach and Training Assistance Grants, 9/26/02.
2002-SF-1808	Legal Aid Society of San Diego, Inc., San Diego, CA, Outreach and Training Assistance Grant, 9/30/02.
	Los Angeles Center for Affordable Housing, Los Angeles, CA, Outreach and Training Assistance Grants, 9/30/02.

PIH

2002-FW-1802	Lafourche Parish, LA Housing Authority, Hillcrest Apartment's Up-front Grant, 4/5/02.
2002-FW-1804	Morgan City, LA Housing Authority, Drug Elimination Grant Program, 6/17/02. Questioned: $8,710; Unsupported: $3,000.

CPD

2002-NY-1802	Community Development Block Grant Disaster Assistance Funds administered by Empire State Development Corp., New York, NY (Interim Report), 5/22/02.
2002-SF-1803	City of Pomona, CA, Community Development Block Grant Program, 4/24/02.
2002-SF-1804	HOME Investment Partnerships Program, City of Stockton, CA and San Joaquin County, CA, 7/31/02.

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 09/30/02

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION

Nothing to report.

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 09/30/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
1995CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
1996FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	Note 1
1996SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	03/31/03
1997PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 1
1997FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
1997CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/97	01/06/98	Note 1
1998CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 1
1998CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 1
1999NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 1
1999FO0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/99	09/30/99	12/30/02
1999CH0001	HUD's Oversight of the Empowerment Zone Program	03/30/99	09/17/99	Note 1
1999PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	7/31/03
1999SF1003	City of Lynwood, CA, CDBG and HOME Programs	08/19/99	12/16/99	Note 1
1999SF1803	Northern Pueblos Housing Authority, Limited Review of Operations, Santa Fe, NM	09/08/99	11/09/99	12/31/02
1999CH1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 1
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	06/30/03
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99	09/19/01	10/31/04
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	Note 1
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	12/31/05
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	09/30/03
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00	09/28/01	12/31/02
2000AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00	09/28/01	12/31/02
2000AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	Note 1
2000AT1005	Benson, NC Housing Authority, Public Housing Programs	03/27/00	09/13/00	02/28/03
2000SF0001	Single Family Production	03/30/00	01/19/01	12/31/02
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	Note 2
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	Note 2
2000DE1004	Chippewa Cree Housing Authority, Housing Activities and Related Management Controls, Rocky Boy, MT	09/21/00	01/19/01	10/15/02
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	Note 2
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	02/28/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 1
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	06/30/03
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99	09/19/01	10/31/04
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	Note 1
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	12/31/05
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	09/30/03
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00	09/28/01	12/31/02
2000AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00	09/28/01	12/31/02
2000AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	Note 1
2000AT1005	Benson, NC Housing Authority, Public Housing Programs	03/27/00	09/13/00	02/28/03
2000SF0001	Single Family Production	03/30/00	01/19/01	12/31/02
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	Note 2
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	Note 2
2000DE1004	Chippewa Cree Housing Authority, Housing Activities and Related Management Controls, Rocky Boy, MT	09/21/00	01/19/01	10/15/02
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	Note 2
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	02/28/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000DP0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/00	03/30/01	Note 2
2000KC0002	Housing Subsidy Payments	09/29/00	02/21/01	09/30/05
2000SE0003	Nationwide Audit, Use of and Disposition of Residual Receipts	09/29/00	08/15/01	12/30/03
2001AT1001	Housing Authority of the City of Miami Beach, FL	10/20/00	02/13/01	Note 2
2001CH1001	City of Ironton, OH Community Development Block Grant Program	11/16/00	03/21/01	Note 2
2001NY1001	Bay Towers, Far Rockaway, NY, Multifamily Mortgagor Operations	12/07/00	04/20/01	Note 2
2001FW1002	City of Dallas, TX Continuum of Care Program	12/13/00	06/26/01	10/15/02
2001SF1802	HUD Earthquake Loan Program Funds, Woodland Hills, CA	02/08/01	06/14/01	Note 2
2001DP0801	Review of the Department's Internet Privacy Status	02/21/01	04/23/01	Note 2
2001FO0002	FHA Audit of Fiscal Year 2000 Financial Statements	03/01/01	07/24/01	12/21/06
2001FO0003	Audit of HUD's Fiscal Year 2000 Financial Statements	03/01/01	07/18/01	09/30/03
2001CH1005	London, OH Metropolitan Housing Authority, Safeguarding of Monetary Assets and Inventory	03/22/01	07/18/01	04/30/03
2001SF1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/01	07/24/01	Note 2
2001FO0004	HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data	03/28/01	07/24/01	01/31/04
