

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



Semiannual Report to Congress

April 1, 2010, through September 30, 2010

Profile of Performance

Audit profile of performance
for the period April 1, 2010, through September 30, 2010

Results	This reporting period	FY 10 totals
Recommendations that funds be put to better use ¹	\$225,136,232	\$813,264,347
Recommended questioned costs ¹	\$109,919,327	\$155,188,440
Collections from audits	\$14,150,383	\$32,706,317
Administrative sanctions	3	4

Investigation profile of performance
for the period April 1, 2010, through September 30, 2010

Results	This reporting period	FY 10 totals
Funds put to better use	\$40,252,087	\$76,756,637
Recoveries/receivables	\$126,694,457	\$519,225,525
Arrests ²	781	1,393
Indictments/informations	755	1,235
Convictions/pleas/pretrial diversions	389	898
Civil actions	79	129
Administrative sanctions ³	168	371
Suspensions	41	90
Debarments	49	95
Personnel actions ⁴	28	58
Search warrants	57	99
Subpoenas issued	1037	1827

Hotline profile of performance
for the period April 1, 2010, through September 30, 2010

Results	This reporting period	FY 10 totals
Funds put to better use	\$933,674	\$1,297,454
Recoveries/receivables	\$140,614	\$215,696

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

² Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.

³ Administrative sanctions include limited denial of participation, relocations, removal from program participation, restraining orders, and systemic implication report submitted.

⁴ Personnel actions include reprimands; suspensions; demotions; or terminations of the employees of Federal, State, or local governments or of Federal contractors and grantees as the result of OIG activities.

A Message from the Acting Inspector General



It is with great pleasure that I present the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress, which summarizes the activities and accomplishments of our office for the second half of fiscal year 2010. HUD OIG employees—auditors, agents, attorneys, analysts, and support staff—continue their critical efforts to improve the economy and efficiency of programs administered by HUD.

This has been an exceedingly busy and productive period for our office. Our key divisions, working collaboratively in a cross-disciplinary fashion, have achieved significant results on behalf of HUD beneficiaries and American taxpayers. As an active partner in the Financial Fraud Enforcement Task Force, we have been at the forefront of getting the message out to our local communities about collaborative efforts across the government involving our State and local partners. Together, we are investigating and prosecuting significant financial crimes, ensuring swift punishment for those who seek unjust enrichment, recovering proceeds for those who are victimized, and addressing financial discrimination in the lending and financial markets.

During the past 6 months, we have issued 115 audit reports with a total of 478 recommendations, including monetary results totaling nearly \$278 million. Our investigative work has resulted in 755 indictments; 389 convictions; 168 administrative actions; and more than \$126 million in fines, restitutions, and recoveries. We have also issued two inspections and evaluations reports: one on housing counseling services and one on HUD's Credit Watch system.

During this reporting period, we have also focused on our enhanced Civil Fraud Initiative, to which we have dedicated a cadre of forensic auditors. They are concentrating in a concerted fashion on recovering ill-gotten gains from those who commit fraud against HUD programs.

The implementation of the American Recovery and Reinvestment Act and its effectiveness are discussed in our 28 audits of different entities, which looked at the capability and efficiency with which the money was spent. Recommendations and improvements on the utilization of these funds are continually provided to the Department.

During this reporting period, we completed an initiative known as Operation Watch Dog. This effort started in response to the Federal Housing Administration (FHA) Commissioner's concern regarding increased default rates against the FHA insurance fund for failed loans. In total, we reviewed 284 FHA loans that were underwritten by 15 direct endorsement lenders to determine whether the loans were underwritten in accordance with FHA requirements. We found that 140 of the 284 loans reviewed were not underwritten in accordance with requirements. As a result, FHA's insurance fund lost or has the potential to lose nearly \$11.2 million from this limited sample.

We performed an internal audit of HUD's Home Equity Conversion Mortgage (HECM) program to determine whether HUD's adoption and reversal of an informal foreclosure deferral policy for HECM loans

that defaulted due to nonpayment of taxes and insurance had a negative effect on the HECM program. We found that HUD's policy did have a negative effect on the universe of HECM loans and loan servicers. As a result, four servicers contacted were holding almost 13,000 defaulted loans with a maximum claim amount of more than \$2.5 billion, and two of the four servicers said that they were awaiting HUD guidance on how to handle them. Further, the servicers had paid taxes and insurance premiums totaling more than \$35 million for these 12,958 borrowers, and if HUD does not take action, additional payments will be made in the next 12 months.

On another front, a key HUD OIG investigation exemplifies our commitment to pursuing fraud perpetuated against FHA's mortgage insurance program. Lee Farkas, a former chairman of Taylor, Bean & Whitaker Mortgage Corporation (TBW), an FHA-approved direct endorsement lender and Government National Mortgage Association (Ginnie Mae) issuer, was arrested after his indictment in U.S. District Court, Ocala, FL, for allegedly committing conspiracy and bank, wire, and securities fraud. Farkas and others were indicted for allegedly selling phony or previously pledged loans to investors in the secondary mortgage market and causing TBW to submit false statements to HUD and Ginnie Mae. HUD and these programs experienced almost \$2 billion in losses.

Our investigators have also been focused on public corruption. The former Alamosa Housing Authority executive director and others were collectively sentenced in U.S. District Court, Denver, CO, to 37 months incarceration, 3 years supervised release, and 5 years probation and ordered to pay HUD nearly \$640,000 in restitution for their earlier guilty pleas to committing theft by generating unauthorized housing authority checks.

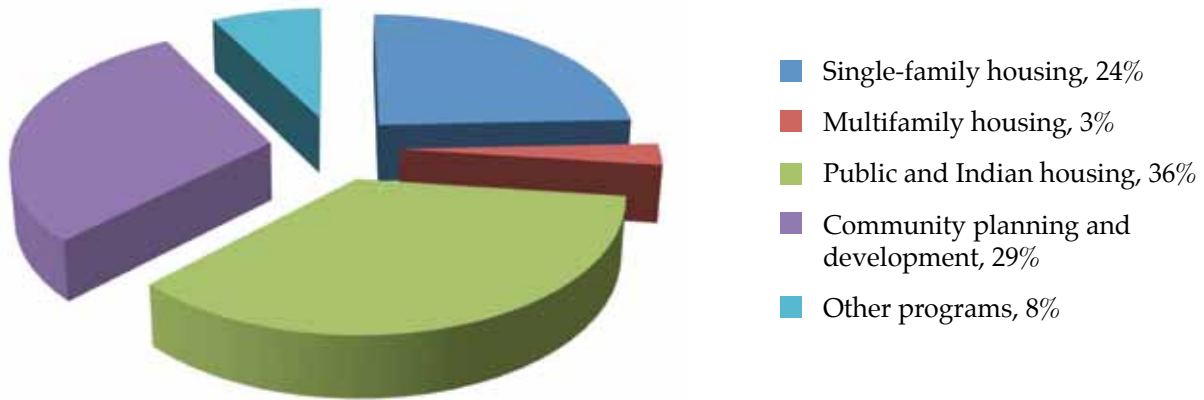
These examples of our audits and investigations show the exceptional work done by our staff, which has resulted in a significant positive impact on fraud and against misuse of taxpayer dollars. Our staff also conducted approximately 60 fraud and prevention awareness briefings to thousands of participants at all levels of government and industry in an effort to educate the public regarding improper activities. I am grateful to all of our employees nationwide who worked so tirelessly during this period.

The continuing involvement of OIG operations comes at an especially important time for the oversight community. Every day, HUD OIG increases its dedication and commitment to becoming a more efficient and effective organization, which enables us to become better at recovering taxpayer dollars and working with our partners to bring those to justice who would seek to harm our vital programs. We look forward to continuing to fulfill our important responsibilities and working with Congress in overseeing these vital programs which support our Nation's citizenry.

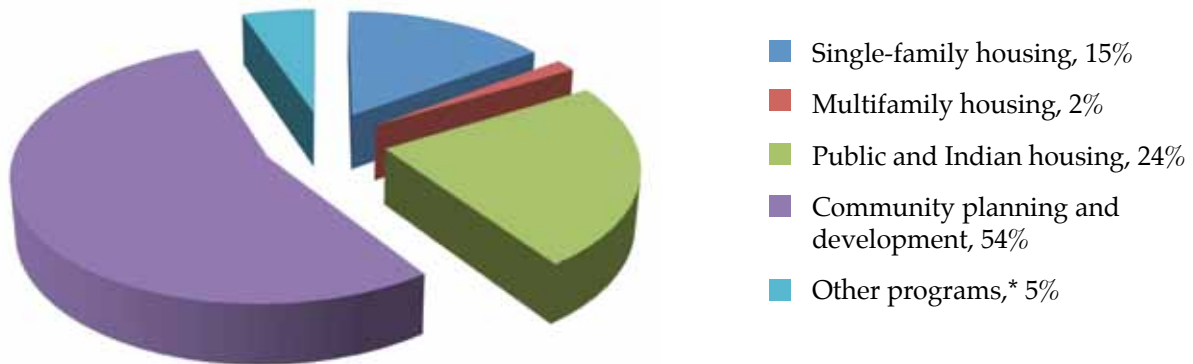


Michael P. Stephens
Acting Inspector General

Audit reports issued by program

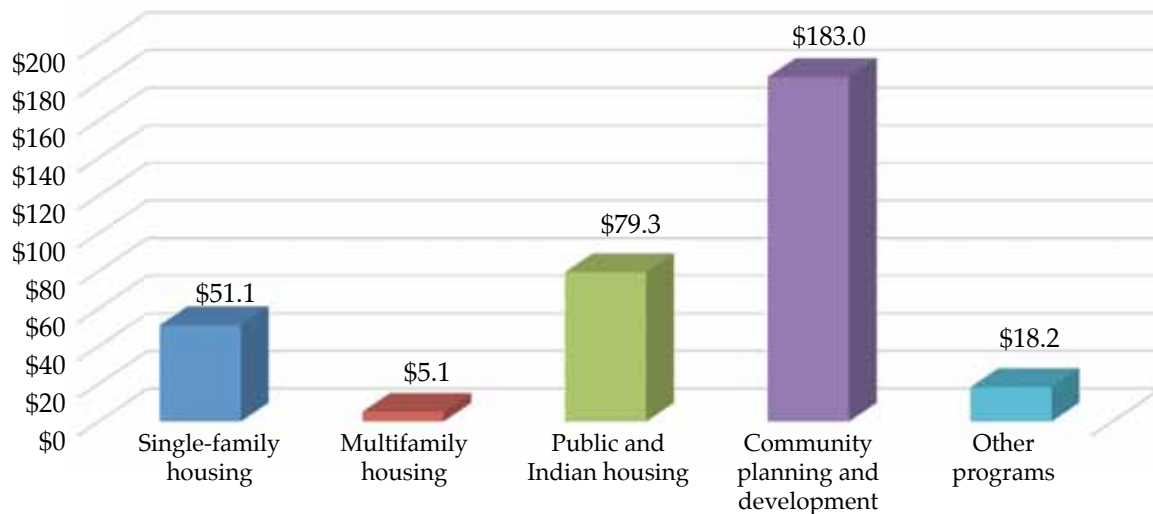


Audit monetary benefits identified by program

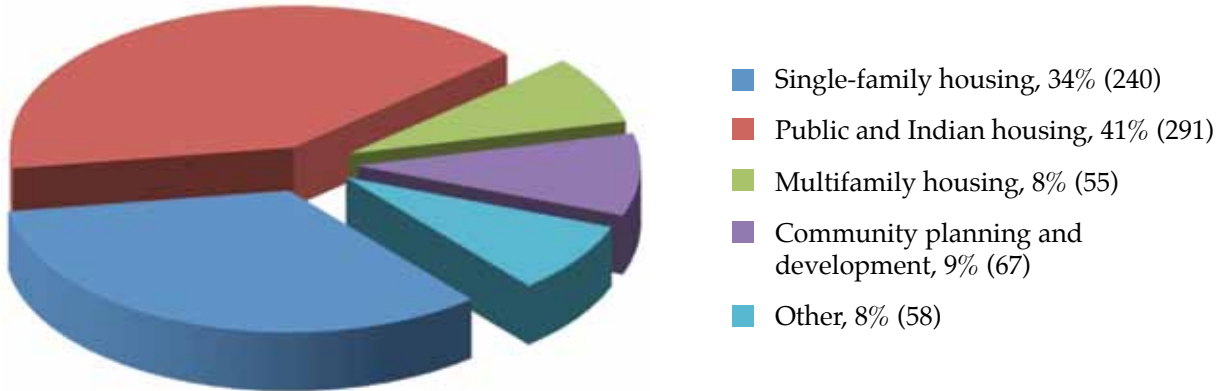


* Other programs include financial and information system audits.

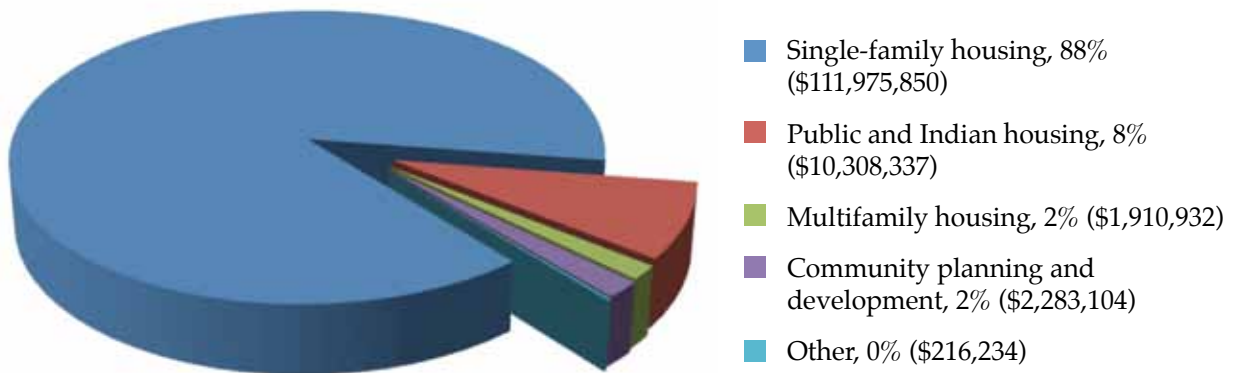
Audit monetary benefits identified in millions of dollars



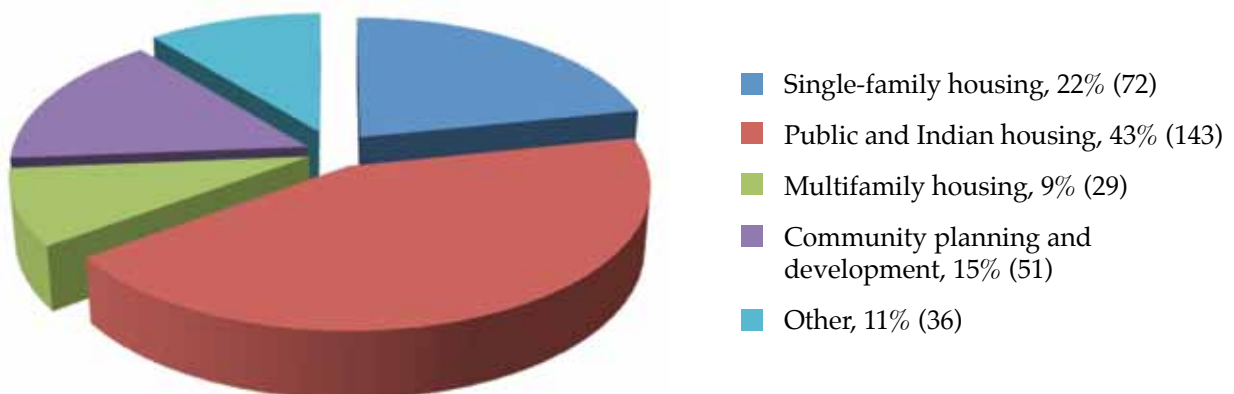
Investigative cases opened by program area (total: 711)



Investigative recoveries by program area (total: \$126,694,457)



Investigative cases closed by program area (total: 331)



Acronyms List

AIGA	Assistant Inspector General for Audit
AIGI	Assistant Inspector General for Investigation
ARIGA	Assistant Regional Inspector General for Audit
ARRA	American Recovery and Reinvestment Act of 2009
ASAC	Assistant Special Agent in Charge
CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CPD	Office of Community Planning and Development
DRGR	Disaster Recovery Grant Reporting system
FEMA	Federal Emergency Management Agency
FERA	front-end risk assessment
FFI	Fugitive Felon Initiative
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FICO	Fair Isaac Credit Organization
FISMA	Federal Information Security Management Act
FY	fiscal year
Ginnie Mae	Government National Mortgage Association
HECM	home equity conversion mortgage
HERA	Housing and Economic Recovery Act of 2008
HOME	HOME Investment Partnerships Program
HOPWA	Housing Opportunities for Persons with AIDS
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
IG	Inspector General
IRS	Internal Revenue Service
IT	information technology
NAHRO	National Association of Housing and Redevelopment Officials
NSP	Neighborhood Stabilization Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
PFCRA	Program Fraud Civil Remedies Act
PHA	public housing agency
PIH	Office of Public and Indian Housing
RIGA	Regional Inspector General for Audit

SA	Special Agent
SAC	Special Agent in Charge
SSA	Social Security Administration
SSN	Social Security number
U.S.C.	United States Code
USDA	United States Department of Agriculture

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Reporting Requirements

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

Source / Requirement	pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	130
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-111, 130
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-111
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	7-111
Section 5(a)(5)-summary of reports made on instances in which information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No Instances
Section 5(a)(6)-listing of each audit report completed during the reporting period and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report and the total dollar value of questioned and unsupported costs.	7-111
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	134
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	136
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	138

Executive Highlights



Strategic Initiative 1

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

OIG Strategy: Contribute to the increase of effectiveness in the single-family insurance programs through

- Audits uncovering single-family and loan origination abuse
- Audits of the U.S. Department of Housing and Urban Development's (HUD) internal policies to determine whether controls are adequate
- Strategy for civil fraud initiatives
- National strategy for single-family mortgage fraud task forces
- Outreach to industry and consumer groups and the Department

Highlights: Results or impact of significant OIG work

- OIG completed an initiative known as Operation Watchdog, which consisted of a review of the underwriting process of 15 direct endorsement lenders to determine whether loans were processed in accordance with Federal Housing Administration (FHA) requirements. Audits of another seven FHA single-family mortgage lenders found that lenders did not follow HUD requirements when underwriting loans and performing quality control procedures. *page 9*
- OIG audited HUD's Home Equity Conversion Mortgage (HECM) program to determine whether HUD's adoption and reversal of its informal foreclosure policy had a negative effect on the HECM program. *page 9*
- Lee Farkas was arrested and charged with allegedly committing bank, wire, and securities fraud and allegedly causing HUD and the Government National Mortgage Association (Ginnie Mae) losses in excess of \$1.9 billion. *page 17*
- A Texas couple was collectively sentenced to 89 years incarceration after admitting to committing more than \$4.3 million in mortgage fraud. *page 17*
- A Georgia man admitted to committing a conspiracy and aggravated identity fraud in a reverse mortgage scheme that caused HUD more than \$1 million in losses. *page 23*
- Anchor Mortgage and its president were found liable and ordered to pay the U.S. Department of Justice more than \$2.9 million for violating the False Claims Act. *page 24*
- HECM fraud was described for more than 75 mortgage regulators meeting in Memphis, TN. *page 114*
- Resources for civil and criminal mortgage fraud investigations were provided to more than 80 civil attorneys from the U.S. Attorney's Office. *page 114*
- Mortgage fraud was described for more than 400 Mortgage Bankers Association members in Chicago, IL, Fort Worth, TX, and Williston, VT. *pages 114-117*

Emerging Issues: Areas of OIG interest

- Dramatic increase in lenders/brokers/issuers seeking to do business with FHA and Ginnie Mae
- FHA and Ginnie Mae's ability and capacity to oversee its expanding market share
- Effectiveness in loan modification in the prevention of foreclosures
- Review of mortgage servicers' processing of foreclosures
- Continued concerns for the health and soundness of the FHA fund

Strategic Initiative 2

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

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

- The American Recovery and Reinvestment Act (ARRA) – to focus on grantees’ administration of ARRA funds
- Reducing erroneous payments
- Contributing to improving the performance of entities managing rental assistance programs
- Investigative initiatives involving corruption in the management of troubled public housing authorities and multifamily developments
- Public and Departmentwide outreach initiatives