2001PH1003	Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs	03/28/01	09/10/01	02/28/03
2001AT1005	San Juan, PR Public Housing Administration HOPE VI, Comprehensive Grant, and Economic Development & Support Services Programs	03/30/01	09/28/01	Note 2
2001NY0001	Canal Corridor Initiative, HUD Administered Small Cities CDBG Section 108 Loan Guarantee Program	03/30/01	05/29/01	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001NY1002	Belmax Management Corporation (Management Agent), Brooklyn, NY	04/17/01	07/13/01	Note 2
2001PH1005	Housing Authority of the City of Pittsburgh, PA	05/03/01	02/06/02	12/31/02
2001SF1804	Supportive Housing Program Grant, County of Orange, Santa Ana, CA	05/09/01	09/26/01	Note 2
2001FW0001	New Orleans, LA Housing Authority	05/11/01	11/02/01	10/15/03
2001CH1007	Detroit, MI Housing Commission, Hope VI Program	05/16/01	09/13/01	03/31/03
2001FW0002	HUD's Compliance with the Government Performance and Results Act	05/31/01	11/02/01	10/17/02
2001PH0803	Philadelphia, PA Homeownership Center, Single Family Disposition Activities	06/14/01	06/14/01	10/11/02
2001AT0001	Nationwide Audit on the Officer/Teacher Next Door Program	06/29/01	01/29/02	12/31/02
2001PH1006	Philadelphia, PA, CDBG and Section 108 Funding, Urban Education Development Research and Retreat Center Rehabilitation Project	08/01/01	11/21/01	11/19/02
2001SE0002	Nationwide Audit of Implementation of the Native American Housing Assistance and Self-Determination Act of 1996	08/02/01	12/11/01	12/31/02
2001AT0002	Troubled Agency Recovery Center, Memphis, TN	08/17/01	12/06/01	12/06/02
2001AT1006	City of Hattiesburg, MS, Community Planning and Development Programs	08/27/01	12/21/01	10/31/02
2001FW1005	Harmony House, Inc., Harrison, AR, Supportive Housing Program	08/27/01	12/21/01	10/31/02
2001AO0003	Drug Elimination Funds used for Creative Wellness Program	08/29/01	01/22/02	12/04/02
2001BO1006	State of Connecticut, Home Investment Partnership Program, Hartford, CT	08/29/01	11/09/01	10/22/02
2001SE0802	Nationwide Audit of Rent Reasonableness for Section 8 Tenant-based Units	08/29/01	11/28/01	11/28/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
001DP0802	Annual Evaluation of HUD's Security Program and Practices	09/06/01	01/16/02	12/31/02
2001FW1809	Jefferson Parish, LA Housing Authority, Limited Procurement Review	09/25/01	11/07/01	10/31/02
2001SF1805	Los Coyotes Band of Mission Indians, Warner Springs, CA	09/25/01	12/14/01	12/01/05
01AT1808	Autographed Book Give-Away for Inner-City Youths, Inc., Orlando, FL, Nonprofit Participation in FHA Single Family Insurance Program	09/27/01	01/24/02	01/23/03
2001DE1003	Foster and Associates, Whitefish, MT, Review of Management Activities for Clark Fork Manor and Whitefish Manor Projects	09/28/01	01/16/02	09/30/03
2001DP0003	Real Estate Management System	09/28/01	01/30/02	Note 2
2001KC1005	First Community Resources, Inc., St. Louis, MO, Section 203(b) Home Mortgage Insurance Program	09/28/01	01/17/02	03/16/04
2001KC1803	Review of Oak Tree Park Apartments, Overland, MO	09/28/01	11/30/01	11/29/02
2002SF0001	Nonprofit Participation, HUD Single Family Program	11/05/01	08/30/02	Note 2
2002NY1801	City of Utica, NY, CDBG, HOME and Section 8 Existing Housing Programs	12/03/01	03/27/02	04/03/03
2002FW1801	Lockhart, TX Housing Authority	12/04/01	03/28/02	11/01/02
2002PH1801	City of Baltimore, MD HOME Program	12/21/01	02/20/02	10/31/02
2002SE1001	Nampa, ID Housing Authority, Housing Program Administration and Operations	01/10/02	05/06/02	11/01/02
2002CH1801	City of Evansville, IN Housing Authority	01/29/02	05/18/02	05/15/05
2002CH1802	Partners for Community Development, Inc., Home Buyers-Lease Purchase and HOME Homeowner Rehabilitation and Accessibility Programs, Sheboygan, WI	01/31/02	06/02/02	11/30/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002FO0002	Federal Housing Administration, Audit of Fiscal Years 2000 and 2001 Financial Statements	02/22/02	05/30/02	12/31/06
2002KC1801	Review of Enhanced Enterprise Community Funding, Kansas City, KS	02/25/02	04/24/02	11/15/02
2002NY0001	Nationwide Audit-Asset Control Area Program, Single Family Housing	02/25/02	06/17/02	10/15/02
2002FO0003	Audit of HUD's Fiscal Years 2000 and 2001 Financial Statements	02/27/02	08/16/02	01/30/04
2002DE0001	Nationwide Review of HUD's Loss Mitigation Program (Follow-up)	02/28/02	06/28/02	06/30/03
2002DE1001	Review of Mitchell Management, Multifamily Management Agent	03/15/02	07/12/02	07/01/03
2002PH1001	City of Williamsport, PA, Community Development Block Grant and HOME Investment Partnership Programs	03/19/02	09/04/02	11/15/02
2002AT1807	Jardines de Valencia Housing Cooperative, Rio Piedras, PR	03/20/02	07/15/02	01/30/03
2002NY1001	City of Ithaca, NY, Community Planning and Development Programs	03/21/02	07/23/02	12/31/02
2002DE0801	Review of Alleged Violations of the Anti-Deficiency Act and the HUD Reform Act by the Office of Multifamily Housing Assistance Restructuring	03/22/02	9/30/02	Note 2
2002CH1001	Ypsilanti, MI Housing Commission, Safeguarding Monetary Assets and Inventory	03/26/02	07/24/02	12/31/03
2002PH1802	D.B. Frye and Associates, Norfolk, VA, Management Agent Activities	03/26/02	07/25/02	12/31/02
2002PH1803	Philadelphia, PA Housing Authority, Limited Personnel Review	03/26/02	07/25/02	04/30/03
2002BO1001	City of Worcester, MA, Community Development Block Grant Program	03/27/02	08/29/02	07/01/05
2002BO1002	Concord, NH Housing Authority, Administration of Public Housing and Section 8 Programs	03/29/02	06/14/02	12/31/02
2002CH1002	Alton, IL Housing Authority, Low-Income and Public Housing Drug Elimination Programs	03/29/02	08/02/02	12/31/03
2002KC1001	Dutchtown Care Center, St. Louis, MO, Review of Project Disbursements	03/29/02	07/22/02	03/31/03