Highlights: Results or impact of significant OIG work

- Audits of 14 Section 8 Housing Choice Voucher and leased housing activities found that the housing agencies were not following HUD’s requirements for administering the program. *page 33*
- The former Alamosa Housing Authority executive director and another individual were sentenced to 37 months incarceration for their earlier guilty pleas to committing theft from a program receiving Federal funds or money laundering. *page 43*
- Former Blackfeet Housing Authority employees were sentenced to 26 months incarceration for stealing housing authority funds. *page 44*
- Fourteen Palm Beach County Housing Authority housing recipients were arrested and charged with allegedly committing housing assistance fraud. *page 47*
- A former HUD multifamily contractor pled guilty to soliciting more than \$500,000 in kickbacks in exchange for HUD-subsidized multifamily housing development contracts. *page 62*
- OIG completed 28 ARRA-related reviews of how HUD is administering the program and/or how the grantees are administering the ARRA-related funds. *page 81*
- Presentations that described HUD OIG’s priorities, past results, and future objectives were given to more than 500 individuals attending a “Sustainable Homes and Communities” conference in Fargo, ND *page 118*
- Presentations describing HUD OIG’s mission, priorities, and housing assistance fraud were given to more than 450 National Association of Housing and Redevelopment Officials meeting in Indiana, Idaho, Colorado, Missouri, South Dakota, Arkansas, New Hampshire, Michigan, and Delaware *pages 120-121*
- OIG continued to follow up with the Department on the need to change legislation pertaining to HUD’s requirements prohibiting lifetime registered sex offenders from admission to HUD-subsidized housing. *page 132*

Emerging Issues: Areas of OIG interest

- Rental assistance fraud initiatives targeting public housing agencies in receivership or on the HUD troubled list
- Eligibility of grantee expenditures, particularly ARRA
- HUD’s oversight of grantee ARRA expenditures

Strategic Initiative 3

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

OIG Strategy:

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

Highlights: Results or impact of significant OIG work

- OIG reviewed several housing authorities to ensure that the authorities maintained their Housing Choice Voucher program units within housing quality standards. *page 33*
- OIG reviewed the HOME program of the Puerto Rico Department of Housing and found that the Department did not have adequate controls and procedures to ensure that HOME-funded activities met program objectives. *page 68*
- OIG conducted eight NSP I reviews during the period to determine whether the grantees were properly obligating the NSP I funds in accordance with the Housing and Economic Recovery Act of 2008. OIG found that the grantees were not properly obligating the funds. *page 71*
- A California escrow administrator pled guilty to committing embezzlement involving \$3.9 million in HUD CDBG funds, including \$22,000 in City of Pomona, CA, ARRA funds. *page 75*
- Two Florida Agriculture and Mining University Federal Credit Union administrators were indicted for allegedly conspiring and embezzling HUD Historically Black College grant funds. *page 75*
- Alleged false lead inspection reports involving HUD-subsidized multifamily housing developments led to charges against two individuals, one a former HUD employee and both current building inspectors for the City of Detroit, MI. *page 76*
- A former HUD attorney and her husband each pled guilty to stealing \$150,000 in HUD CDBG Disaster Recovery Assistance funds from the Mississippi Development Authority. *page 97*
- A Louisiana Road Home program recipient was charged with allegedly stealing \$150,000 in HUD CDBG Disaster Recovery Assistance funds and more than \$245,000 in disaster assistance from the Small Business Administration and Federal Emergency Management Agency. *page 98*
- HUD OIG hosted a number of mortgage fraud working group meetings in Chicago, IL. *page 115*
- Special agents provided an overview of HUD OIG operations for more than 100 CDBG grantees attending a training seminar in Jefferson City, MO. *page 123*

Emerging Issues: Areas of OIG interest

- Audits and investigations of ARRA funding and NSP
- Review of Green Retrofit activities
- Focus on infrastructure projects

Strategic Initiative 4

HUD Strategic Goal: Transform the Way HUD Does Business

OIG Strategy:

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

Highlights: Results or impact of significant OIG work

- A real estate closing attorney in Newark, NJ, was debarred from transactions with HUD and the Federal Government for 60 months. *page 19*
- Ideal Mortgage Bankers, doing business as Lend America, was issued a permanent civil injunction and ordered to refrain from participating in any Federal program involving mortgage loans. *page 24*
- Former Alamosa Housing Authority employees and others were suspended or debarred after they admitted committing theft from a program receiving Federal funds or money laundering. *page 43*
- HUD OIG audited HUD's procedures for administering completed and expired contracts to determine whether HUD performed contract closeout procedures in a timely manner. *page 106*
- HUD OIG recommended collection of nearly \$2.8 million in damages and penalties awarded against Anchor Mortgage Corporation in violation of the False Claims Act. *page 107*

Emerging Issues: Areas of OIG interest

- Issuer accountability in loan portfolio defaults in the Ginnie Mae Mortgage-Backed Securities program
- Continued modernization and enhancement of HUD's information systems
- Contracts and procurement acquisition

Chapter 1

Single-Family Housing Programs



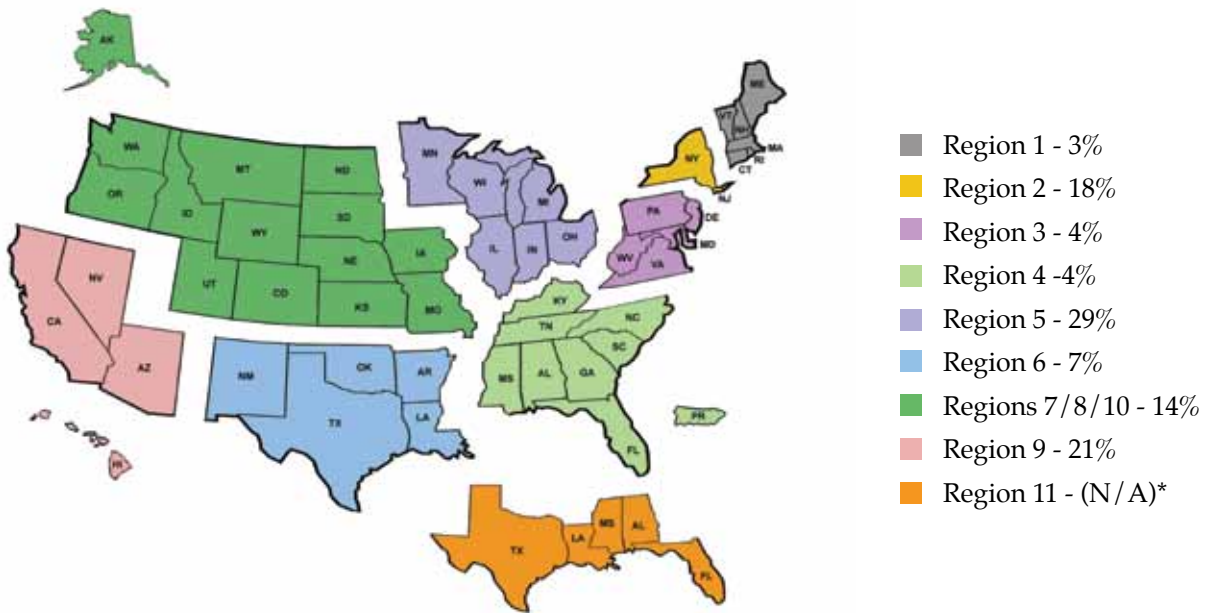
The Federal Housing Administration’s (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, or construct homes. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted a number of outreach efforts (see chapter 8, page 114).

Audit

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

Key program results		Questioned costs	Funds put to better use
Audit	28 audits	\$11.4 million	\$39.6 million
Our focus	<ul style="list-style-type: none"> Page 9 • Review of HUD’s Home Equity Conversion Mortgage program Page 9 • Operation Watch Dog - Review of loan underwriting process Page 11 • HUD’s single-family program automated underwriting process Page 11 • Mortgagees, loan correspondents, and direct endorsement lenders Page 13 • Review of consumer credit counseling services Page 14 • Review of HUD’s management and marketing contractors for real estate-owned properties Page 15 • Review of HUD’s single-family renewal process Page 15 • Review of HUD’s Office of Lender Activities and Program Compliance 		

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



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

Review of HUD's Home Equity Conversion Mortgage Program

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), performed an internal audit of HUD's Home Equity Conversion Mortgage (HECM) program to determine whether HUD's adoption and reversal of an informal foreclosure deferral policy for HECM loans that defaulted due to nonpayment of taxes and insurance had a negative effect on the HECM program.

HUD's informal foreclosure deferral policy and its reversal had a negative effect on the universe of HECM loans and loan servicers. After cancelling its informal policy, HUD did not issue guidance to servicers advising them of what actions to take regarding defaulted loans. Thus, servicers continued to service the loans and paid the taxes and insurance for the borrowers, but they did not notify HUD. As a result, four servicers contacted were holding almost 13,000 defaulted loans with a maximum claim amount of more than \$2.5 billion, and two of the four servicers said that they were awaiting HUD guidance on how to handle them. Further, the servicers had paid taxes and insurance premiums totaling more than \$35 million for almost 13,000 borrowers, and if HUD does not take action, additional payments will be made in the next 12 months.

HUD also could not identify the deferred or defaulted loans in the Single Family Data Warehouse and did not track the number of borrowers who were unable to pay their property taxes or insurance premiums. As a result, HUD did not know how many loans had principal amounts increasing because the servicer had added payments for taxes and insurance to the loan amount. Since unreported defaulted loans were only obtained from 4 of 16 HECM servicers nationwide, more defaulted loans may exist. Further, as HUD could not track these loans, it did not know the potential claim amount. In the event of foreclosure of the nearly 8,000 loans of which HUD was aware and almost 13,000 loans of which it was not aware, HUD could lose an estimated \$1.4 billion upon sale of the properties.

OIG recommended that HUD (1) discontinue the practice of deferring foreclosure due to nonpayment of taxes and insurance; (2) issue formal guidance to servicers regarding loans currently in default due to nonpayment of property taxes and insurance, including requiring the servicers to foreclose if the borrowers do not pay the delinquent taxes and insurance; (3) develop and implement a plan to minimize the risk of future defaults due to nonpayment of taxes and insurance; and (4) develop a tracking and reporting system, including making modifications to the Single Family Data Warehouse, to ensure that HUD can track the defaulted loans and the amounts paid by the borrowers. (Audit Report: **2010-FW-0003**)

Operation Watch Dog - Review of Loan Underwriting Process

During the reporting period, HUD OIG completed an initiative known as Operation Watch Dog. This initiative started in response to the Federal Housing Administration (FHA) Commissioner's concern regarding the increasing default rates against the FHA insurance fund for failed loans.

The initiative consisted of a review of the underwriting process of 15 direct endorsement lenders. The results of our review are summarized in the chart below.

Lender	Location	OIG memorandum number	Issue date	Loans reviewed	Number deficient loans	Actual or potential loss to HUD	Potential affirmative civil enforcement
1st Advantage Mortgage, LLC	Lombard, IL	2010-CH-1806	07/15/10	20	8	\$325,452	\$710,904
Birmingham Bancorp Mortgage Corporation	West Bloomfield, MI	2010-CH-1807	07/21/10	20	9	\$643,340	\$1,354,180
Mac-Clair Mortgage Corporation	Flint, MI	2010-CH-1808	07/22/10	20	7	\$562,551	\$1,177,602
Alacrity Lending Company	Southlake, TX	2010-LA-1803	07/26/10	20	19	\$1,599,529	\$3,341,558
Dell Franklin Financial, LLC	Millersville, MD	2010-CH-1810	07/30/10	20	3	\$542,330	\$1,107,160
D & R Mortgage Corporation	Farmington Hills, MI	2010-CH-1811	08/04/10	15	9	\$936,572	\$1,940,644
Assurity Financial Services, LLC	Englewood, CO	2010-LA-1804	08/05/10	20	8	\$1,180,997	\$2,421,992
		2010-LA-1805	08/06/10	19	12	\$741,498	\$1,572,996
Americare Investment Group	Arlington, TX	2010-LA-1806	08/24/10	12	9	\$492,239	\$1,051,978
American Sterling Bank	Sugar Creek, MO						
Webster Bank	Cheshire, CT	2010-NY-1805	09/01/10	20	6	\$516,990	\$1,078,980
Alethes, LLC	Lakeway, TX	2010-LA-1807	09/08/10	20	19	\$1,056,447	\$2,255,394
Security Atlantic Mortgage Company, Inc.	Edison, NJ	2010- NY-1806	09/22/10	20	6	\$553,730	\$1,152,460
First Tennessee Bank, N.A.	Memphis, TN	2010-NY-1807	09/27/10	18	5	\$435,574	\$908,648
Pine State Mortgage Corporation	Atlanta, GA	2010-NY-1808	09/29/10	20	14	\$1,095,202	\$2,295,404
Sterling National Mortgage Company, Inc.	Great Neck, NY	2010-NY-1809	09/30/10	20	6	\$508,823	\$1,062,646
Total				284	140	\$11,191,274	\$23,432,546

HUD's Single-Family Program Automated Underwriting Process

HUD OIG audited HUD's automated underwriting process to assess whether HUD had in place appropriate and effective management controls over the process.

HUD did not have appropriate and effective management controls in place over its automated underwriting process. Specifically, it implemented changes to the FHA Technology Open to Approved Lenders Scorecard's (Scorecard) review rules without properly assessing the associated risk and appropriately documenting the changes. As a result, loans valued at more than \$6.1 billion were automatically approved for FHA insurance despite having debt ratios that exceeded established thresholds for automated underwriting. Without evaluating the risks associated with the higher ratios allowed by the automated underwriting system, HUD cannot provide assurance regarding whether these loans had conditions that might have posed an increased risk of loss to the FHA insurance fund.

In addition, HUD did not perform adequate monitoring of its automated underwriting process, including the use of authority to override automatic referrals for manual underwriting. These problems allowed automatic approval of 29,325 loans with FHA-insured unpaid mortgage balances totaling more than \$6.1 billion and posed an unknown risk to the FHA insurance fund because HUD failed to document a risk analysis and authorization to support the ratio review rule changes.

Additionally, FHA insured 1,073 loans that were flagged by the automated underwriting process for unknown reasons yet were automatically approved without HUD's being able to clearly determine whether the loans had passed all system tests and edit checks in the automated underwriting process or failure to pass was appropriately overridden. The projected loss to the FHA insurance fund for the 1,073 loans was \$1.8 million for an outstanding balance of more than \$249 million.

OIG recommended that HUD develop or expand, as applicable, and implement written policies and procedures for (1) assessing the risk of proposed changes to the Scorecard's algorithm and review rules; (2) formally supporting, authorizing, and updating corresponding system documents for changes made to the automated underwriting process; and (3) continuous monitoring of the automated underwriting process through the normal course of business, including the use of authority to override automatic referrals and, as applicable, periodic reviews, reconciliations, or comparisons of the automated underwriting processed data. Additionally, OIG recommended that HUD conduct a risk analysis to determine the appropriate front-end and back-end ratios for the Scorecard's review rules and institute the appropriate changes. OIG determined that the full contents of this report would not be appropriate for public disclosure and released a redacted version to the public. (Audit Report: 2010-LA-0002)

Mortgagees, Loan Correspondents, and Direct Endorsement Lenders

Audits to uncover loan origination abuses by single-family lenders continued to be a priority during this semiannual period. Lenders are targeted for audit through the use of data mining techniques, along with prioritizing audit requests from outside sources. During this period, in addition to the Operation Watch Dog lenders, HUD OIG reviewed seven FHA single-family mortgage lenders. While the objectives varied by auditee, the majority of the reviews were to determine whether the auditees originated FHA-insured loans in accordance with HUD requirements. The following section illustrates some of the audits conducted in the single-family mortgage lender area.



HUD OIG audited Lendamerica Home Loans, Inc., an FHA-approved direct endorsement lender located in **Coral Gables, FL**, and found that Lendamerica did not follow HUD requirements when underwriting the five loans reviewed. HUD insured the loans, which unnecessarily placed the FHA insurance fund at risk for more than \$1 million. Lendamerica did not ensure the accuracy, validity, and completeness of its loan originations. In addition, it did not implement a quality control program that complied with HUD requirements. As a result, the effectiveness of Lendamerica's quality control program in guarding against errors, omissions, and fraud and protecting HUD from unacceptable risk was diminished and could result in an increased risk to the FHA insurance fund.

OIG recommended that HUD require Lendamerica to (1) indemnify it for the five insured loans with significant deficiencies, (2) pay down the loan balance for two overinsured loans, and (3) implement and enforce controls to ensure that loans are processed in accordance with HUD requirements. OIG also recommended that HUD take appropriate measures to ensure that Lendamerica develops and implements a quality control program that complies with HUD requirements and refer it to the Mortgagee Review Board for consideration of taking appropriate administrative actions. (Audit Report: **2010-AT-1005**)



HUD OIG audited National Bank of Kansas City in **Overland Park, KS**, and found that National Bank did not follow HUD's requirements regarding income, liability, and asset determination in 4 of the 16 defaulted loans reviewed. These loans had material underwriting deficiencies that affected the insurability of the loans. In addition, National Bank did not comply with HUD's quality control requirements. Specifically, its plan lacked elements required by HUD, and it did not ensure that its quality control reviews met HUD requirements.

OIG recommended that HUD require National Bank to indemnify it for two actively insured loans with unpaid principal balances totaling nearly \$386,000 and future losses on two loans with unpaid principal balances totaling nearly \$281,000. Also, OIG recommended that HUD verify that National Bank provides its underwriters with additional training on its new procedures and properly performs its quality control function. (Audit Report: **2010-KC-1005**)



HUD OIG audited Access National Mortgage Corporation in **Denver, CO**, and found that Access National generally complied with HUD regulations, procedures, and instructions in the origination and underwriting of the 23 insured loans reviewed. However, it did not comply with HUD regulations, procedures, and instructions for two loans it submitted to HUD for insurance endorsement. It submitted the loans, totaling more than \$410,000, for endorsement when the loan payments were not current.

OIG recommended that HUD (1) require Access National to indemnify it for any future losses on the two loans that were incorrectly submitted and (2) ensure that Access National implements policies to ensure that loans are current when submitted to HUD for endorsement. (Audit Report: **2010-DE-1004**)



HUD OIG audited New England Regional Mortgage Corporation in **Salem, NH**, and found that the Corporation generally complied with HUD requirements in the origination of FHA-insured single-family loans. In addition, its quality control plan, as implemented, fulfilled HUD's requirements. However, one loan had significant underwriting deficiencies, including improperly documented borrower income, an omitted liability, undervalued debt-to-income ratios, and failure to notify HUD of an employee loan transaction. Therefore, the loan was not eligible for FHA mortgage insurance and placed the FHA insurance fund at risk for a potential loss of more than \$221,000. Additionally, the Corporation was incorrectly listed as the

holding lender for 43 active loans and the servicing lender for 8 active loans. HUD will not pay a claim for insurance benefits if the information on the claim and HUD's FHA insurance system do not agree.

OIG recommended that HUD require the Corporation to indemnify it for a loss that may be incurred related to the loan that did not meet FHA insurance requirements. OIG also recommended that the Corporation update its remaining mortgage records in HUD's system to reflect the appropriate mortgage holder and implement procedures to ensure the timely submission of mortgage record changes for future loans sold to investing lenders. (Audit Report: **2010-BO-1007**)



HUD OIG audited the **Fairfax, VA**, branch office of Prospect Mortgage, LLC, and found that Prospect Mortgage generally complied with HUD requirements in its origination and quality control review of FHA loans. However, its branch office did not underwrite one of five defaulted loans reviewed in accordance with HUD requirements. In addition, Prospect Mortgage did not always perform quality control reviews of its FHA-insured loans in a timely manner. As a result, the FHA insurance fund was exposed to an unnecessarily increased risk, and the effectiveness of Prospect Mortgage's quality control process was lessened.

OIG recommended that HUD (1) require Prospect Mortgage to indemnify it for more than \$193,000, the unpaid principal balance for the loan, and (2) direct Prospect Mortgage to improve its quality control process and follow up in 6 months to ensure the lender's compliance. (Audit Report: **2010-PH-1010**)



HUD OIG audited one HECM loan underwritten by Financial Freedom Senior Funding Corporation of **Irvine, CA**, which was identified during an internal audit of the HUD HECM program.

The loan was improperly insured as the property had several years of deferred property taxes, which is a violation of HECM regulations. Neither Financial Freedom's loan correspondent, 1ST AA Reverse Mortgage, Inc., nor the title company found that the property had property tax deferments, totaling more than \$14,000, covering approximately 20 years. As neither the originating lender nor the borrower had paid the taxes before the loan closed, HECM regulations were not followed, and the loan should not have been FHA insured. As of February 28, 2010, the loan's unpaid principal balance was nearly \$75,000, and the maximum claim amount was nearly \$78,000.

OIG recommended that HUD require Financial Freedom to indemnify it for the loan. (Audit Report: **2010-FW-1805**)

Review of Consumer Credit Counseling Services

HUD OIG audited Consumer Credit Counseling Services of the Midwest in **Columbus, OH**, an affiliate of the National Foundation for Credit Counseling, Inc., to determine whether Consumer Credit complied with HUD's requirements for housing counseling.

Consumer Credit did not comply with HUD's regulations and/or its agreement with the National Foundation. Specifically, it did not ensure that its (1) clients' housing counseling action plans were accurate and/or properly completed and (2) clients' files contained supporting documentation of the housing counseling activities. Further, Consumer Credit did not ensure that uncertified housing counselors were adequately trained and/or monitored and its housing counseling sessions were appropriately reimbursed by HUD. As a result, HUD lacked assurance that Consumer Credit's housing counseling services were effective and resulted in the best outcome for clients.

OIG recommended that HUD require Consumer Credit to (1) reimburse HUD nearly \$9,000 from non-Federal funds for the housing counseling sessions that received duplicate reimbursements or were funded by both HUD and an Ohio Department of Development grant, (2) maintain records of its housing counselors' training and monitoring of its housing counselors' housing counseling activities, and (3) implement adequate procedures and controls to ensure compliance with HUD's requirements and its agreement with the National Foundation if its contract is not cancelled. Such procedures and controls would ensure that more than \$126,000 in anticipated HUD grant funds for fiscal year (FY) 2011 (grant year October 1, 2010, through September 30, 2011) is used in accordance with established requirements and for its intended purposes.

OIG also recommended that HUD (1) require the National Foundation to cancel its agreement(s) with Consumer Credit to provide services under its housing counseling program(s) and (2) determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act (PFCRA) against Consumer Credit for incorrectly submitting claims for reimbursement for housing counseling sessions that were already reimbursed or did not comply with HUD's requirements and/or its agreement with the National Foundation. (Audit Report: **2010-CH-1014**)

Review of HUD's Management and Marketing Contractors for Real Estate-Owned Properties

HUD OIG audited Michaelson, Connor, and Boul, Incorporated (MCB), a management and marketing contractor for HUD real estate-owned properties in **Southfield, MI**, to determine whether MCB complied with HUD's requirements regarding the sale of HUD single-family real estate-owned homes (HUD homes) in Michigan, in particular the closing activities.

MCB did not adequately provide oversight of the closings on the sale of HUD homes. Specifically, it did not (1) always request lead-based paint stabilization services and/or city presale inspections in a timely manner or (2) adequately monitor the closing agents and report to HUD deficiencies with closing sales of HUD homes as required under its contract. As a result, HUD and MCB incurred an additional \$1 million plus in holding costs to maintain the homes in its inventory and lost the opportunity to receive nearly \$48,000 in proceeds as buyers cancelled their sales contracts due to closing delays.

OIG recommended that HUD (1) require MCB to provide documentation showing that the buyers cancelled their sales contracts for reasons other than delayed actions by MCB and/or the closing agents or reimburse HUD nearly \$48,000 from non-Federal funds for the losses HUD incurred on the sale of the two homes and (2) implement requirements for the new management and marketing contracts that provide specific responsibilities for performing activities under the contracts, including but not limited to requesting city presale inspections and lead-based paint stabilization, to ensure that sales of HUD homes close in a timely manner, and monitoring the closing agents for compliance with their contracts with HUD. Since MCB's contract was to expire on September 30, 2010, OIG did not recommend that MCB improve its procedures and controls regarding the oversight of the closings on HUD homes as it will no longer perform this function. (Audit Report: **2010-CH-1012**)



HUD OIG audited National Home Management Solutions in **Independence, OH**, HUD's management and marketing contractor for HUD real estate-owned properties in Ohio, to determine whether National Home complied with HUD's requirements regarding the sale of HUD single-family real estate-owned properties.

National Home did not fully comply with its HUD contract and HUD's requirements regarding the sale of HUD homes. It did not always notify backup bidders when the winning bidders failed to provide

executed sales contracts and/or accept prospective buyers' preliminary bids to purchase HUD homes in a timely manner. National Home also did not maintain adequate documentation to support (1) its reanalysis for homes that did not sell within the first 45 days of market exposure or (2) its rationale for accepting bids that were below HUD's minimum acceptable bid amounts and/or did not result in the highest net returns to HUD. As a result, HUD lacked assurance that National Home represented HUD's best interest in the management and marketing of its homes and maximized the net returns to the FHA insurance fund.

Further, OIG reviewed 10 HUD homes that were the subject of allegations regarding National Home's awarding of the homes to buyers who did not submit the highest bids. National Home received approval from HUD to award the homes when the winning bid amounts were below HUD's minimum acceptable bid amounts at the time the homes were listed on the market for sale or did not result in the highest net returns to HUD. However, National Home did not maintain documentation of its rationale for accepting the bids for 2 of the 10 homes as required under its HUD contract.

OIG recommended that HUD require National Home to (1) provide documentation showing that HUD approved the acceptance of the bids and the rationale for why acceptance of such bids would be in HUD's best interest, as required under its contract, or reimburse HUD more than \$36,000 from non-Federal funds for the losses HUD incurred on the five properties and (2) implement adequate procedures and controls to ensure compliance with its HUD contract, including but not limited to maintaining documentation to support its (a) rationale for approving bids below HUD's minimum acceptable bid amounts or bids that do not result in the highest net return to HUD, (b) analyses of homes that have been on the market in excess of 45 days, and (c) notification of backup bidders in accordance with its HUD contract. (Audit Report: **2010-CH-1009**)

Review of HUD's Single-Family Renewal Process

HUD OIG audited the FHA Title II single-family lender renewal process to determine whether FHA ensured that lenders submitted recertification requirements in a timely manner.

FHA did not ensure that lenders submitted recertification forms, annual fees, and/or audited financial statements in a timely manner. It did not promptly issue notices of violation to lenders that did not submit required annual recertification documentation and/or fees when due. As a result, FHA insured loans made by noncompliant lenders, putting the insurance fund at risk.

OIG recommended that HUD revise the recertification process to discontinue issuing notices of deficiency and issue notices of violation promptly for all lenders that do not submit or attempt to submit one or more of the required items by the due date. (Audit Report: **2010-KC-0002**)

Review of HUD's Office of Lender Activities and Program Compliance

HUD OIG audited HUD's Office of Lender Activities and Program Compliance, Quality Assurance Division, to determine whether HUD had adequate controls to track, obtain, and record indemnification agreements from lenders for materially deficient loans.

HUD had written policies and procedures for determining when an indemnification agreement was appropriate and how to process a signed agreement. However, it did not have written policies and procedures for pursuing the signed indemnification agreement from lenders.

OIG recommended that HUD develop and implement effective policies and procedures to ensure that its employees consistently pursue signed indemnification agreements. (Audit Report: **2010-KC-0003**)



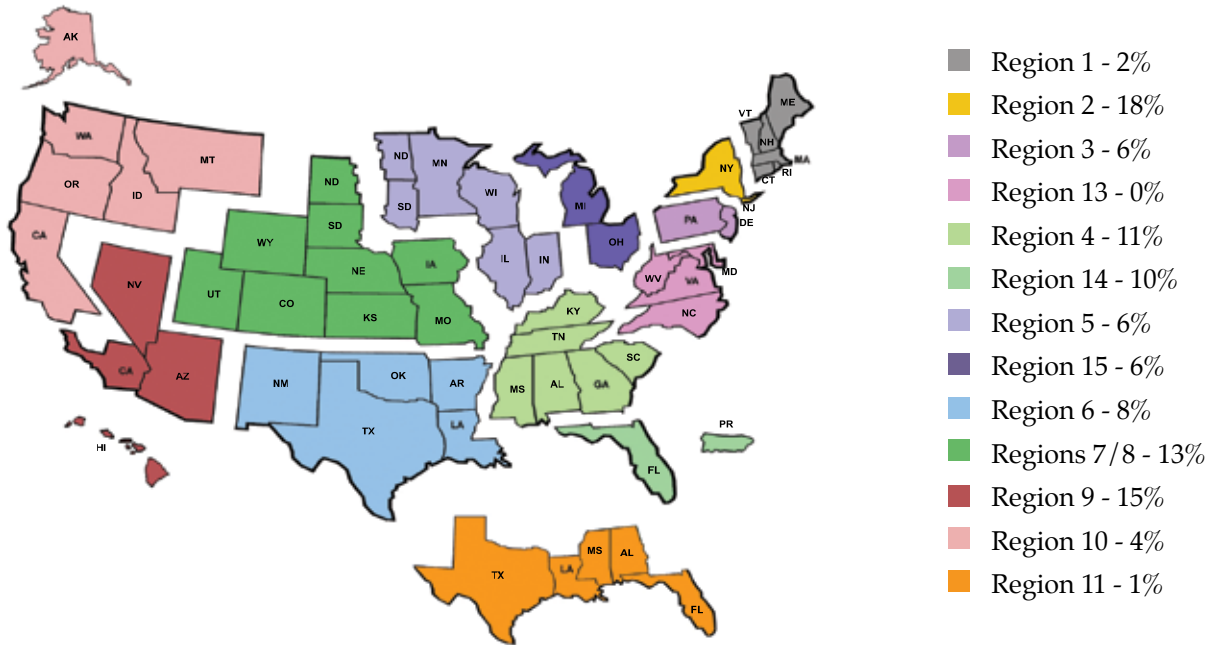
Investigations

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

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

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	72	\$111,975,850	125	128
Our focus	Page 17 Page 23 Page 24 Page 26	<ul style="list-style-type: none"> • Loan origination fraud • Home Equity Conversion Mortgage program fraud • Civil and administrative actions • Other single-family fraud 		

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



Loan Origination Fraud

Lee Farkas, a former chairman of Taylor, Bean & Whitaker Mortgage Corporation (Taylor), an FHA-approved direct endorsement lender and Government National Mortgage Association (Ginnie Mae) issuer, was arrested after his indictment in U.S. District Court, **Ocala, FL**, for allegedly committing a conspiracy and bank, wire, and securities fraud. Farkas and others allegedly sold phony or previously pledged loans to investors in the secondary mortgage market and caused Taylor to submit false statements to HUD and Ginnie Mae. HUD and Ginnie Mae realized losses in excess of \$1.9 billion.



Vincent Sirolli, the former president of the now-defunct Encore Mortgage, was sentenced in U.S. District Court, **Philadelphia, PA**, to 16 months incarceration and 3 years supervised release and ordered to pay HUD and other lenders more than \$4.4 million in restitution for his earlier guilty plea to making false statements to HUD and committing a conspiracy and wire and identity fraud. From March 2001 to March 2003, Sirolli and others provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$4.4 million after 183 mortgages defaulted.



Darrell and Kandace Marriott, the former owners of One Way Home and Land, were collectively sentenced in Navarro and Kaufman County District Courts, **Corsicana and Kaufman, TX**, to 89 years incarceration for their earlier guilty pleas to engaging in an organized criminal activity, securing the execution of documents by deception, or misapplication of fiduciary property. In addition, Consuelo Cisneros, a former employee of Energy Homes, was sentenced to 40 days incarceration and 5 years supervised release and ordered to perform 100 hours of community service for her earlier guilty plea to engaging in an organized criminal activity. From October 2003 to September 2008, Darrell and Kandace Marriott, Cisneros, and others forged home buyers' signatures and provided fraudulent information or documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$4.3 million after 74 mortgages defaulted.



Ex-executive indicted in home finance scam

U.S. alleges billions lost in collapse of mortgage firm, bank

BY DAVID CHO AND JERRY MARKON

The U.S. government accused the former chairman of one of the nation's largest mortgage firms of a multibillion-dollar scam Wednesday, unveiling what is to date the biggest criminal case related to the crisis that nearly brought down the financial system.

The Justice Department accused Lee Bentley Farkas of Taylor, Bean & Whitaker of committing a \$1.9 billion fraud against investors and the federal government that led to the demise of his firm and one of the nation's larg-

est regional banks, Colonial Bank in Alabama.

But beyond the indictment, federal officials described an even wider scheme, and they said the collateral damage to federal agencies has only begun to be tallied.

Taylor Bean allegedly hid how sick it had become, enabling the firm to fraudulently meet government conditions and become one of the largest business partners of the Federal Housing Administration and Ginnie Mae, federal agencies that cover losses suffered by mortgage lenders and their financiers. Federal officials said the scheme caused the two agencies' largest losses ever, totaling at least \$3 billion. The officials warned that the final figure could be higher.

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Marriott pleads again

Takes 28 year plea on Kaufman County mortgage fraud charges

By Loyd Cook Special to the Daily Sun

KAUFMAN - The legal travails of Darrell Lynn Marriott are apparently complete.

On Wednesday, in the 80th District Court of Kaufman County, Marriott accepted a 28-year sentence as part of a plea agreement with the Texas Attorney General's Office.

Marriott was convicted in connection with mortgage fraud connected with his Energy Homes business, that was located in Kemp.

"I feel justice is finally being done," said Tommy Hernandez, a special agent with the U.S. Department of Housing and Urban Development's Office of the Inspector General.

In July, Marriott pled guilty to similar charges in the 19th District Court of Navarro County, also accepting a 28-year sentence in prison for admitting guilt.

He did the same Wednesday in the Kaufman County Court.

"Are you pleading guilty because you are guilty and are admitting to your actions," asked District Judge Howard Oggett.

"Yes," Marriott answered.

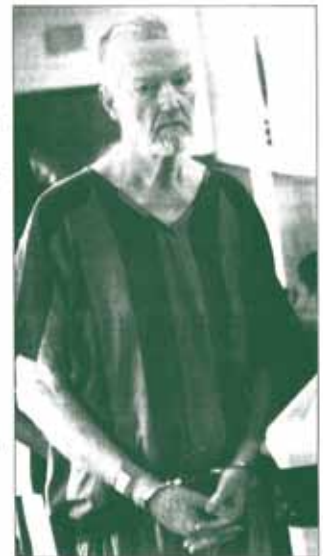
It marked the end of a

five-year legal process. Marriott's business, One Way Homes, was raided by FBI and HUD investigators in February 2005. The first indictments were obtained in 2008 in Navarro County and covered charges spanning four counties - including Ellis and Henderson counties, along with Navarro and Kaufman counties.

Wednesday's legal proceedings leave only Marriott's wife, Kandace, with a sentence undetermined. She received a 18-year sentence from a Navarro County jury in March 2009, but that sentence was overturned last month although an appeals court left the guilty verdict intact.

Outside the 80th District Court Wednesday, Texas assistant attorney general David Glueker would only say that Kandace Marriott "awaits re-sentencing" for her 2009 conviction.

Kandace's sister Karen Hayes reached a plea agreement for 10 years prison time in May last year for her Navarro County charges.



Special to the Daily Sun photo/Loyd Cook Darrell Lynn Marriott, left, pled guilty Wednesday in a Kaufman County Court, accepting a 28-year sentence in connection with organized crime activities connected with mortgage fraud.

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Leroy Hayden and Antonio Tavarez, a former manager and loan officer for the now-defunct U.S. Mortgage Corp. (U.S. Mortgage), each pled guilty in U.S. District Court, **Newark, NJ**, to committing a conspiracy to commit wire fraud. In addition, former U.S. Mortgage loan officer David Cobiauchi was sentenced to 36 months probation and ordered to pay HUD \$115,593 in restitution for his earlier guilty plea to committing a conspiracy to make false statements to HUD. Between December 1998 and February 2009, Hayden, Tavarez, Cobiauchi, and others fraudulently sold credit union mortgage loans to the Federal National Mortgage Association, used \$139 million in illicit proceeds to fund personal and business investments and U.S. Mortgage operations, or provided fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages on properties with inflated values. HUD realized losses of \$2.7 million after 100 mortgages defaulted.



Lorenzo Espinoza was sentenced in U.S. District Court, **Los Angeles, CA**, to 5 years incarceration and 3 years probation and ordered to pay HUD \$614,919 in restitution for his earlier guilty plea to committing money laundering, concealing assets and making false oaths and claims in a bankruptcy proceeding, and willfully failing to pay Federal income tax. Espinoza purchased multiple properties, obtained inflated appraisals, and resold the properties to straw borrowers who obtained FHA-insured mortgages. HUD realized losses in excess of \$2 million after 32 mortgages defaulted.



Gordon Miller, a registered agent for Canyon View Escrow, pled guilty in U.S. District Court, **Salt Lake City, UT**, to committing wire fraud. From July 2002 to December 2004, Miller and others identified properties surrendered to bankruptcy courts in a number of States, posed as bankruptcy court or financial institution representatives and secured quit claim deeds from the property owners, rented about 300 properties and collected rents but failed to remit mortgage loan payments, and used the rents collected for personal expenditures. HUD realized losses of about \$1.6 million after 45 mortgages defaulted.



Maria Contreras, a loan officer for Atlantic Pacific Mortgage Company, doing business as America's First Mortgage (America's First), an FHA-approved direct endorsement lender, pled guilty in U.S. District Court, **Fort Meyers, FL**, to committing loan application fraud. In addition, America's First president Juan Gonzalez and loan officer Mark Willberg were collectively sentenced to 12 months and 1 day incarceration, 180 days home detention, 5 years probation, and 3 years supervised release for their earlier guilty pleas to committing loan application fraud or making false statements; Gonzalez also paid HUD \$382,405 before sentencing, and Willberg was ordered to pay HUD \$154,325 in restitution. From June 2006 to December 2007, Gonzalez, Willberg, Contreras, and others created and submitted false information and documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$1.5 million after nine mortgages defaulted.



Stilianos and Kyriakos Mavroulis, the president and vice president of Fidelity Home Mortgage Corporation (Fidelity), were each indicted in U.S. District Court, **Baltimore, MD**, for allegedly committing a conspiracy to defraud Ginnie Mae. From 2007 to November 2008, Stilianos and Kyriako Mavroulis allegedly conspired, caused the submission of fraudulent Fidelity reports to Ginnie Mae, and failed to pay Ginnie Mae about \$1.3 million in FHA-insured mortgage claim funds.



Stafford Hilaire, a former vice president and loan officer of Catalina Century Mortgage, was sentenced in U.S. District Court, **Denver, CO**, to 32 months incarceration and 24 months supervised release and ordered to pay HUD and others \$397,237 in restitution and forfeit \$10,934 for his earlier conviction of committing money laundering and a conspiracy to defraud the United States. Hilaire and others submitted or caused the submission of fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of about \$1.25 million after 25 mortgages defaulted.



Rito and Rosemary Diaz, real estate agents for Realty World, Familia Reality, Home Life, and Network Realty, were collectively sentenced in U.S. District Court, **Los Angeles, CA**, to 12 months and 1 day incarceration and 72 months supervised probation and ordered to pay HUD \$832,566 and First Magnus Financial \$93,442 in restitution for their earlier guilty pleas to committing mail fraud and aiding and abetting. From 1997 to 2001, Rito and Rosemary Diaz provided or submitted fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$832,555 after 16 mortgages defaulted.



Harold Meza, a former real estate agent for JLF Properties (JLF), pled guilty in U.S. District Court, **Riverside, CA**, to committing a conspiracy. In addition, former JLF real estate agent Karla Preciado, also known as Karla Venegas, was sentenced to 3 years probation and ordered to pay HUD \$167,781 in restitution for her earlier guilty plea to committing a conspiracy. From 2003 to 2006, Meza, Preciado, and others created or provided fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$545,789 after 18 mortgages defaulted.



Timothy Johnson and Pamela Terrell were each charged in U.S. District Court, **Birmingham, AL**, with allegedly making false statements, committing mail fraud, or providing a false statement to Federal investigators. In addition, Tamiko Davis pled guilty to making false statements. In 2007, Johnson allegedly created and mailed fraudulent Social Security Administration award letters allegedly used by Terrell and other unqualified borrowers to obtain FHA-insured mortgages, and from October 2007 to January 2010, Davis created fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of about \$400,000 after four mortgages defaulted.



Dema Daiga and Olu Campbell were each convicted in U.S. District Court, **Baltimore, MD**, of committing wire fraud and aggravated identity theft and aiding and abetting. From August 2008 to January 2010, Daiga and Campbell used false identities to purchase properties and provided or submitted false information and fraudulent documents used by straw borrowers to obtain FHA-insured and conventional mortgages. HUD realized a loss of \$395,000 after one mortgage defaulted.



Kenneth Lagonie, the president of Quality Homes Are Us, and Katrina Arrington, a former mortgage loan processor for the now-defunct N.J. Affordable Homes (Affordable Homes), were collectively sentenced in U.S. District Court, **Newark, NJ**, to 56 months incarceration and 72 months supervised release and ordered to pay a number of victims more than \$53 million in restitution for their earlier guilty pleas to committing a conspiracy to commit wire fraud or defraud the United States. In addition, former Affordable Homes owner Wayne Puff, real estate appraiser Michael Meehan, closing attorney Mitchell Fishman, and Sydney Raposo,

each previously sentenced for their earlier guilty pleas to making false statements to HUD or committing wire fraud or a conspiracy to commit wire fraud, were debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government indefinitely. Between March 2003 and September 2005, the above defendants and others provided false information to lure investors or created and submitted fraudulent appraisals and other loan documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$327,839 after three mortgages defaulted.



Tamiko Alston, the former owner of Above All Title & Escrow, pled guilty in U.S. District Court, **Norfolk, VA**, to committing a conspiracy to commit mail and wire fraud. From September 2007 to June 2008, Alston assisted unqualified borrowers who obtained FHA-insured and conventional mortgages and created fraudulent HUD-1 settlement statements that failed to report the receipt and disbursement of actual settlement funds. HUD realized losses in excess of \$275,000 after five mortgages defaulted.



Derrick Boamah was arrested and charged in U.S. District Court, **Worcester, MA**, with allegedly making false statements and committing wire fraud. From May to October 2006, Boamah allegedly provided false information on mortgage applications and fraudulently obtained FHA-insured and conventional mortgages. HUD realized a loss of \$257,099 after his mortgage defaulted.