Report Number	Report Title	Issue Date	Decision Date	Final Action

AUDITS EXCLUDED:

20 audits under repayment plans
17 audits under formal judicial review, investigation, or legislative solution

NOTES:

1 Management did not meet the target date. Target date is over 1 year old.
2 Management did not meet the target date. Target date is under 1 year old.

TABLE C

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 09/30/02 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	13	$6,841	$2,835
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	7	$28,808	$14,449
A3 For which additional costs were added to reports in beginning inventory	-	$185	$135
A4 For which costs were added to non-cost reports	3	$189	0
B1 Which were issued during the reporting period	36	$10,512	$7,628
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	59	$46,535	$25,047
C For which a management decision was made during the reporting period	22[1]	$8,732	$4,087
(1) Dollar value of disallowed costs:			
• Due HUD	10[2]	$3,192	$1,570
• Due Program Participants	13	$3,619	$712
(2) Dollar value of costs not disallowed	8[3]	$1,921	$1,805
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	$28,956	$14,415
E For which no management decision had been made by the end of the reporting period	30 <89>[4]	$8,847 <$8,847>[4]	$6,545 <$6,545>[4]

1 2 audit reports also contain recommendations with funds to be put to better use.
2 3 audit reports also contain recommendations with funds due program participants.
3 6 audit reports also contain recommendations with funds agreed to by management.
4 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

TABLE D

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 09/30/02 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	1	$514,000
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	3	$7,757
A3 For which additional costs were added to reports in beginning inventory	-	0
A4 For which costs were added to non-cost reports	1	$1,131
B1 Which were issued during the reporting period	4	$12,496
Subtotals (A+B)	9	$535,384
C For which a management decision was made during the reporting period	2[1]	$1,257
(1) Dollar value of recommendations that were agreed to by management: • Due HUD • Due Program Participants	 2 0	 $1,231 0
(2) Dollar value of recommendations that were not agreed to by management	1[2]	$26
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	$521,757
E For which no management decision had been made by the end of the reporting period	3 <4>[3]	$12,370 <$12,370>[3]

1 2 audit reports also contain recommendations with questioned costs.
2 1 audit report also contains recommendations with funds agreed to by management.
3 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

Explanations of Tables C and D

The Inspector General Act Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on Tables C and D (Line E) reflects figures at the report level as well as the recommendation level.

PROFILE OF PERFORMANCE

for the period

April 1, 2002 through September 30, 2002

Audit and Investigation Results	Audit	Investigation	Combined	FY 2002
Recommendations That Funds Be Put to Better Use	$13,627,310		$13,627,310	$527,670,544
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	$1,256,845		$1,256,845	$1,300,079
Questioned Costs	$10,886,098		$10,886,098	$22,379,284
Management Decisions on Audits with Questioned Costs	$8,732,055		$8,732,055	$48,736,576
Indictments/Informations		177	177	426
Convictions/Pleas/Pre-Trial Diversions		184	184	422
Months in Prison		6,160	6,160	13,752
Months Probation		6,718	6,718	15,281
Hours Community Service		2,479	2,479	11,549
Investigative Recoveries		$26,027,461	$26,027,461	$59,046,309
Collections from Audits	$13,221,345		$13,221,345	$20,166,938
Administrative Sanctions	1	164	165	417
Arrests		66	66	540
Search Warrants		8	8	89
Weapons Seized		6	6	38
Value of Drugs Seized		0	0	$278,135
Subpoenas Issued	92	201	293	465