A.J. Adewunmi, a former owner of Re/Max Associates Plus (Re/Max) and Cots Realty, and former Re/Max real estate agents Christian Juan and Patricia Olmos were each indicted in U.S. District Court, **St. Louis, MO**, for allegedly making false statements and committing a conspiracy and mail and wire fraud. The above defendants allegedly conspired and provided false documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$239,000 after four mortgages defaulted.



Charles Smith, the owner of Smith's Properties, and Smith's Properties salesman Clarence Holt were each indicted in U.S. District Court, **Sumter, SC**, for allegedly causing false statements to be submitted to HUD. Smith and Holt allegedly caused the submission of fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$231,679 after four mortgages defaulted.



Anthony Palermo, the president of First Start Mortgage, an FHA-approved lender; FHA borrowers Dereck Czerniak and Alexander Abramovich; and Jimmy Pililimis were each charged in Cook County Circuit Court, **Chicago, IL**, with allegedly committing theft, attempted identity theft, and financial institution and loan fraud. The above defendants allegedly created or provided fraudulent documents to obtain FHA-insured mortgages. HUD realized a loss of about \$150,000 after one mortgage defaulted.



Lashwanda Smith was sentenced in DeKalb County Superior Court, **Atlanta, GA**, to 10 years probation for her earlier guilty plea to committing residential mortgage fraud. In December 2005, Smith provided

fraudulent documents and obtained an FHA-insured mortgage. HUD realized a loss of \$115,407 after her mortgage defaulted.



Rebecca Loeffler, also known as Rebecca Bischoff, was sentenced in U.S. District Court, **Kansas City, MO**, to 5 years probation and ordered to pay HUD \$115,051 in restitution for her earlier guilty plea to making a false statement. In July 2007, Loeffler provided false information and obtained an FHA-insured mortgage. HUD realized a loss of \$115,051 after her mortgage defaulted.



Doris Strickland, a fabricated employee of the James and Albert Group, also known as the James and Albert Corporation, pled guilty in U.S. District Court, **Cleveland, OH**, to committing a conspiracy, forgery, and bank fraud. Strickland and others provided fraudulent documents to obtain FHA-insured and conventional mortgages. HUD realized a loss of \$112,763 after one mortgage defaulted.



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



Rab Nawaz, the owner of Excellent Painting; Syed Babar; and eight additional individuals were each charged in superseding indictments filed in U.S. District Court, **New Haven, CT**, with allegedly making false statements and committing a conspiracy to commit wire fraud or defraud the United States; Nawaz was also charged with allegedly obstructing justice. From February 2007 to April 2010, Nawaz, Babar, and others allegedly conspired, resold properties at inflated values, and provided false information or fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized a loss of \$75,000 after one mortgage defaulted.



Patricia Donaldson was indicted in Dallas County District Court, **Dallas, TX**, for allegedly engaging in an organized crime, making false statements to obtain property or credit, and tampering with a government record. Donaldson allegedly conspired with others and created or provided fraudulent documents used by an unqualified borrower to obtain an FHA-insured mortgage. HUD realized a loss of \$60,358 after the mortgage defaulted. In addition, Donaldson allegedly used a false Social Security number (SSN) and fraudulently obtained Federal student loans.



LeeAnn Bible pled guilty in U.S. District Court, **Fort Worth, TX**, to making false entries to HUD. In October 2002, Bible provided fraudulent documents and obtained an FHA-insured mortgage. HUD realized a loss of \$18,277 after her mortgage defaulted.



More than 30 individuals were arrested and charged or indicted in U.S. District Court, **Manhattan, NY**, for allegedly committing a conspiracy to commit bank and wire fraud. Dubbed "Operation Stolen Dreams," the above defendants allegedly participated in FHA-insured and conventional mortgage fraud schemes that involved counterfeit documents, straw buyers, and fraudulent loan modification programs. HUD losses have not yet been determined.



Raquel Berger, a realtor for Exit Dream Home Realty, Inc., and 28 other individuals were each indicted or charged in U.S. District Court, **Newark, NJ**, for allegedly committing a conspiracy to commit wire fraud, and 26 of the above defendants were arrested. The above defendants allegedly conspired and created or provided fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD losses have not yet been determined.



Fourteen individuals employed as mortgage loan brokers, real estate agents, tax professionals, and other professions were each indicted in U.S. District Court, **Los Angeles, CA**, for allegedly making false statements and committing bank fraud and a conspiracy to commit bank fraud. The above defendants allegedly provided fraudulent documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD losses have not yet been determined.



Gregory Newsome, a loan officer for Universal Bancorp; Alan Greer, a realtor for CNR & I; FHA borrowers Eddie Greer and Brenda Strong; and Johnny Webb and Nicole Johnson, also known as Nicole Jones, were each charged in Cook County Circuit Court, **Chicago, IL**, with allegedly organizing a financial crimes enterprise and committing theft, money laundering, a conspiracy to commit financial crimes, and a continuing financial crimes enterprise. From 2007 to 2009, the above defendants allegedly conspired and provided false information or fraudulent documents to obtain FHA-insured and conventional mortgages. HUD losses have not yet been determined.



Lauro Gutierrez, the owner of LG Home Improvements, Inc., was indicted in U.S. District Court, **Brooklyn, NY**, for allegedly committing a conspiracy to commit bank and wire fraud. From April 2006 to July 2008, Gutierrez allegedly provided fraudulent employment verifications used by unqualified borrowers to obtain FHA-insured mortgages. HUD losses have not yet been determined.



David Vickers, a general contractor with J & G Homes, Inc., was charged in a superseding indictment filed in U. S. District Court, **Jacksonville, FL**, with allegedly committing a conspiracy to commit wire, mail, and bank fraud. Vickers and others allegedly provided downpayment funds and assisted unqualified borrowers who obtained FHA-insured mortgages. HUD losses have not yet been determined.



Great Country Mortgage Bankers loan officers Curtis Poore, Fermin Bergouingnan, and William Alonso each pled guilty in U.S. District Court, **Miami, FL**, to committing a conspiracy to commit wire fraud. In addition, Jose Cazas, a developer for the Cedar Pointe Condominiums, was sentenced to 33 months

incarceration and 36 months supervised release for his earlier guilty plea to committing a conspiracy to commit wire fraud. From April 2007 to January 2008, the above defendants and others created and submitted false information and fraudulent documents used by unqualified borrowers to obtain 46 FHA-insured mortgages. Since the City of Miami condemned the Cedar Pointe Condominiums and the units cannot convey, HUD paid no claims and realized no losses.



Rhode Island State Senator Christopher Maselli was charged in U.S. District Court, **Providence, RI**, with allegedly committing bank fraud. From December 2007 to March 2009, Maselli allegedly provided false information and fraudulent documents when he obtained four FHA-insured mortgages and other consumer loans. HUD realized no losses.



Giovanni Barreto, an Internal Revenue Service revenue officer, was arrested after his indictment in U.S. District Court, **Camden, NJ**, for allegedly making false statements and committing wire fraud and aggravated identity theft. Barreto allegedly provided false information and forged his estranged wife's signature on a number of documents relating to the origination of an FHA-insured mortgage.

Home Equity Conversion Mortgage Program Fraud

Jonathan Kimpson pled guilty in U.S. District Court, **Atlanta, GA**, to committing a conspiracy and aggravated identity theft. From October 2007 to February 2010, Kimpson and others conspired and created or submitted false information or fraudulent documents used by elderly borrowers to obtain inflated reverse mortgages through the HUD HECM program and diverted the illicit equity proceeds obtained into accounts they controlled. HUD realized losses in excess of \$1 million.



Mary Fulbright was indicted in U.S. District Court, **Rochester, NY**, for allegedly committing bank fraud. From October to December 2008, Fulbright allegedly used a quit claim deed and illegally changed the ownership of her father's property, provided false information and used a power of attorney document to certify and close on a reverse mortgage through the HUD HECM program in her father's name, and fraudulently obtained \$176,364 in equity proceeds she was not entitled to receive.



Norma Cheesman, a former elderly health care provider, was arrested and charged in King County Superior Court, **Seattle, WA**, with allegedly committing forgery, theft, and attempted theft. Between 2007 and August 2008, Cheesman allegedly deceived an elderly couple in her care and misappropriated and used about \$157,700 in equity proceeds they had obtained through the HUD HECM program.



Julia Jerome was indicted in Richland County Court of General Sessions, **Columbia, SC**, for allegedly exploiting a vulnerable adult. Between February and November 2008, Jerome allegedly assisted an elderly homeowner who applied for and obtained a reverse mortgage through the HUD HECM program and fraudulently used \$52,815 in equity proceeds that belonged to the victim.



Marilyn James was charged in Jackson County Circuit Court, **Kansas City, MO**, with allegedly committing forgery and financial exploitation of the elderly or disabled. James allegedly filed a quit claim deed and transferred ownership of a property to an elderly individual suffering from Alzheimer's disease, used the victim's identity and applied for a reverse mortgage through the HUD HECM program, and fraudulently obtained \$64,000 in equity proceeds. In addition, James allegedly obtained \$9,000 after she fraudulently applied for a loan against the victim's life insurance policy.



Benjamin Okeke, a loan officer for Beli Commercial Mortgage, was indicted in Davidson County General Sessions Court, **Nashville, TN**, for allegedly committing theft. In February 2010, a HUD HECM program applicant provided Okeke with \$3,494 to settle a credit card debt before his loan closing, but Okeke allegedly stole and personally used these funds.

Civil and Administrative Actions

John Munson, the former president of Anchor Mortgage Corporation (Anchor Mortgage), and Anchor Mortgage were each found liable in U.S. District Court, **Chicago, IL**, and ordered to pay the U.S. Department of Justice more than \$2.9 million for violating the False Claims Act. From 1996 to 2000, Munson and previously convicted Anchor Mortgage employees created or submitted fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages, and Anchor Mortgage failed to report referral fees it obtained from previously convicted Casalinda Realty employees on HUD-1 settlement statements. HUD realized losses in excess of \$1 million after 11 mortgages defaulted.



Ideal Mortgage Bankers, doing business as Lend America, was issued a permanent civil injunction filed in U.S. District Court, **Brooklyn, NY**. The civil injunction prevents Lend America and Lend America employees or agents from submitting claims for FHA insurance on loans in default. In addition, Lend America is prohibited from originating, underwriting, or submitting loans to be insured by FHA or participating in any Federal program involving mortgage loans. To date, HUD has realized losses in excess of \$860,000 after six mortgages defaulted.



Daniel Fox, a former real estate closing attorney previously sentenced in U.S. District Court, **Newark, NJ**, for his earlier guilty plea to making false statements to HUD, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 60 months. From October 2000 to November 2008, Fox and others created and provided fraudulent

Charges in fraud scheme

KC case is linked to reverse mortgage program. Prosecutors hope to send a message.

By TONY RIZZIO
The Kansas City Star

It is the tip of what could prove to be a very large financial fraud iceberg.

Jackson County prosecutors and federal officials said Thursday that they have filed criminal charges in a fraud scheme involving the government-sponsored reverse mortgage program — only the second such case filed nationally.

But they warned that criminals are looking for ways to cash in as the reverse mortgage program gains popularity.

"It's more of an emerging trend," said Michael Powell of the U.S. Department of Housing and Urban Development's office of inspector general. "We're starting to see it as a

bigger problem."

Jackson County Prosecutor Jim Kanatzar said at a news conference Thursday that the victim in the Kansas City case was an 89-year-old man who has Alzheimer's disease.

Marilyn R. James, 55, of Kansas City, was charged this week in Jackson County Circuit Court with financial exploitation of an elderly person and two counts of forgery. All the charges are felonies.

Kanatzar said James gained the victim's trust and obtained access to his financial information.

According to the allegations, James fraudulently obtained a reverse mortgage in the victim's name on a piece of property in the 1300 block of East 28th Street. The \$64,000 obtained in the transaction was subsequently deposited in her bank account, prosecutors allege.

The victim was unaware of the transactions, according to court documents.

Officials said that the reverse mortgage program is designed to allow people age 62 or older to borrow money against the equity in their homes.

Repayment is made only after the death of the owner or the sale of the property, or if the person no longer lives in the home.

Kanatzar said that he hoped the case would send the message that those who prey on the elderly will be vigorously prosecuted. The financial exploitation charge carries a potential life sentence, he said.

HUD officials said they operate a toll-free hot line to handle complaints or concerns about fraud. The number is 1-800-347-3735.

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documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$603,074 after 11 mortgages defaulted.



Nathan Russo, a mortgage broker and vice president of Action Mortgage Corporation who was previously indicted in U.S. District Court, **Hartford, CT**, for allegedly making false statements and committing a conspiracy to commit wire fraud, was suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. In addition, Action Mortgage Corporation, a HUD-approved loan correspondent, was suspended from approving FHA-insured loans for a minimum of 6 months for its failure to report the Russo indictment to HUD. From February 2007 to April 2010, Russo and others allegedly conspired and resold properties at inflated values or provided false information or documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of \$75,000 after one mortgage defaulted.



FHA mortgage lender W.R. Starkey Mortgage, LLP (Starkey), and George Varsamis, a former salesperson for K and B Homebuilders and Homes America, a subsidiary of the Phoenix Housing Group, each entered into consent judgments filed in North Carolina Superior Court, **Raleigh, NC**, and collectively agreed to pay more than \$4.5 million in compensatory damages to the North Carolina Department of Justice and a number of victims. From 2007 to 2008, Starkey and its employees or agents allegedly used false information and assisted unqualified borrowers who obtained about 171 FHA, U.S. Department of Agriculture, or conventional mortgages, and Varsamis allegedly engaged in unfair and deceptive practices involving the sale and financing of manufactured and modular homes. The consent judgment also permanently enjoins Varsamis from engaging in real estate, lending, or other related activities.



Jermaine Spencer, a former HUD Officer / Teacher Next Door program participant and Bureau of Prisons employee who previously pled guilty in U.S. District Court, **Denver, CO**, to submitting false statements, entered into a PFCRA settlement and agreed to pay HUD \$83,800. In 2003, Spencer obtained a HUD-owned property and received a \$72,500 discount but failed to reside in the property or report his nonresidency on HUD certifications.



Clay Preuit, a former officer of Transnation Title & Escrow who previously pled guilty in U.S. District Court, **Boise, ID**, to aiding and abetting, entered into a PFCRA settlement and agreed to pay HUD \$10,000. In 1998, Preuit assisted an unqualified borrower who submitted false information to obtain an FHA-insured mortgage.

Other Single-Family Fraud

Eleven individuals were each indicted in Dallas County District Court, **Dallas, TX**, for allegedly securing the execution of documents by deception. The above defendants allegedly used false SSNs to obtain FHA-insured mortgages. HUD realized losses of \$452,547 after nine mortgages defaulted.



Louis Luevano, also known as Ray Luevano, a former real estate broker for Harvest Realty who was previously sentenced to 6 years incarceration and 5 years parole for his earlier conviction of offering a false instrument for recording and committing theft, a conspiracy to commit theft, a conspiracy in an attempt to influence a public servant, forgery, and computer crimes, appeared in Adams County District Court, **Brighton, CO**, and was ordered to pay HUD \$378,045 in restitution. Luevano and others provided false SSNs and fraudulent documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$378,045 after five mortgages defaulted.



Gennaro Rauso, the owner of D&B Property Investors, was charged in U.S. District Court, **Philadelphia, PA**, with allegedly committing bankruptcy and mail fraud, equity skimming, and a number of Federal income tax violations. Rauso allegedly persuaded more than 200 distressed homeowners to transfer the ownership of their properties to him, including four properties with FHA-insured mortgages, and filed fraudulent bankruptcy petitions to delay foreclosure proceedings. HUD realized losses of \$118,000 after four mortgages defaulted.



Jason Martinez, a real estate agent and mortgage broker for Merit Mortgage Financial, LLC, was sentenced in U.S. District Court, **Tampa, FL**, to 36 months incarceration and 60 months probation and ordered to undergo 500 hours in a drug control program and pay HUD \$15,500 and others more than \$2.9 million in restitution for his earlier guilty plea to committing theft of government funds and a conspiracy to commit mail and wire fraud. From February 2005 to May 2007, Martinez assisted straw buyers with the fraudulent purchase of five HUD real estate-owned properties, including a property purchased by his spouse through the HUD Officer / Teacher Next Door program. HUD realized a loss of \$15,500 after one mortgage defaulted.



Richard Swoveland was sentenced in Marion County Superior Court, **Indianapolis, IN**, to 9.5 years incarceration for his earlier guilty plea to committing theft and forgery. From December 2009 to March 2010, Swoveland entered five HUD real estate-owned properties without authorization, fraudulently claimed ownership of the properties, and collected about \$6,250 in tenant security deposits and rents.



John Murphy, the former president of Alliance Mortgage Banking Corporation (Alliance), a HUD-approved direct endorsement lender, pled guilty in U.S. District Court, **Central Islip, NY**, to committing bank fraud. Murphy fraudulently used more than \$3.3 million in restricted funds from the Alliance warehouse line of credit and issued checks for 36 mortgage loans, including eight FHA-insured mortgages, without sufficient funds in the Alliance bank account.



Kiya McNeal, an owner of Lloyds and Handson Abstracts of Philadelphia (Lloyds and Handson), was charged in U.S. District Court, **Philadelphia, PA**, with allegedly committing wire fraud. From May 2008 to January 2009, McNeal allegedly prepared false HUD-1 forms and electronically diverted and personally used more than \$225,000 in Lloyds and Handson settlement funds, including funds associated with an FHA-insured mortgage.



Antone Thompson, doing business as TnT Engineering, was indicted in U.S. District Court, **Salt Lake City, UT**, for allegedly making false statements to HUD. From February 2005 to July 2008, Thompson allegedly completed, certified, and submitted more than 70 manufactured housing engineering reports to HUD after his engineering license had been suspended. HUD losses have not yet been determined.



JoAnn Williams was arrested and charged in Queens County Criminal Court, **Queens, NY**, with allegedly committing forgery, grand larceny, and identity theft; criminal or unlawful possession of a forged instrument, stolen property, and personal identification; falsifying business records; and offering a false instrument for filing. From May 2007 to August 2010, Williams allegedly filed false documents with HUD, fraudulently obtained an FHA mortgage insurance reimbursement check, forged the victim's signature, and deposited the illicit funds into her bank account. HUD losses have not yet been determined.



Darius Morris and James Smith were each arrested and charged in Wayne County District Court, **Detroit, MI**, with allegedly committing arson, a conspiracy to commit arson, and money laundering; using a computer to commit a crime under false pretenses; and conducting a criminal enterprise. In addition, George Mealy and Walter McNabb each pled guilty to committing arson and obtaining property by false pretenses. Morris and Smith allegedly and Mealy and McNabb admittedly illegally entered and fraudulently sold more than 20 HUD and other bank-owned properties and destroyed one property by arson. HUD losses have not yet been determined.



Taeana Stokes was sentenced in U.S. District Court, **Springfield, IL**, to 13 months incarceration and 3 years probation for her earlier conviction of committing bankruptcy fraud. From February 2003 to January 2006, Stokes failed to report four prior bankruptcies on her current bankruptcy petition and submitted forged documents in an effort to delay FHA foreclosure proceedings and obtain additional credit. HUD losses have not yet been determined.



Scott Archer, founder of Dominion Investment Group, was arrested and charged in Genesee County District Court, **Flint, MI**, with allegedly committing a criminal enterprise and crimes under false pretenses. Archer allegedly claimed ownership of 70 homes, including two HUD real estate-owned properties, and fraudulently transferred the ownership of these properties to other individuals. HUD losses have not yet been determined.



John Hemphill, doing business as United States Mortgage Release Corporation, was convicted in U.S. District Court, **Chicago, IL**, of committing mail fraud and impersonating an officer, agent, or employee acting under the authority of the United States. From May to October 2009, Hemphill filed fictitious deeds and transferred the ownership of properties belonging to others, including a HUD real estate-owned property, and posed as a Federal receiver to prospective buyers. HUD losses have not yet been determined.



Robert Mora was sentenced in Maricopa County Superior Court, **Phoenix, AZ**, to 60 months probation and ordered to pay the Maricopa County Sheriff's Office and a number of victims \$272,960 in restitution for his earlier guilty plea to committing forgery. Mora and others filed fraudulent ownership deeds and obtained equity loans on properties they did not own, including a property with an FHA-insured mortgage. HUD losses have not yet been determined.



Jeffrey Weems pled guilty in Wayne County Circuit Court, **Detroit, MI**, to breaking and entering, and Kenneth Collins was sentenced to 1 year probation for his earlier guilty plea to breaking and entering. Weems and Collins entered two HUD real estate-owned properties and removed the furnaces and water heaters from both properties. HUD losses have not yet been determined.



Inspections and Evaluations

ACORN Housing Corporation, Inc., Evaluation of HUD Housing Counseling Grant Expenditures

In response to a congressional request, HUD OIG performed an evaluation of grant funds awarded under HUD's Housing Counseling Program to ACORN Housing Corporation, Inc. (AHC), now operating as Affordable Housing Centers of America (AHCOA), to determine whether AHC used its FY 2008 and 2009 HUD grant funds, totaling more than \$3.2 million, in compliance with grant agreement requirements. Tests focused on HUD funds used to pay the salary and fringe benefit costs (salary expenses) of AHC staff that provided housing counseling directly to clients. More than \$2.5 million was charged to the HUD grants as salary expenses (more than \$1.3 million or 83 percent in FY 2008 and nearly \$1.2 million or 73 percent in FY 2009).

Salary expenses charged by AHC to the HUD housing counseling grants were not fully supported. Payroll records did not comply with Office of Management and Budget (OMB) Circular A-122; for example, time sheets did not distribute hours by grant. Further, the caseload allocation method used by AHC to determine the amount of HUD-chargeable salary expenses was problematic and unsupported. Consequently, HUD had no assurance that the counselors' salary expenses charged to the HUD grants reflected grant-eligible services. Also, ineligible salary expenses, totaling \$65,548, were charged to the FY 2009 HUD grant, and Federal procurement standards at 24 CFR (Code of Federal Regulations) Part 84, which require "open and free" competition, were not met.

OIG recommended that HUD require AHCOA to reimburse the program for unsupported and ineligible salary expenses charged to the HUD housing counseling grants and implement a time and activities system that meets OMB Circular A-122 requirements. Further, AHCOA needs to implement a procurement system that complies with 24 CFR Part 84. OIG also recommended that HUD consider placing AHCOA in "inactive" status while it initiates corrective actions to address the exceptions and recommendations noted and provide AHCOA with technical guidance and assistance as needed. (I&E Report: IED-10-002)

Evaluation of the Effectiveness of HUD's Credit Watch Termination Initiative in Deterring Deficiencies in the Performance of Lenders' Loans

HUD OIG evaluated HUD's Credit Watch Termination Initiative (Credit Watch) to determine whether it was used effectively to deter deficiencies and substandard performance in FHA single-family lending and whether Credit Watch could be manipulated, allowing lenders to avoid HUD's scrutiny and program sanctions.

While a past instance in which a lender manipulated the Credit Watch program to avoid HUD scrutiny (i.e., closing an "at-risk" branch office approaching the 200 percent termination threshold and then opening a new branch office in the same lending area to originate loans) was noted, the review did not disclose a systemic problem. Credit Watch statistical reports effectively identified lender branch offices with unacceptable high default and claim rates. However, historically, (1) Credit Watch analyses and sanctions were narrower in scope than permitted by Federal regulations, (2) results of the analyses were not routinely shared or coordinated with other departmental oversight efforts, and (3) procedures for proposed termination actions were not available and records were incomplete. One other matter was

noted concerning procedures for determining and supporting the de minimis amount used to identify lenders that are subject to the Credit Watch process.

OIG recommended that HUD establish a formal process to better coordinate the Credit Watch results with other departmental oversight efforts. Further, HUD needs to formally document its procedures for postponing and withdrawing proposed Credit Watch terminations and establish a uniform record-keeping system for the process and results. OIG also recommended that HUD formally document its procedures for the de minimis amount and ensure that the basis for the amount is supported. (I&E Report: **IED-10-003**)



Chapter 2

Public and Indian Housing Programs



The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to 4,100 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair. In addition to the audits and investigations described in this chapter, the HUD's Office of Inspector General (OIG), has conducted a number of outreach efforts (see chapter 8, page 118).

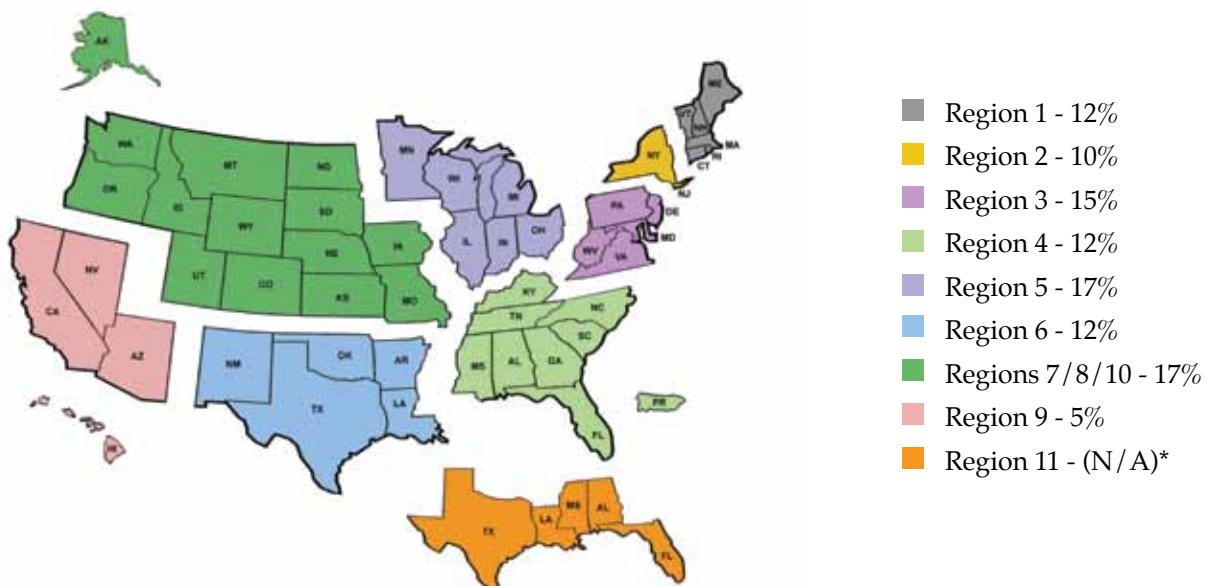
Audit

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

Key program results		Questioned costs	Funds put to better use
Audit	41 audits*	\$39.3 million	\$40.1 million
Our focus	Page 33	<ul style="list-style-type: none"> Section 8 Housing Choice Voucher and leased housing program activities at public housing agencies 	
	Page 37	<ul style="list-style-type: none"> Public housing and voucher programs 	
	Page 38	<ul style="list-style-type: none"> Public housing program activities 	
	Page 41	<ul style="list-style-type: none"> Review of public housing authorities to determine whether multifamily property owners were overpaid 	

* The total public and Indian housing audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (18 audits) and disaster recovery (1 audit) type audits conducted in the public and Indian housing area. The writeups for these audits are shown separately in chapters 5 and 6 of this semiannual report.

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



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

During this reporting period, OIG reviewed HUD's controls over the Section 8 Housing Choice Voucher and leased housing programs, public housing and voucher programs, and public housing activities.

Section 8 Housing Choice Voucher and Leased Housing Program Activities at Public Housing Agencies

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



HUD OIG audited the Philadelphia Housing Authority in **Philadelphia, PA**, regarding the administration of its housing quality standards inspection program for its Section 8 Housing Choice Voucher program and found that the Authority did not ensure that its program units met housing quality standards as required. Of 67 program units inspected, 62 did not meet HUD's housing quality standards, 29 of which were in material noncompliance with HUD's standards. The Authority spent nearly \$69,000 in program funds and received more than \$2,000 in administrative fees for these 29 units.

OIG recommended that HUD require the Authority to (1) ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards, (2) reimburse its program from non-Federal funds for the improper use of program and administrative funds for units that materially failed to meet HUD's housing quality standards, and (3) implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards to prevent an estimated \$18.6 million from being spent annually on units that materially fail to meet HUD's standards. (Audit Report: **2010-PH-1011**)



HUD OIG audited the Housing Authority of the City and County of **San Francisco, CA**'s Section 8 housing quality standards inspections of Housing Choice Voucher program-funded housing units and found that the Authority did not conduct its housing quality standards inspections of voucher-funded housing units in accordance with HUD rules and regulations. Of the 65 housing units inspected, 58 did not meet housing quality standards, and 46 of those units had material deficiencies.

OIG recommended that HUD require the Authority to (1) repay HUD more than \$279,000 in expended housing assistance payments for housing units that were deemed materially deficient; (2) establish and implement policies, procedures, and controls regarding its inspection

PHA repairs lacking, audit says

The city challenged what it called a "flawed" federal study of the rental-subsidy program.

By Jennifer Lin
INQUIRER STAFF WRITER

A federal audit of the Philadelphia Housing Authority's rental-subsidy program found that the agency was not ensuring the quality of housing units in the Section 8 program.

In a report Wednesday, auditors for the U.S. Department of Housing and Urban Development said 62 of the 67 sampled units had not met HUD's standards. The audit was conducted in late 2009.

The report recommended that PHA ensure that the units were repaired, refund HUD \$71,000 from nonfederal funding, and implement procedures and controls to prevent problems.

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process to prevent more than \$11.4 million in HUD funds from being spent on housing units with material housing quality standards deficiencies; and (3) verify that the applicable owners have taken appropriate corrective action regarding the housing quality standards deficiencies identified or take enforcement action. (Audit Report: 2010-LA-1015)



HUD OIG audited the Section 8 Project-Based Voucher program at the DuPage Housing Authority in **Wheaton, IL**, and found that the Authority inappropriately administered its program. It lacked the required eligibility documentation for its program projects to support more than \$3.4 million in housing assistance payments. Further, it made improper housing assistance payments, totaling more than \$33,000, for 8 months before the effective dates of two housing assistance payments contracts.

The Authority executed housing assistance payments contracts with inappropriate contract rents. The contract rents for 6 of the Authority's 11 projects exceeded the maximum allowable amounts according to HUD's requirements. Based on the inappropriate contract rents, the Authority overpaid nearly \$270,000 in housing assistance.

The Authority did not properly select program households from waiting lists. It allowed its program projects to select the households and did not perform quality control reviews of the selection process. As a result, it inappropriately paid more than \$188,000 in housing assistance for 14 households that did not meet project eligibility requirements and was unable to support more than \$57,000 in housing assistance payments for 3 households. Further, it underpaid \$200 in housing assistance for two households.

OIG recommended that HUD require the Authority to (1) reimburse its program from non-Federal funds for the improper use of more than \$600,000 in program funds, (2) provide documentation or reimburse its program from non-Federal funds nearly \$4 million in program funds, and (3) implement adequate procedures and controls to address the findings cited. These procedures and controls should help to ensure that nearly \$200,000 in program funds is spent on program administration that meets HUD's requirements over the next year. OIG also recommended that HUD review the Authority's household selections to ensure that they comply with HUD's requirements. If the Authority fails to comply with HUD's requirements, HUD should take appropriate action against the Authority and/or its applicable employee(s). (Audit Report: 2010-CH-1008)



HUD OIG audited the Section 8 Housing Choice Voucher and low-income public housing programs of the Waltham Housing Authority in **Waltham, MA**, and found that the Authority generally administered the programs efficiently and effectively and in compliance with its annual contributions contract and HUD regulations. It also generally accounted for the use of its Section 8 administrative and local reserves to ensure proper use. However, it did not (1) properly account for and report interprogram fund transactions between its Federal and State programs, resulting in nearly \$3.9 million in unsupported transactions being recorded in its program accounts; (2) provide support and justification for nearly \$552,000 in contracts to show that the contracts were properly documented; and (3) establish a reasonable travel policy to ensure that travelers submitted detailed travel expense vouchers.

OIG recommended that HUD require the Authority to (1) provide support for the interprogram fund transactions that were out of balance between Federal and State programs and implement procedures for recording and reconciling interprogram transactions and correcting imbalances, (2) provide support and justification for its contracts or reimburse its operating funds from non-Federal funds for the applicable

amounts, and (3) revise its travel policy and obtain approval of the policy from the Authority's board of commissioners. (Audit Report: **2010-BO-1006**)



HUD OIG audited the Housing Authority of **DeKalb County, GA**'s use of its net restricted assets and found that the Authority used more than \$2.5 million of its net restricted assets to pay ineligible program and administrative expenses for other assisted housing programs. It did not (1) maintain separate bank accounts, (2) properly track its net restricted asset funds, and (3) have proper policies and controls in place. As a result, it misused net restricted asset funds that could have provided assistance to eligible families in its housing voucher program.

OIG recommended that HUD require the Authority to (1) reconcile its books and records to determine the amount of net restricted asset funds used to pay program and administrative expenses for various housing programs, (2) reimburse the net restricted assets fund account from non-Federal funds the \$2.5 million or the current amount owed from various housing programs, and (3) implement its established policy for the use of net restricted assets to ensure that net restricted assets are properly used and bank accounts remain separated for the various programs. (Audit Report: **2010-AT-1010**)



HUD OIG audited the Section 8 Project-Based Voucher program of the Michigan State Housing Development Authority in **Lansing, MI**, and found that the Authority's program administration regarding documentation of households' eligibility and housing assistance and utility allowance payment calculations was inadequate. The Authority did not ensure that its household files contained the required documentation to support households' admission to and continued assistance on the program. All 89 files reviewed were missing documentation required by HUD and the Authority's program administrative plan to support nearly \$629,000 in housing assistance and utility allowance payments and associated administrative fees.

In addition, the Authority did not effectively manage its housing assistance calculation and payment process in accordance with HUD requirements and its program administrative plan, resulting in nearly \$23,000 in overpayments for 25 households and more than \$3,000 in underpayments for 29 households. Further, it received nearly \$33,000 in program administrative fees for these households. The Authority also inappropriately made more than \$47,000 in overpayments of housing assistance and utility allowances for units when it failed to ensure that units receiving program housing assistance payments were under an executed housing assistance payments contract.

The Authority did not effectively use HUD's Enterprise Income Verification system Income Discrepancy Report to recover or reimburse program housing assistance and utility allowance payments for households with unreported, underreported, or overestimated income, resulting in more than \$32,000 in overpayments and more than \$1,700 in underpayments of housing assistance and utility allowances. Further, it did not remove six deceased individuals from its program and did not recover more than \$6,000 in housing assistance and utility allowance payments from the properties' owners.

OIG recommended that HUD require the Authority to (1) reimburse its program from non-Federal funds for the improper use of nearly \$118,000 in program funds, (2) provide documentation or reimburse its program more than \$757,000 from non-Federal funds for the unsupported payments cited, and (3) implement adequate procedures and controls to address the findings cited to prevent nearly \$89,000 in program funds from being spent on excessive housing assistance and utility allowance payments over the next year. (Audit Report: **2010-CH-1007**)



HUD OIG completed two audits of the Housing Authority of the City of **Terre Haute, IN**'s Section 8 Housing Choice Voucher program. The first audit found that the Authority's program administration regarding housing unit conditions was inadequate. Of the 55 housing units inspected, 31 did not meet HUD's housing quality standards, and 22 had 133 violations that existed at the time of the Authority's previous inspections. The 22 units had between 1 and 32 preexisting violations per unit. The Authority generally complied with Federal regulations when abating units that failed inspections.

OIG recommended that HUD require the Authority to reimburse its program from non-Federal funds for the improper use of more than \$11,000 in program funds and implement adequate procedures and controls to address the finding cited to prevent more than \$341,000 from being spent on units with material housing quality standards violations over the next year. (Audit Report: **2010-CH-1005**)

The second audit found that the Authority paid housing assistance for the wrong payment standard and inappropriate housing and created conflicts of interest regarding its for-profit and nonprofit entities. Households on the waiting list were forced to increase their waiting period before receiving assistance under the program. In addition, the Authority paid nearly \$117,000 in housing assistance for units that were not allowed under HUD's requirements. Further, there was no assurance that households lived in qualified housing, paid the appropriate rents, and were housed fairly and that applicants were properly screened. The Authority also failed to operate its Family Self-Sufficiency program correctly and made more than \$58,000 in escrow payments to households contrary to Federal requirements. Lastly, the Authority's program administration regarding housing assistance payment calculations, documentation to support households' eligibility for housing assistance, and its Section 8 project-based certificate contract was inadequate.

OIG recommended that HUD require the Authority to (1) implement a detailed comprehensive plan to improve its programs, (2) reimburse its Housing Choice Voucher program more than \$126,000 from non-Federal funds for the improper use of program funds, (3) reimburse its Family Self-Sufficiency program more than \$58,000 from non-Federal funds for its improper use of funds, (4) provide support or reimburse its Housing Choice Voucher program nearly \$9,000 from non-Federal funds for the unsupported housing assistance payments, and (5) implement adequate procedures and controls to address the findings cited to prevent more than \$15,000 in program funds from being spent on excessive housing assistance and utility allowances over the next year.

OIG also recommended that HUD take administrative action against the former executive director and former board of commissioners for failing to administer the Authority according to HUD's and its own requirements. (Audit Report: **2010-CH-1013**)



HUD OIG audited the Section 8 program of the Compton Housing Authority in **Compton, CA**, and found that the Authority did not use Section 8 program funds in accordance with HUD rules and regulations as it did not fully comply with portability procedures and responsibilities. It was not fully reimbursed for housing assistance payments made for its portability tenants. Additionally, there was a lack of tracking and reconciliation between what was paid and what was received. As a result, over the years, the Authority used more than \$2.2 million from its net restricted assets account to pay for the shortfall, operated in a deficit situation, and did not have sufficient funds to pay for its portability tenants. Ultimately, these deficiencies put tenants at risk of losing their housing assistance.

OIG recommended that HUD require the Authority to (1) implement procedures and controls to track and reconcile portability tenants' housing assistance paid and received from the respective initial public housing authorities, (2) seek reimbursement of nearly \$190,000 from initial housing authorities for unreimbursed

housing assistance payments for portability tenants, (3) reimburse nearly \$56,000 in overpaid housing assistance to the respective initial housing authorities, (4) and evaluate and reconcile its portability tenant billings and payments for calendar year 2010 after implementation of the procedures and controls. (Audit Report: 2010-LA-1016)



HUD OIG audited the Section 8 Housing Choice Voucher program of the Lake Metropolitan Housing Authority in **Painesville, OH**, based upon a congressional request and found that the Authority's program administration regarding its program procurement and zero-income households was inadequate but it generally complied with the Family Self-Sufficiency program requirements. The Authority failed to follow its procurement and ethical policies regarding possible conflicts of interest when obtaining contracted services for its program. OIG identified deficiencies in all 13 contractual agreements reviewed. As a result, full and open competition was hindered, and the Authority paid more than \$64,000 in unsupported contract expenses and more than \$3,000 in inappropriate contract expenses.

Further, the Authority failed to comply with its program administrative plan regarding zero-income household reviews. Of the 58 zero-income households reviewed, 29 had either excluded or unreported income that affected their housing assistance payments. As a result, the Authority overpaid housing assistance and utility allowances, totaling more than \$36,000, for households that were required to meet their rental obligations. It generally complied with the Family Self-Sufficiency program requirements. However, of the 32 participant files with escrow balances reviewed, 20 contained errors in one or more of the escrow credit applications, resulting in more than \$14,000 in escrow credit overpayments and more than \$3,000 in escrow credit underpayments.

OIG recommended that HUD require the Authority to (1) provide documentation or reimburse its program from non-Federal funds for the unsupported payments cited, (2) reimburse its program from non-Federal funds for the improper use of more than \$68,000 in program funds, and (3) implement adequate procedures and controls to address the findings cited to prevent more than \$19,000 in program funds from being spent on excessive escrow credits, housing assistance and utility allowance payments, and contract payments. (Audit Report: 2010-CH-1015)

Public Housing and Voucher Programs

HUD OIG audited HUD's Office of Public Housing and Voucher Programs to determine whether HUD reasonably ensured that public housing agencies properly managed their housing choice voucher net restricted assets and appropriately awarded 2009 set-aside fund awards for unforeseen circumstances and higher than average leasing.

HUD had discovered that it did not have accurate information about public housing agency net restricted assets and had taken appropriate steps to improve its controls. In addition, HUD did not ensure that about \$18,000 in set-aside funds was used for its intended purpose. It immediately resolved this discrepancy.

OIG recommended that HUD (1) rectify the discrepancy for the award overpayment, (2) check the accuracy of other unforeseen circumstance awards made for similar tenant income reductions and rectify any discrepancies, and (3) correct the process for future similar awards. HUD agreed with the recommendations and had addressed them. There were no additional recommendations. (Audit Report: 2010-KC-0001)

Public Housing Program Activities

HUDOIG audited the central office procurement system of the Puerto Rico Public Housing Administration (authority) in **San Juan, PR**, to determine whether (1) the authority's procurement policies and procedures complied with HUD requirements, (2) it followed its policies and procedures and HUD procurement requirements, (3) it adequately supported the reasonableness of the cost of goods and services acquired, and (4) an electronic surveillance system installed at several of its public housing projects generated the intended benefits.

Generally, the authority complied with requirements for planning, soliciting, and awarding contracts and purchase orders. However, the review identified procurement deficiencies in two contracts and three purchase orders, which resulted in monetarily significant deficiencies. The authority used an improper procurement procedure, failed to perform required cost analyses, and paid for equipment that was not used or missing. It also awarded purchase orders for other than the lowest quoted price without justification and paid more than the contract price. In addition, the electronic surveillance system installed at several of its public housing projects did not generate the intended benefits. As a result, the authority did not support the reasonableness of more than \$9.7 million in contracts, paid more than \$3.57 million for equipment that did not provide the intended benefits, and paid more than \$28,000 for excessive expenditures.

OIG recommended that HUD require the authority to (1) provide support showing the eligibility and reasonableness of more than \$9.7 million spent on contracts that were not awarded in accordance with HUD requirements or reimburse its programs from non-Federal funds and (2) reimburse its public housing program more than \$3.6 million paid for excessive costs and unused/missing equipment. In addition, OIG recommended that HUD evaluate the surveillance system installed throughout the authority's public housing projects and determine whether it was implemented in an effective and efficient manner. (Audit Report: **2010-AT-1009**)



HUDOIG audited the procurement function of the Harrisburg Housing Authority in **Harrisburg, PA**, to determine whether the Authority procured goods and services in accordance with HUD regulations and other applicable requirements.

The Authority did not purchase goods and services in accordance with HUD regulations and its procurement policy. OIG identified deficiencies with the Authority's purchases of goods and services from 17 of 20 vendors reviewed. The Authority acquired goods and services without having contracts in place and after contracts had expired. Also, it improperly awarded noncompetitive contracts and did not maintain records to document the significant history of procurements.

OIG recommended that HUD require the Authority to (1) provide documentation to support that payments for goods and services, totaling \$1.7 million, were fair and reasonable or reimburse the applicable programs from non-Federal funds for any amounts that it cannot support, (2) develop and implement controls to ensure that it complies with all applicable procurement requirements, (3) provide procurement training to all employees involved in the procurement process, and (4) develop and implement a contract administration system. OIG also recommended that HUD expand its monitoring of the Authority's procurement function to ensure that it operates in compliance with applicable requirements. (Audit Report: **2010-PH-1012**)



HUD OIG audited the Housing Authority of **Whitesburg, KY**, to determine whether the Authority properly accounted for cash receipts and disbursements and made procurements in accordance with Federal requirements.

The Authority mismanaged its operations. It (1) did not properly account for rental receipts, (2) failed to prepare and file some quarterly tax returns and deposit more than \$64,000 in Federal withholding taxes with the Internal Revenue Service, (3) could not support a number of disbursements and spent more than \$29,000 for various unnecessary and/or unreasonable costs, and (4) failed to follow Federal procurement regulations when awarding Public Housing Capital Fund program contracts and change orders and could not support capital fund drawdowns. As a result, fewer funds were available for the Authority's primary mission, and it was unable to fully meet its financial obligations.

OIG recommended that HUD declare the Authority in substantial default in accordance with its annual contributions contract and require it to (1) establish an effective system of internal controls for all aspects of its operations, (2) account for nearly \$135,000 in tenant rent receipts and support more than \$264,000 in disbursements and more than \$275,000 in drawdowns, (3) support that contracts totaling nearly \$447,000 were fairly and openly competed, (4) file missing tax returns and make all required tax deposits, and (5) implement requested actions in the memorandum of agreement between HUD and the Authority. OIG also recommended that HUD take appropriate administrative action against the Authority officials responsible for mismanaging its operations. (Audit Report: **2010-AT-1003**)



HUD OIG audited the **New Rochelle, NY**, Municipal Housing Authority's administration of its low-rent housing program to determine whether the Authority administered its program in accordance with applicable regulations.

The Authority had weaknesses in the administration of its low-rent program because it did not (1) properly determine tenant eligibility; (2) ensure that program units were decent, safe, and sanitary; and (3) support rent charged to an employee-tenant. In addition, the Authority had weaknesses in its procurement, payroll, and financial management functions because it (1) executed contracts contrary to HUD's and its own policy, (2) did not maintain adequate support for payroll, and (3) expended and loaned funds among programs contrary to regulation. As a result, the Authority lacked assurance that low-rent program tenants were properly certified and resided in units that were decent, safe, and sanitary; services were obtained at the most economical and efficient price; payroll costs were eligible and adequately supported; and funds were always expended in accordance with HUD regulations.

OIG recommended that HUD instruct Authority officials to (1) strengthen controls over low-rent tenant certification and unit inspection procedures to ensure that tenant eligibility is properly determined and adequately documented and that annual inspections of low-rent units are conducted; (2) establish procedures for the approval and calculation of rents; (3) provide documentation to justify the rent charged to an employee-tenant or pay the more than \$57,000 that should have been collected; (4) strengthen controls to ensure compliance with HUD procurement, payroll, and financial management regulations; and (5) repay from non-Federal funds the more than \$38,000 expended for ineligible costs. (Audit Report: **2010-NY-1010**)



HUD OIG reviewed selected transactions at the Wilmington Housing Authority in **Wilmington, NC**, to determine whether the Authority misused HUD funds in its purchase of either Eastbrook Apartments or a tract of vacant land known locally as the "Winfield Smith" property.

The Authority misused nearly \$210,000 in HUD Section 8 reserves to make mortgage payments on a non-HUD development, Eastbrook Apartments, and nearly \$58,000 in HUD replacement housing factor funds to purchase vacant land. As a result, these funds were not available to assist the Authority's low-income residents as HUD intended.

OIG recommended that HUD require the Authority to repay its Section 8 administrative fee reserves nearly \$210,000 and its capital fund account nearly \$58,000 from non-Federal funds and provide HUD evidence that it has implemented effective controls to better ensure the proper use of HUD funds. (Audit Report: 2010-AT-1805)



HUD OIG audited the **New Rochelle, NY**, Municipal Housing Authority's administration of its Resident Opportunities and Self-Sufficiency (ROSS) and Housing Choice Voucher Family Self-Sufficiency grant programs to determine whether the Authority expended ROSS and Family Self-Sufficiency program funds for eligible costs and implemented adequate controls over the programs to ensure compliance with HUD regulations.

Contrary to regulations, Authority officials charged the grants ineligible and unsupported expenses related to charges incurred before the execution of grant agreements and for costs under another grant. In addition, the Authority had control weaknesses in its procedures for administering its ROSS and Family Self-Sufficiency programs, causing program participants to not be credited with the proper escrow amount and noncompliance with program administrative requirements.

OIG recommended that HUD instruct Authority officials to (1) repay from non-Federal funds the nearly \$220,000 in ineligible expenses charged to the grant programs, (2) support or repay from non-Federal funds nearly \$101,000 related to the unsupported charges paid with ROSS and Family Self-Sufficiency program funds, (3) recoup a nearly \$300 overpayment from and pay nearly \$3,000 due to Family Self-Sufficiency program participants, and (4) develop procedures to ensure compliance with all ROSS and Family Self-Sufficiency program administrative requirements. (Audit Report: 2010-NY-1011)



HUD OIG audited the **Georgetown, TX**, Housing Authority due to a congressional request. The objectives were to determine (1) whether the Authority and/or its nonprofit affiliates used HUD funding for recent developments and if so, whether they followed HUD regulations and (2) whether the Authority used HUD funds only for eligible expenditures.

The Authority's nonprofit related entities did not develop public housing units in their recent development projects; therefore, they were not required to follow HUD regulations for the developments. However, the Authority violated its annual contributions contract when it used nearly \$196,000 in HUD funding for development costs and other ineligible and unsupported expenditures. In addition, the Authority's financial records were inaccurate. As a result, it had fewer funds available to operate its HUD-funded programs, and its stakeholders were unaware of its true financial position.

Housing authority misspent federal money, audit says

By Claire Osborn

AMERICAN STATESMAN STAFF

The Georgetown Housing Authority spent \$195,855 in federal money on legal, development and payroll costs that the money wasn't supposed to cover, according to an audit released this week by the U.S. Office of the Inspector General.

The audit's recommendations include asking the housing authority to pay back \$48,269 to its housing choice voucher program with nonfederal funds and requiring it to hire an independent firm to review what it says are \$137,009 in misspent federal funds.

The figures in the audit are wrong, said Larry Raper, chairman of the Georgetown Housing Authority board. The housing authority had reserves that it was free to spend without authorization and can properly account for all but about \$9,000 of the federal money, he said.

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OIG recommended that HUD require the Authority to (1) reimburse its Housing Choice Voucher program fund more than \$48,000 from non-Federal sources for ineligible development costs, (2) hire an independent firm to perform a comprehensive review of the more than \$137,000 in questioned low-rent funds to determine the source and appropriated year and require reimbursements as appropriate, (3) provide support for or reimburse its Housing Choice Voucher program fund more than \$1,000 in unsupported expenditures, (4) correct its books and records to show its true financial position, (5) reverse more than \$9,000 in expenses for voided checks and record the voids in the general ledger, and (6) develop and implement written policies and procedures regarding financial and disbursement controls. OIG also recommended that HUD take appropriate actions to ensure that the former executive director does not place HUD programs at further risk, including but not limited to issuing a limited denial of participation. (Audit Report: **2010-FW-1004**)

Review of Public Housing Authorities To Determine Whether Multifamily Property Owners Were Overpaid

HUD OIG conducted a national audit of public housing authorities to determine whether they overpaid voucher subsidies to multifamily property owners in specific types of subsidized properties.

Public housing authorities generally did not overpay subsidies to subsidized multifamily properties. OIG compared addresses of 1.93 million housing choice vouchers with addresses of 17,684 multifamily properties with Federal loans. OIG identified 193 addresses for which a voucher payment was made to the owner of a subsidized multifamily property, and 148 of these vouchers were reported correctly. The remaining 45 vouchers were incorrectly reported. For these 45 vouchers, OIG did not find that the vouchers had common property owners, common public housing authorities, or common management agents.

OIG recommended that HUD update Housing Choice Voucher Guidebook 7420.10G to include a section on the relationship between properties with Federal loans and the public housing authorities' rental payments to those properties' owners. (Audit Report: **2010-BO-0003**)



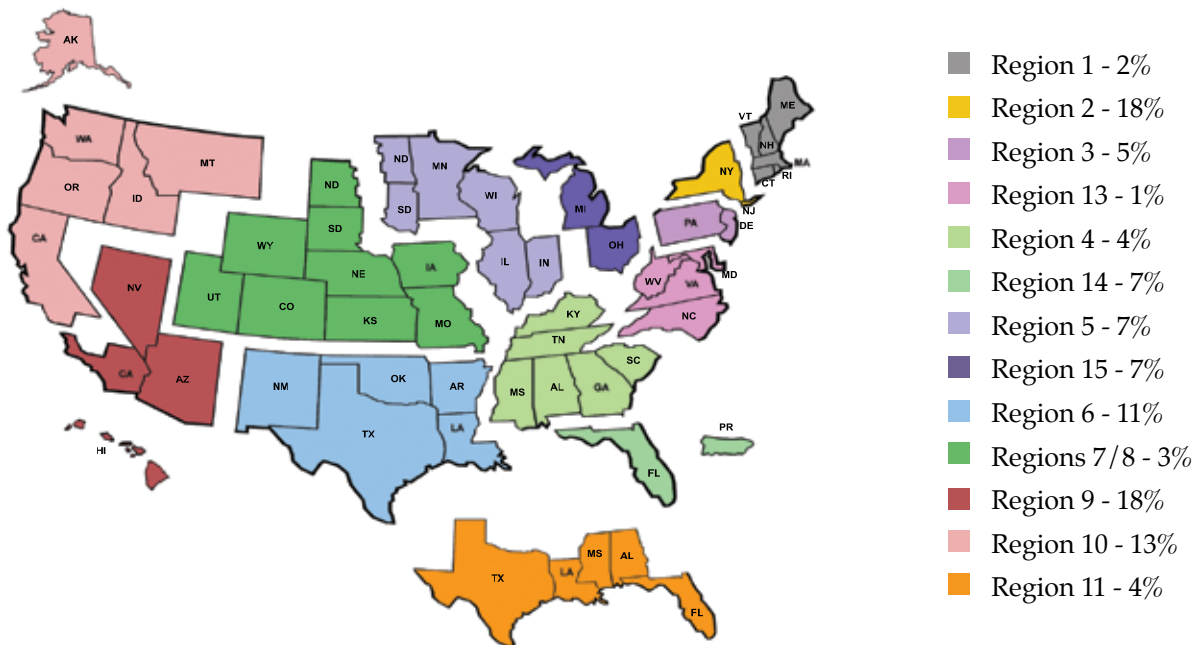
Investigations

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

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

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	143	\$10,308,337	196	149
Our focus	Page 43 Page 47 Page 51 Page 51 Page 52 Page 52	<ul style="list-style-type: none"> Public housing authority theft/embezzlement Rental assistance fraud FedRent Initiative Fugitive Felon Initiative Civil and administrative actions Other fraud/crimes 		

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



Public Housing Authority Theft/Embezzlement

Doris Abeyta, the former Alamosa Housing Authority (Alamosa) executive director, and Jeffery Guntle were collectively sentenced in U.S. District Court, **Denver, CO**, to 37 months incarceration, 3 years supervised release, and 5 years probation and ordered to perform 200 hours of community service and pay HUD \$643,882 in restitution for their earlier guilty pleas to committing theft from a program receiving Federal funds or money laundering. In addition, former Alamosa assistant executive director Terri Lucero pled guilty to filing a false Federal income tax return, Abeyta and Lucero were suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of related debarment actions, and Guntle was debarred for 36 months. From April 1998 to November 2007, the above defendants and others embezzled more than \$1.3 million in Alamosa funds when they generated or negotiated unauthorized housing authority checks.



Charlesetta Jackson and Danielle Collins, a former Kansas City Housing Authority (Kansas City) employee and Housing Choice Voucher program participant, were collectively sentenced in U.S. District Court, **Kansas City, KS**, to 36 months incarceration, 6 months home confinement, and 5 years probation and ordered to pay a number of housing authorities \$293,782 in restitution for their earlier guilty pleas to committing a conspiracy, mail fraud, and bribery. From March 2007 to January 2008, Jackson and Collins accepted bribes from unqualified housing applicants in exchange for Section 8 vouchers. HUD realized losses of \$236,480.



Jennifer Edwards, the former director of the Delaware County Housing Authority (Delaware County), paid Delaware County \$213,000 and was sentenced in U.S. District Court, **Indianapolis, IN**, to 54 months probation for her earlier guilty plea to committing theft and embezzlement. From 2004 to 2009, Edwards created false invoices and fraudulently obtained \$170,000 in Delaware County funds and used an additional \$43,000 in Delaware County funds to pay for repairs to her residence.



Laura Morales, the former executive director of the Bexar County Housing Authority (Bexar County), was sentenced in U.S. District Court, **San Antonio, TX**, to 5 years probation and ordered to pay Bexar County \$131,144 in restitution for her earlier guilty plea to committing theft of government funds. From 2003 to June 2008, Morales claimed unearned leave hours and fraudulently obtained \$131,144 in Bexar County funds.



Tracey White-Jenkins, the former Irvington Housing Authority Section 8 director, was sentenced in U.S. District Court, **Newark, NJ**, to 18 months incarceration and 36 months probation and ordered to pay HUD \$34,458 and Travelers Insurance \$71,918 in restitution for her earlier guilty plea to committing theft of government funds and submitting a false Federal income tax return. White-Jenkins fraudulently obtained, deposited, and personally used \$106,376 in Irvington housing assistance payments.



Ex-SAHA staffer accepts plea deal In Bexar agency case, former chief sentenced

BY GUILLERMO CONTRERAS
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A former maintenance supervisor for the San Antonio Housing Authority took a plea deal Monday rather than face a jury trial over charges that he took bribes.

Roman Gabriel Reyes was one of five SAHA employees charged after a three-year investigation of corruption at the agency.

Meanwhile, Laura Morales, the former executive director of the Housing Authority of Bexar County, has been sentenced to five years of probation for stealing more than \$131,000 in employee leave she was not entitled to.

In front of U.S. District Judge Xavier Rodriguez, Reyes pleaded guilty to a felony: accepting \$400 from a contractor.



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Donna Little Dog and Cletus Running Wolf, a former Blackfeet Housing Authority (Blackfeet) payroll coordinator and employee, were collectively sentenced in U.S. District Court, **Great Falls, MT**, to 26 months incarceration and ordered to pay Blackfeet \$131,563 in restitution for their earlier guilty pleas to committing theft from a program receiving Federal funds or aiding and abetting. From 2005 to 2009, Little Dog issued \$104,343 in unauthorized payroll checks to Running Wolf.



William Deatruck, the former Brevard Family of Housing (Brevard) director of facilities, was arrested after his indictment in U.S. District Court, **Orlando, FL**, for allegedly committing a conspiracy and theft from a program receiving Federal funds. In addition, former Brevard contractor Derrick O'Neal pled guilty to committing theft or bribery from a program receiving Federal funds. From August 2005 to November 2006, Deatruck allegedly solicited and accepted bribes from Brevard contractors in return for Brevard contracts, and O'Neal admittedly provided more than \$100,000 in kickbacks to Deatruck.



William Pollock, a former assistant executive director for the Knox County Housing Authority (Knox County), pled guilty in U.S. District Court, **Knoxville, TN**, to committing theft and embezzlement. From October 2005 to October 2008, Pollock embezzled \$37,191 in Knox County funds.



Katisha Simmons, a former St. Louis County Housing Authority (St. Louis County) Section 8 caseworker, pled guilty in U.S. District Court, **St. Louis, MO**, to misapplication of government funds. In addition, former St. Louis County Section 8 landlord Michael Moore was sentenced to 60 months probation and ordered to pay St. Louis County \$30,834 in restitution for his earlier guilty plea to committing blackmail. Between March and April 2009, Simmons manipulated the St. Louis County accounting system and caused the issuance of \$30,834 in unauthorized housing assistance payments to Moore in exchange for about one-half of the funds.



Lesvia Barrera, the former executive director of the Eagle Pass Housing Authority, was sentenced in U.S. District Court, **Eagle Pass, TX**, to 15 months incarceration and 3 years supervised release and ordered to pay HUD \$21,295 in restitution for his earlier conviction of committing a conspiracy to defraud the government. During October 2001 and August 2003, Barrera and previously convicted Juan Sifuentes submitted \$17,800 in false claims to HUD.



Barbara Hollowell, the former executive director of the Benton Harbor Housing Commission (Benton Harbor), was sentenced in U.S. District Court, **Grand Rapids, MI**, to 1 day incarceration and 24 months supervised release and ordered to perform 200 hours of community service and pay Benton Harbor \$21,401 and the Social Security Administration (SSA) \$4,469 in restitution for her earlier guilty plea to committing theft of government funds and SSA fraud. Hollowell fraudulently used a Benton Harbor credit card and obtained about \$12,000 in personal use items and failed to report employment income on SSA retirement certifications.



Randy Dinwiddie, the former executive director of the Clinton Housing Authority (Clinton), was charged in Henry County District Court, **Clinton, MO**, with allegedly committing theft. In May 2010, Dinwiddie allegedly stole \$9,997 in Clinton funds.



Tomas Rodriguez, the former executive director of the El Paso County Housing Authority (El Paso County), was sentenced in U.S. District Court, **El Paso, TX**, to 9 months incarceration and 2 years supervised release and ordered to perform 100 hours of community service and pay El Paso County \$9,900 in restitution for his earlier guilty plea to committing theft from a program receiving Federal funds. From March 2006 to April 2007, Rodriguez used a former El Paso County maintenance employee to renovate an apartment complex that he owned while the employee earned wages from the housing authority.



Tammy Sawyers, the former director of the North Chicago Housing Authority (North Chicago), was charged in Lake County Circuit Court, **Chicago, IL**, with allegedly committing theft. From 2006 to 2008, Sawyers allegedly failed to report her ownership interest in or the tenant vacancy of two North Chicago subsidized housing units and obtained about \$9,800 in housing assistance she was not entitled to receive.



Lawand Johnson, the former executive director of the St. John the Baptist Parish Housing Authority (St. John), was sentenced in Louisiana State Court, **Laplace, LA**, to 2 months incarceration (suspended) and 6 months probation and fined \$500 for his earlier guilty plea to committing theft. From May to November 2009, Johnson used \$2,000 in St. John funds to pay personal expenses.



Roman Reyes, a former San Antonio Housing Authority (San Antonio) maintenance supervisor, pled guilty in U.S. District Court, **San Antonio, TX**, to accepting bribes, and former San Antonio project manager Robert Olivares was sentenced to 2 years probation and ordered to pay the U.S. Department of Justice \$7,200 in restitution for his earlier guilty plea to accepting bribes. Between May 2008 and March 2009, Reyes and Olivares accepted bribes from San Antonio contractors in exchange for housing authority contracts.



Rosa Reyes, a former Nassau County Office of Housing and Intergovernmental Affairs (Nassau County) employee, was indicted in Nassau County Court, **Mineola, NY**, for allegedly committing grand larceny and official misconduct, accepting bribes, offering a false instrument for recording, and falsifying business records. In addition, Catherine Diaz, a former Nassau County housing specialist and treasurer of the Association of Long Island Housing Agencies (Association), pled guilty to committing grand larceny and official misconduct. Between July 2003 and July 2008, Reyes allegedly and Diaz admittedly solicited and accepted bribes from housing applicants in exchange for preferential placement on the subsidized housing waiting list, and from May 2006 to September 2007, Diaz stole and personally used more than \$3,000 in Association funds.



Muriel Goldtooth, a former Tohono O'Odham Ki:Ki Association (Tohono O'Odham) employee, was charged in Tohono O'Odham Nation Judicial Court, **Sells, AZ**, with allegedly committing a conspiracy, fraud, forgery, and theft. From December 2000 to September 2002, Muriel Goldtooth allegedly misused the Tohono O'Odham credit card, fraudulently obtained wages and overtime payments, and conspired with previously convicted Tohono O'Odham executive director Loren Goldtooth when he used Tohono O'Odham funds for personal expenses. HUD losses have not yet been determined.



Donna English, doing business as Project Managers, Inc., a Michigan City Housing Authority (Michigan City) contractor, was charged in U.S. District Court, **Hammond, IN**, with allegedly committing theft and mail and wire fraud. From 2002 to 2008, English allegedly submitted false invoices and obtained payments from Michigan City for products and services not provided and failed to repay the Federal Communications Commission E-Rate Program for cash advances she obtained. HUD losses have not yet been determined.



Alfredo Lopez, a former San Antonio Housing Authority (San Antonio) maintenance supervisor, was sentenced in U.S. District Court, **San Antonio, TX**, to 3 years probation for his earlier guilty plea to making false statements. In December 2007, Lopez accepted a motorcycle trailer from a San Antonio contractor in exchange for San Antonio contracts and lied to Federal agents when questioned.



Edward Washburn, the former Cheyenne River Housing Authority (Cheyenne River) director of modernization, was indicted in U.S. District Court, **Pierre, SD**, for allegedly accepting a thing of value and being influenced in a transaction. From September 2005 to October 2008, Washburn allegedly accepted kickbacks from a contractor in exchange for Cheyenne River contracts.



Kerri Bizzell, a former Philadelphia Housing Authority (Philadelphia) contracting officer, was indicted in U.S. District Court, **Philadelphia, PA**, for allegedly committing extortion and obstruction of justice. From December 2007 to May 2008, Bizzell allegedly solicited and accepted kickbacks from contractors in exchange for Philadelphia contracts.



John Fischer, the former capital improvements administrator of the Buffalo Municipal Housing Authority (Buffalo), pled guilty in U.S. District Court, **Buffalo, NY**, to interfering with commerce under color of an official right. Fischer pressured a Buffalo contractor to provide and install a roof at a private residence in exchange for his support on a Buffalo project. In addition, Fischer attempted to influence the official statements provided by others after he learned of the ongoing investigation.



Frank Isaac and Charles Williams, former Cuyahoga Metropolitan Housing Authority (Cuyahoga) housing inspectors, were each charged in Cuyahoga County Court of Common Pleas, **Cleveland, OH**, with allegedly committing bribery. Isaac and Williams allegedly conducted or granted extensions for Cuyahoga Housing Choice Voucher program housing inspections in exchange for cash payments.

Rental Assistance Fraud

Fourteen Palm Beach County Housing Authority (Palm Beach County) subsidized housing recipients or landlords were each arrested and charged in the 15th Judicial Circuit Court, **Wellington, FL**, with allegedly committing public assistance or homestead exemption fraud, grand theft, or an organized scheme to defraud. In addition, Palm Beach County housing recipient Stephanie Porter entered into a pretrial diversion and agreed to perform 25 hours of community service and pay Palm Beach County \$2,660 in restitution, and former housing recipients Sonya Stewart and Anthony Brides were collectively sentenced to 48 months supervised release and ordered to pay Palm Beach County \$62,215 in restitution for their earlier guilty pleas to committing grand theft or public assistance fraud. Between April 2001 and July 2010, the above defendants allegedly failed to report income, assets, unauthorized residents, or the subleasing of their subsidized units, and from January to December 2009, Stewart failed to report the criminal histories of authorized residents on housing certifications. Collectively, the above defendants obtained more than \$590,000 in housing assistance they were not entitled to receive.



Michael Chezan and Calvin Early, a Chicago Housing Authority (Chicago) Section 8 landlord and former Chicago housing recipient, were each indicted in U.S. District or Cook County Circuit Courts, **Chicago, IL**, for allegedly committing theft, theft by deception, or mail fraud. In addition, former Chicago housing recipient Hubert Williams was sentenced to 9 months home detention and 27 months probation and ordered to pay HUD \$24,218 and the SSA and others \$56,485 in restitution for his earlier guilty plea to committing theft of government funds, and former Chicago Section 8 landlord Jonathan Hon was sentenced to 30 months incarceration and 5 years supervised release and ordered to pay HUD \$200,000 and others \$1.89 million in restitution for his earlier guilty plea to committing wire fraud. Between July 2002 and July 2008, Chezan allegedly provided false documents and obtained housing assistance payments for properties he did not own, Early allegedly failed to report his receipt of dual housing subsidies, Williams failed to report income and used the Social Security number (SSN) belonging to another individual, and Hon failed to report the sale of his subsidized properties and provided fraudulent documents used by unqualified borrowers to obtain conventional mortgages. Collectively, the above defendants obtained about \$404,218 in housing assistance and \$56,486 in SSA and other benefits they were not entitled to receive.



16 accused of housing fraud in latest sheriff's, HUD sweep

The suspects wrongly got \$600,000 in rent help, authorities say.

By ELIZ HLENBERG
Palm Beach Post Staff Writer

WEST PALM BEACH — Authorities Monday began rounding up 16 people they allege lied about their status to get nearly \$600,000 in federal rental assistance to which they aren't entitled.

As part of "Operation Shield," 13 people were booked Monday morning into the Palm Beach County jail on 31 counts of grand theft, organized scheme to defraud, public assistance fraud and falsifying homestead exemptions. The other three were expected to be in custody soon, officials said Monday.

The sweep is the latest of several crackdowns by the Palm Beach County Sheriff's Office and the U.S. Department of Housing and Urban Development. According to Palm Beach County jail records, the 16 named bring to nearly 40 the number booked on such charges in 2009; more than 100 have been charged since January 2009.

Late last year, detectives said abuses already had cost taxpayers more than \$1 million that could have gone to worthy tenants.

The types of abuses included: tenants had more people living in the unit than disclosed; the renter or another person in the unit had been convicted of a violent crime or drug charges; and the renter earned too much money to qualify.

Those arrested Monday include Tanisha Henry, a

Section 8 fraud

■ A tenant can be evicted under the 'one strike' provision if any family member or guest has taken part in criminal activity involving drugs, violence, sex offenses, firearms, alcohol or defrauding HUD.

■ Fraud means the head of the household failed to disclose income or assets, real estate ownership or bank accounts, additional tenants or past criminal history; lied to or her identity; received multiple subsidies; or bribed officials.

Suspects include:

Courtney Latourna Green, 34, of Royal Palm Beach. Amount: \$82,658. Allegation: failed to disclose her criminal history. She was still at large Monday.

Tammy Telesco Latson, 44, of West Palm Beach. Amount: \$82,970. Allegation: Failed to disclose criminal history.

Robin Michelle Clark, 43, of South Bay. Amount: \$85,302. Allegation: Failed to disclose criminal history of residents.

sergeant at Glades Correctional Institution, who didn't reveal her income, and Sarah Jeanine Belk, who didn't disclose she earned \$55,000 a year working at Hospice of Palm Beach County.

Tara Frazier of Boynton Beach, is in jail on charges she attacked a pregnant woman with a box cutter and stun gun on June 16 in Boynton Beach. Frazier allegedly submitted updated documents to her housing authority, claiming she still was living in her subsidized apartment, while she was in jail.

Several of those charged did not reveal that they or others in their household had previous arrests ranging from sexual assault on a minor to manslaughter and attempted homicide. Some didn't disclose they were in probation.

"They're ripping off the fellow residents and citizens of our community in order to deprive the others of assistance," State Attorney Michael McAnuliffe said Monday.

"These are really good

programs," McAnuliffe said. "But when they get off track, and people start abusing them and using them for their personal gain, we know we have to step in and do something."

The average household in the Palm Beach County Housing Authority averages about \$11,000 in subsidies a year, so just the 16 charged would equal about \$176,000 per year in ineligible subsidies, housing authority Executive Director Joe Zalsman said.

Besides ripping off taxpayers, the fraud allows people with criminal records to live where they shouldn't be allowed, Sheriff Ric Bradshaw said.

"When this (arrests) happens and we solve these problems, these individuals come out of these neighborhoods and the quality of life gets better," Bradshaw said.

And, he warned, "If you're one of those people doing this fraud, we'll be knocking on your door before this is over with."

Guest: stinson@palmbeachpost.com

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Thirty-four current or former Georgia Department of Community Affairs subsidized housing recipients were each arrested and charged in various Georgia Courts, **GA**, with allegedly making false statements and writings, committing theft by taking or deception, or obtaining public assistance through fraud. Between April 2004 and January 2010, the above defendants allegedly provided false information or failed to report income, accurate household compositions, or unauthorized residents on housing certifications and collectively obtained \$376,329 in housing assistance they were not entitled to receive.



Nine New York City Housing Authority (New York City) housing recipients or landlords were each charged in U.S. District Court, **Manhattan, NY**, with allegedly making false statements or committing theft of government funds. In addition, New York City housing recipient Rhonda Jordon was sentenced to 36 months supervised release and ordered to perform 100 hours of community service and pay New York City \$37,783 in restitution for her earlier guilty plea to making false statements to HUD. Between May 2002 and July 2010, Jordan admittedly and the remaining defendants allegedly failed to report income, assets, their nonresidency and the subleasing of their subsidized unit, dual housing subsidies, accurate household compositions, or familial relationships to their Section 8 landlords or used the identity of another and attempted to obtain housing assistance. Collectively, the above defendants obtained \$358,848 in housing assistance they were not entitled to receive.



Angie Quiroz and Konrad Seisl, a former Easton Housing Authority Section 8 tenant and landlord, were each indicted in U.S. District Court, **Boston, MA**, for allegedly committing a conspiracy and theft of public money. In addition, former Chelsea Housing Authority (Chelsea) public housing tenant Lizbeth Valerio and Boston Housing Authority (Boston) Section 8 tenant Martine Bastien were collectively sentenced to 24 months and 1 day incarceration, 1 year probation, and 3 years supervised release and ordered to pay Chelsea and Boston \$75,114 and the SSA and others \$110,592 in restitution for their earlier conviction or guilty plea to making a false claim to a government agency or committing mail fraud, identity theft, or larceny. Between 1995 and January 2010, Quiroz and Seisl allegedly (Valerio was found guilty) and Bastien admittedly failed to report income, assets, or unauthorized residents on housing certifications and collectively obtained \$105,534 in housing assistance they were not entitled to receive.



Five current or former Montgomery County Housing Opportunities Commission (Montgomery County) subsidized housing recipients were each charged in Montgomery County District Court, **Baltimore or Silver Spring, MD**, with allegedly making false statements or committing public assistance fraud and theft. In addition, former Montgomery County housing recipient Rogie Hancock was sentenced to 4 years supervised probation and ordered to pay Montgomery County \$22,386 in restitution for her earlier guilty plea to making false statements. Between June 2004 and May 2009, the above defendants allegedly and Hancock admittedly failed to report income on housing certifications and collectively obtained about \$100,806 in housing assistance they were not entitled to receive.



Jennifer Mathias-Kraft and Harrison Fobb, former Adams County Housing Authority (Adams County) housing recipients, were each charged in Adams County District Court, **Thornton, CO**, with allegedly committing theft or forgery. In addition, former Adams County housing recipient Jacquelyne Garcia was sentenced to 2 years probation and fined \$1,658 for her earlier guilty plea to committing forgery. Between

2004 and 2009, Mathias-Kraft and Fobb allegedly and Garcia admittedly failed to report income or accurate household compositions on housing certifications and collectively obtained \$93,436 in housing assistance they were not entitled to receive.



April Brown, Tamara Cunningham, and Shakeya Dorsey, McKeesport Housing Authority housing recipients, were each charged in Allegheny County Court, **McKeesport, PA**, with allegedly committing theft by deception. The above defendants allegedly failed to report income on housing certifications and collectively obtained \$93,173 in housing assistance they were not entitled to receive.



Five former Salt Lake City or Salt Lake County Housing Authorities authorized and unauthorized housing recipients or a landlord were each charged in Utah State Court, **Salt Lake City, UT**, with allegedly obtaining housing assistance through fraud. In addition, former Salt Lake City housing recipient Katinia Tuupo was sentenced to 36 months supervised probation and ordered to pay Salt Lake City \$23,963 and the Utah Workforce Services \$5,775 in restitution for her earlier guilty plea to attempted housing and public assistance fraud. Between November 2005 and January 2010, the above defendants allegedly and Tuupo admittedly failed to report income or unauthorized residents on housing certifications and collectively obtained \$86,982 in housing assistance they were not entitled to receive.



Shichella Wiley, a former Indianapolis Housing Agency (Indianapolis) Section 8 tenant, was charged in Marion County Superior Court, **Indianapolis, IN**, with allegedly committing theft, welfare fraud, and perjury. In addition, former Indianapolis housing recipient Annette Perry pled guilty to committing welfare fraud, and Indianapolis Section 8 tenant Jonessa Gillespie was sentenced to 2 years electronic monitoring and 1 year probation and ordered to pay Indianapolis \$20,651 in restitution for her earlier guilty plea to committing welfare fraud. Between 2005 and 2010, Wiley allegedly and Perry and Gillespie admittedly failed to report income, accurate household compositions, or their criminal histories on housing certifications and collectively obtained \$86,648 in housing assistance they were not entitled to receive.



Nelson Torres, Isabel Gonzales, and Ana Rodriguez, a Brookhaven Housing Authority Section 8 landlord and tenants, were each arrested and charged in Suffolk County District Court, **Coram, NY**, with allegedly committing grand larceny and offering a false instrument for recording. From 2005 to August 2010, the above defendants allegedly failed to report assets or their joint residency on housing certifications and collectively obtained about \$85,000 in housing assistance they were not entitled to receive.



Tracy Webster, a former Cambridge Housing Authority Section 8 tenant, was arrested and charged in U.S. District Court, **Cambridge, MA**, with allegedly making a false statement. From May 2005 to August 2008, Webster allegedly failed to report income on housing certifications and obtained \$81,828 in housing assistance she was not entitled to receive.



Carlesia Alexander, a former Las Vegas Housing Authority (Las Vegas) Section 8 tenant, was charged in Las Vegas Justice Court, **Las Vegas, NV**, with allegedly committing theft, and former Las Vegas Section 8 tenant Angela Carpenter pled guilty to committing attempted theft. Between January 2005 and July 2009, Alexander allegedly and Carpenter admittedly failed to report income or an accurate marital status or household composition on housing certifications and together obtained \$79,304 in housing assistance they were not entitled to receive.



Larry Spratt and Brenda Grubisich, former Cook County Housing Authority Section 8 tenants, were collectively sentenced in Cook County Circuit Court, **Chicago, IL**, to 2 years incarceration, 1 year supervised release, and 48 months probation and ordered to pay HUD \$20,000 in restitution for their earlier guilty pleas to committing theft. Between 2000 and 2008, Spratt and Grubisich failed to report income or their ownership interest in the subsidized property on housing and other certifications and together obtained \$79,087 in housing assistance and \$172,733 in SSA and other benefits they were not entitled to receive.



Ruth Herman, a former Concord Housing Authority public housing tenant, was sentenced in Middlesex County Superior Court, **Woburn, MA**, to 4 years probation and ordered to pay Concord \$73,947 in restitution for her earlier guilty plea to making false statements and committing larceny and perjury. From August 2001 to January 2007, Herman failed to report an unauthorized resident or his income on housing certifications and obtained \$73,947 in housing assistance she was not entitled to receive.



Aesha Johnson, a Cuyahoga Metropolitan Housing Authority (Cuyahoga) Section 8 landlord and tenant, pled guilty in Cuyahoga County Court of Common Pleas, **Cleveland, OH**, to committing theft and tampering with records. In addition, former Cuyahoga Section 8 landlords Francis Turner and Roderick Brown were collectively sentenced to 22 months incarceration, 60 months probation, and 36 months supervised release and ordered to pay Cuyahoga \$39,340 in restitution for their earlier guilty pleas to making false statements or committing theft. Between March 2004 and September 2009, the above defendants failed to report income, familial relationships to their Section 8 landlords, accurate SSNs or identities, or prior criminal histories on housing certifications and collectively obtained \$70,662 in housing assistance they were not entitled to receive.



Latasha White, Darryle Snyder, Jo'rell Kensey, and Maria Portillo, Housing Authority of the City of Los Angeles (Los Angeles) Section 8 tenants, and San Bernardino County Housing Authority Section 8 tenants Chevelle Parks, Lashay Roberts, Lisa Howard, and Duvall Rivers were each arrested on probable cause for allegedly obtaining housing assistance through fraud. In addition, Los Angeles Section 8 tenants Kim Tart and Anthony Carter were each charged in Los Angeles County Superior Court, **Los Angeles, CA**, with allegedly committing grand theft or perjury, obtaining aid by misrepresentation, or failing to provide true information on sex offender registrations and failing to file a sex offender change of address. Between May 2004 and September 2010, the above defendants allegedly failed to report income, unauthorized residents and their criminal histories, or their lifetime sex offender status on housing certifications. HUD losses have not yet been determined.

FedRent Initiative

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

Natosha Houston, a former Arlington Housing Authority (Arlington) and Tarrant County Housing Assistance Office (Tarrant County) Section 8 tenant and U.S. Department of Homeland Security employee, was sentenced in U.S. District Court, **Fort Worth, TX**, to 6 months incarceration and 12 months supervised release and ordered to pay Arlington and Tarrant County \$53,803 in restitution for her earlier guilty plea to making false statements to HUD. From 1997 to 2005, Houston failed to report income on housing certifications and obtained \$53,803 in housing assistance she was not entitled to receive.



Arvay Smith, a former Chicago Housing Authority public housing tenant and U.S. Postal Service employee, pled guilty in U.S. District Court, **Chicago, IL**, to committing theft of government funds. From December 2002 to February 2007, Smith failed to report income or assets on housing certifications and obtained about \$41,800 in housing assistance she was not entitled to receive.



Shawnda Burnett, a former Housing Authority for the City of Los Angeles (Los Angeles) Section 8 tenant and current Equal Employment Opportunity Commission employee, was sentenced in U.S. District Court, **Los Angeles, CA**, to 3 years probation and ordered to pay Los Angeles \$37,374 in restitution for her earlier guilty plea to making a false statement. From February 2005 to April 2008, Burnett failed to report income on housing certifications and obtained \$37,374 in housing assistance she was not entitled to receive.



Violet Berry-Simmons, a Newark Housing Authority Section 8 tenant and U.S. Postal Service employee, pled guilty in U.S. District Court, **Newark, NJ**, to committing theft of government funds. From July 2003 to April 2007, Berry-Simmons failed to report income on housing certifications and obtained \$27,288 in housing assistance she was not entitled to receive.

Fugitive Felon Initiative

OIG supports a Fugitive Felon Initiative (FFI) by matching HUD housing assistance information with crime data from the National Crime Information Center, U.S. Marshals Service (Marshals), and other participating law enforcement data banks. In addition, OIG special agents actively participate in the Marshals' Operation FALCON, a joint Federal, State, city, and county law enforcement effort to locate and apprehend fugitive felons wanted for violent crimes. Conducted in most major cities throughout the United States and its territories, Operation FALCON places a strong emphasis on apprehending fugitive felons involved in

gangs, homicides, sexual assaults, or crimes against the elderly and children. Since the inception of OIG's FFI, hundreds of cases have been opened and closed, resulting in more than 8,738 arrests. OIG strongly supports Operation FALCON in an effort to make HUD public and assisted housing a safe place for families to live. Below are examples of FFI efforts.



Nine Housing Authority of New Orleans housing recipients were each arrested and charged in Louisiana State Court, **New Orleans, LA**, with allegedly failing to appear; committing aggravated rape, simple battery, armed robbery, or accessory after the fact; or possession of cocaine. The above defendants allegedly failed to appear for court hearings involving rape, murder, assault, sexual assault, or assault of a child; allegedly possessed cocaine; or allegedly committed aggravated rape, simple battery, armed robbery, or accessory after the fact.



Clifford Wiggins, a registered sex offender and unauthorized Pensacola Housing Authority (Pensacola) tenant, was arrested and charged in Escambia County Circuit Court, **Pensacola, FL**, with allegedly failing to report a name or address change or comply with sex offender registration laws. From December 2009 to May 2010, Wiggins allegedly failed to report his residency in a Pensacola subsidized unit.



Ieasha Hale, Teri Tomaskovich, Shanta Davis, and Jermain Jackson, Mobile Housing Board Section 8 tenants, were each arrested on outstanding State or county warrants in **Mobile, AL**, for allegedly committing probation violations, possessing marijuana, or failing to appear.



Antranette Baker, a Mississippi Regional Housing Authority VI housing recipient, was arrested on an outstanding warrant issued by the Mississippi State Court, **Jackson, MS**, for allegedly committing burglary.

Civil and Administrative Actions

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



Seizure warrants for a 2009 Ford F150 truck and an equipment trailer were issued by the U.S. District Court, **Ripley, TN**, and served on David Ford, the former executive director of the Ripley Housing Authority who was previously arrested and charged with allegedly committing forgery. Ford allegedly used embezzled Ripley funds to purchase the truck and trailer.

Other Fraud/Crimes

Bobby Ferguson, Michael Woodhouse, Calvin Hall, and Shakib Deria, doing business as Xcel Construction (Xcel), Ferguson Enterprises, Inc. (Ferguson), A&F Environmental (A&F), and Johnson Consulting & Construction (Johnson), as well as Xcel, Ferguson, A&F, and Johnson were each charged in U.S. District Court, **Detroit, MI**, with allegedly committing a conspiracy, fraud, money laundering, and structuring financial transactions; obstructing justice; and possession of a firearm. Between January 2007 and September 2010, the above defendants allegedly conspired, rigged bids, and obtained more than \$100,000 in HUD HOME Investment Partnerships and Moderate Rehabilitation of Obsolete Property funds for Gardenview Estates (Gardenview), a Detroit Housing Commission housing development. In addition, the above defendants allegedly dumped contaminated soil on the Gardenview property and caused the Detroit Housing Commission to expend about \$4 million in HOPE VI funds to remove the contaminated soil. HUD realized losses in excess of \$4 million.



Orlando Brown pled guilty in U.S. District Court, **New Orleans, LA**, to committing arson. Brown and others set fire to a number of St. John the Baptist Parish Housing Authority subsidized housing units. HUD losses are estimated at \$573,480.



Gretchen Scott, a St. Petersburg Housing Authority (St. Petersburg) Section 8 landlord and the former president of All-N-One Mortgage Services, Inc. (All-N-One), pled guilty in U.S. District Court, **Tampa, FL**, to committing a conspiracy to defraud HUD and bank and wire fraud. In addition, former All-N-One vice president Eric Scott was convicted of committing bank and wire fraud, and former All-N-One employee Lakeisha Gates was sentenced to 60 months probation and ordered to pay Chase Home Finance \$146,903 in restitution for her earlier guilty plea to committing a conspiracy to defraud HUD and bank and wire fraud. From August 2007 to September 2008, Gretchen and Eric Scott, Gates, and others conspired to obtain fraudulent mortgage loans for straw buyers, submitted false property ownership documents and fraudulently obtained \$8,350 in St. Petersburg housing assistance, and overcharged St. Petersburg Section 8 tenants more than \$2,668 in rents.



Adrian Hawkins, a former Lexington-Fayette Urban County Housing Authority (Lexington-Fayette) Section 8 tenant, and Josh Burgess both pled guilty in U.S. District Court, **Lexington, KY**, to passing counterfeit security of an organization with the intent to deceive. From December 2009 to January 2010, Burgess and Hawkins created or forged and negotiated about \$6,500 in bogus Lexington-Fayette checks.



Ferguson indicted on fraud charges

Bid rigging, illegal dumping among counts issued against friend of ex-mayor Kilpatrick

BY ROBERT SNELL
AND CHRISTINE MACDONALD
The Detroit News

Detroit — Bobby Ferguson, a controversial contractor and friend of former Mayor Kwame Kilpatrick, was indicted Wednesday on eight federal charges, including conspiracy to defraud the United States, mail fraud and money laundering.

In the latest indictment in the ongoing City Hall corruption probe, Ferguson is accused of obtaining millions of dollars in city contracts by falsifying bids, illegally funneling proceeds and dumping debris from other jobs on the grounds of the old Herman Gardens public housing site on the west side.



Ferguson

Ferguson, 41, and his companies allegedly took more than \$10 million in contracts to help rehab the site into Garden View Estates — a project to benefit the city's neediest residents. The dumping, which allegedly occurred from April 2007 to last month, will cost the federal government \$1.2 million to clean.

"It's shameful. Really shameful," said David Oriem, a Detroit criminal attorney and former federal prosecutor.

Ruth Williams, 70, who moved back to the housing project in December, said she saw large dirt piles and debris over the past year. She wasn't surprised by the charges.

Copyright 2010. The Detroit News. "Ferguson indicted on fraud charges," by Robert Snell and Christine MacDonald, September 9, 2010

Terrance McCaa and Roger Wilder, Jr., were each arrested and charged in the 6th Judicial Circuit Court, **Northport, AL**, with allegedly committing forgery. The above defendants allegedly cashed \$5,000 in counterfeit checks drawn on a Housing Authority of the City of Northport bank account.



Lloyd Royal III, a Montgomery County Housing Opportunities Commission (Montgomery County) unauthorized tenant, was sentenced in U.S. District Court, **Baltimore, MD**, to 37 years incarceration for his earlier conviction of committing sex trafficking and a conspiracy to commit sex trafficking and possession of a firearm in furtherance of a crime of violence. From April to May 2007, Royal committed the above crimes from a Montgomery County subsidized housing unit.



Elizabeth Sammut, a former Detroit Housing Commission, Michigan State Housing Development, and other housing authorities Section 8 landlord, and Jeffrey Johnson were collectively sentenced in Wayne County Circuit Court, **Detroit, MI**, to 28 days incarceration and 60 days home confinement and ordered to pay Detroit Edison Energy \$84,283 in restitution for their earlier guilty pleas to conducting a criminal enterprise and malicious destruction of utility property. Sammut and Johnson tampered with Detroit Edison Energy electric meters attached to HUD-subsidized properties and stole about \$706,000 in electric utilities.



Fifteen individuals were each indicted in U.S. District, Jackson County Circuit, or Jackson and Johnson County Courts, **Kansas City** or **Olathe, KS**, or **Kansas City, MO**, for allegedly passing counterfeit securities or committing wire fraud, identity theft, or a conspiracy to manufacture counterfeit securities. In addition, Christopher Summers was sentenced to 51 months incarceration and 5 years probation and ordered to pay the U.S. Department of Treasury and others \$379,743 in restitution for his earlier guilty plea to possessing counterfeit securities and committing wire fraud and a conspiracy to defraud the U.S. Government. From May 2007 to May 2009, Summers admittedly and the remaining defendants and others allegedly conducted or participated in a counterfeit check scheme from a public housing unit that involved the Kansas City and Independence, MO, Housing Authorities and a number of businesses.



Ali Hassan Zindani was indicted in U.S. District Court, **Manhattan, NY**, for allegedly committing a conspiracy and bribery, and Bashir Zindani was sentenced to 5 months incarceration, 5 months home detention, and 31 months supervised release and ordered to forfeit \$10,000 to the U.S. Government for his earlier guilty plea to committing a conspiracy and bribery. From February to April 2010, Ali Hassan Zindani allegedly and Bashir Zindani admittedly paid \$10,000 to an individual acting as a New York City Housing Authority (New York City) employee in return for his assistance in obtaining a New York City commercial property lease.



Denise Dunlap, a Marion Metropolitan Housing Authority (Marion) Section 8 landlord doing business as Key Management, was arrested after her indictment in Delaware County Court of Common Pleas, **Delaware, OH**, for allegedly engaging in a pattern of corrupt activity, committing theft and money laundering, and securing writings by deception. Between 2005 and 2008, Dunlap allegedly assisted unqualified buyers who

fraudulently obtained conventional mortgage loans for 26 properties, including seven properties placed into the Marion Section 8 program.



María Díaz-Sanchez was charged in San Juan State Court, **San Juan, PR**, with allegedly committing theft and fraud. From December 2008 to March 2009, Díaz-Sanchez allegedly portrayed herself as a volunteer for the Puerto Rico Department of Housing and fraudulently collected advanced deposits and other housing fees from a number of victims.



Natalie Cole, a St. Landry Parish Housing Authority housing recipient, was charged in Louisiana State Court, **LeBeau, LA**, with allegedly obstructing justice and possessing marijuana, drug paraphernalia, and a firearm with narcotics. Cole allegedly possessed marijuana, drug paraphernalia, and a weapon in her subsidized unit and stored equipment used in a counterfeit operation.



Michael White, a Housing Authority of New Orleans housing recipient, was charged in Louisiana State Court, **New Orleans, LA**, with allegedly committing identity theft and access device fraud. From September 2009 to January 2010, White allegedly used stolen credit card numbers to pay the debts of other individuals in exchange for cash.



Chapter 3

Multifamily

Housing Programs



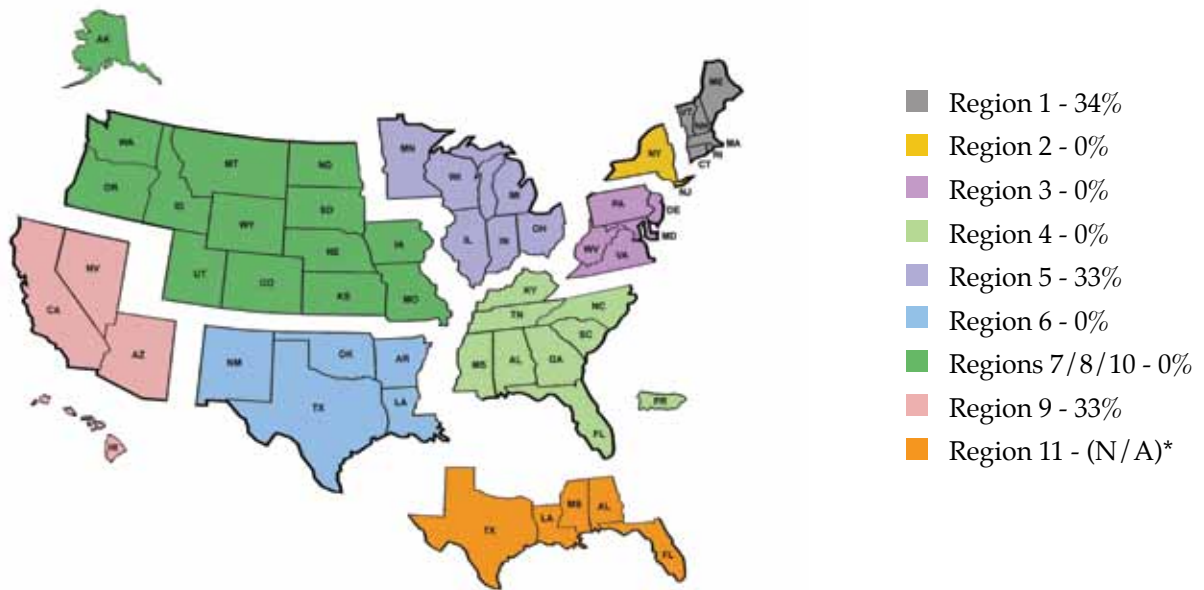
In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation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

Audit

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

Key program results		Questioned costs	Funds put to better use
Audit	3 audits	\$5.1 million	---
Our focus	Page 59	<ul style="list-style-type: none"> Owner and management agent operations 	

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



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

Owner and Management Agent Operations

HUD OIG audited the Avesta Housing Management Corporation in **Portland, ME**, to review Avesta's management of 30 HUD projects and determine whether HUD funds were used in accordance with its regulatory agreement and HUD requirements. Specifically, OIG wanted to determine whether (1) Avesta complied with HUD procurement policies and procedures, (2) services provided by Avesta under identity-of-interest contracts were reasonable and adequately supported, and (3) Avesta's method of cost allocation was adequate and supported.

Avesta did not comply with HUD procurement procedures because it could not furnish documentation to substantiate that it solicited bids and/or obtained cost estimates when procuring ongoing services and construction contracts. In addition, it had not established written procurement policies. Procurements totaling more than \$2.6 million covering a 3-year period were unsupported.

OIG recommended that HUD require Avesta to (1) comply with all terms and conditions of its management certifications and HUD requirements for soliciting written or verbal cost estimates and maintaining documentation supporting the basis for contract awards and (2) provide an independent cost analysis for each procurement cited to ensure that all procurements were reasonable and supported. HUD should also require Avesta to provide acceptable documentation in support of the fees charged for maintenance, janitorial, and resident service coordinator services and determine whether the costs were reasonable. For fees not considered reasonable, HUD should ask Avesta to reimburse the HUD projects from non-Federal funds.

Lastly, OIG recommended that HUD require Avesta to provide documentation in support of the distribution of more than \$470,000 in property manager salaries to the HUD projects. For any amounts not reasonable or supported, it should reimburse the HUD projects from non-Federal funds. In addition, OIG recommended that HUD require Avesta to provide documentation to determine whether nearly \$326,000 in accounting/bookkeeping service costs was at or below market rate. For any service costs that exceeded the market rate, Avesta should reimburse the HUD projects from non-Federal funds. (Audit Report: **2010-BO-1008**)



In response to a congressional request, HUD OIG reviewed allegations that Columbus Properties Limited Partnership in **Columbus, OH**, did not renovate six apartment complexes in Ohio for which it obtained HUD-insured mortgages. Congresswoman Mary Jo Kilroy asked OIG to provide answers to five specific questions. The objectives were to determine whether HUD followed its standard operating procedures for monitoring the inspection of renovation activities designed to ensure compliance with the specifications and to address the questions outlined in the congressional request.

OIG concluded that HUD followed its procedures to monitor the renovation of the six projects and addressed the congresswoman's questions. Based on the results of the review, OIG made no recommendations. (Audit Report: **2010-CH-1809**)



In response to a congressional request, HUD OIG reviewed the Retreat at Santa Rita Springs in **Green Valley, AZ**, a Federal Housing Administration (FHA)-insured multifamily project under Section 231 of the National Housing Act, to determine whether the operations of the community complied with applicable HUD rules and regulations and other Federal requirements.

The community did not comply with applicable Federal rules and regulations and its regulatory agreement with HUD in the operation of the project. This noncompliance included (1) resident security deposits converted to community fees and/or commingled with operating funds and (2) prohibited management costs and erroneous and duplicative billings charged to the project.

OIG recommended that HUD require the owner to (1) refund former residents and prospective residents \$11,000 in security deposits and (2) reimburse the project more than \$19,000 for ineligible and unsupported expenses. (Audit Report: **2010-LA-1014**)



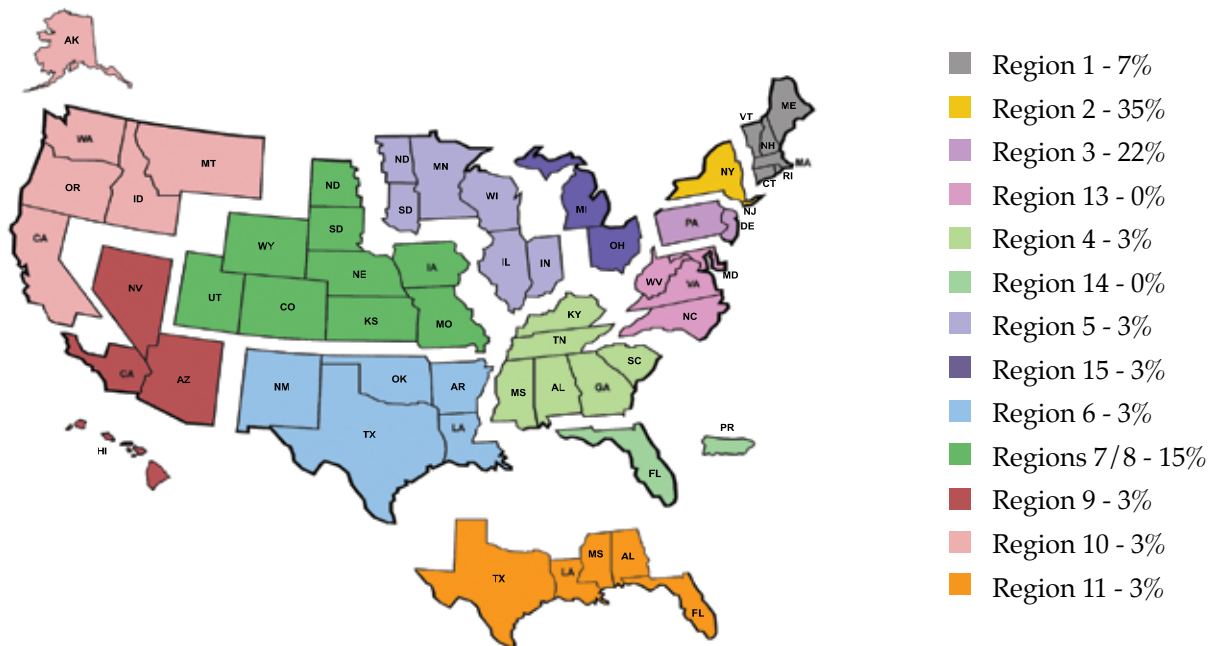
Investigations

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

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

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	29	\$1,910,932	37	48
Our focus	Page 62	• Theft/embezzlement		
	Page 62	• Rental assistance fraud		
	Page 64	• Other fraud/crimes		

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



Theft/Embezzlement

Christopher Grimsley, a former construction manager for AIMCO Apartment Management, a HUD multifamily management agent, pled guilty in U.S. District Court, **Kansas City, MO**, to committing mail fraud. From May 2003 to June 2009, Grimsley solicited \$538,341 in kickbacks from contractors in exchange for HUD-subsidized and conventional multifamily housing development contracts.



Brenda Phillips, a former manager for the Quail Ridge Apartments, a HUD-subsidized multifamily housing development, was sentenced in U.S. District Court, **Wichita, KS**, to 12 months incarceration and 36 months probation and ordered to pay Cohen Esry Management Company \$227,978 in restitution for her earlier guilty plea to making a false statement. From 2001 to 2006, Phillips submitted false tenant information on HUD certifications and fraudulently obtained \$160,234 in housing assistance.



Meredith Sullivan, a former manager for Sycamore Grove Apartments, a HUD-subsidized multifamily housing development, was sentenced in U.S. District Court, **Kansas City, MO**, to 16 months incarceration and 24 months supervised release and ordered to pay HUD \$34,444 in restitution for his earlier guilty plea to making false statements. From 2004 to 2009, Sullivan submitted false tenant information on HUD certifications and provided housing applicants with preferential placement on the housing waiting list in exchange for actual or anticipated sexual relations. HUD realized losses of \$138,611.



Stanislaw Paul, the owner of JRDKS Construction, was charged in Louisiana State Court, **Jefferson, LA**, with allegedly committing theft of funds. Paul allegedly submitted a false risk and liability insurance invoice and overcharged the developer of a HUD-funded project \$42,122.



Richard Arroyo and Margarita Villegas, the president and director of the South Bronx Community Corporation Management Corporation (South Bronx), a HUD multifamily management agent, were collectively sentenced in U.S. District Court, **Bronx, NY**, to 22 months and 1 day incarceration, ordered to pay a not yet named victim \$169,415 in restitution, and fined \$6,000 for their earlier guilty pleas to committing theft of government funds. From May 2005 to February 2009, Arroyo and Villegas used a South Bronx credit card for unauthorized personal use items. HUD losses have not yet been determined.

Rental Assistance Fraud

Seven current or former Section 8 tenants residing in HUD-subsidized multifamily housing developments were each arrested and charged in U.S. District or Manhattan Criminal Courts, **Manhattan, NY**, with allegedly committing theft of government funds or grand larceny or falsifying business records. In addition, former housing recipients Sandy Colon and Annette Vargas each pled guilty to committing petit larceny, and former housing recipients Latasha Greene and Phyllis Pigford were collectively sentenced to 7 months incarceration and 36 months probation and ordered to pay HUD \$24,096 in restitution for their earlier conviction or guilty plea to making false statements, committing grand larceny, or falsifying business records. Between 2004 and May 2010, the above seven defendants allegedly (Greene was found guilty) and

Colon, Vargas, and Pigford admittedly failed to report income, unauthorized residents, or the subleasing of their subsidized units on housing certifications and collectively obtained \$283,427 in housing assistance they were not entitled to receive.



Clifton woman charged with bilking feds of rental subsidies

By **STEPHANIE SLEPIAN**
and **FRANK DONNELLY**
STATEN ISLAND ADVANCE

A Clifton woman bilked the feds of more than \$48,000 in rental subsidies by falsifying documents to qualify for Section 8 funding, authorities allege.

Risikat Kazeem, 51, who lived in the Park Hill Apartments from December 2005 through December 2008, underreported her salary to the U.S. Department of Housing and Urban Development so she could get Section 8 vouchers to help pay her rent.

Ms. Kazeem reported her annual household income to HUD as \$12,740 in 2005 and \$13,195 for each of 2006, 2007 and 2008, according to court documents.

During that time, the Nigerian native was employed as an aide by the Verrazano Nursing Home in Tompkinsville, where she still works. Records obtained by HUD revealed she earned \$53,977 in 2005, \$53,893 in 2006, \$63,725 in 2007 and \$67,882 in 2008.

Over those years, Ms. Kazeem received a total of \$48,768 in financial assistance she wasn't entitled to, court papers said.

She was charged with one felony count of third-degree grand larceny, according to a spokesman for District Attorney Daniel Donovan. She's also accused of four misdemeanor counts of falsifying business records.

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Six Section 8 tenants residing in HUD-subsidized multifamily housing developments were each arrested and charged in U.S. District or Staten Island Criminal Courts, **Staten Island, NY**, with allegedly committing theft of government funds or grand larceny, offering a false instrument for filing, or falsifying business records. Between February 2005 and December 2009, the above defendants allegedly failed to report income on housing certifications and collectively obtained \$179,840 in housing assistance they were not entitled to receive.



Tyese Wilson, Gilberto Torres, and Kewanna Sheppard, Section 8 tenants in HUD-subsidized multifamily housing developments, were each arrested and charged in U.S. District or Bronx Criminal Courts, **Bronx, NY**, with allegedly committing theft of public funds or grand larceny or falsifying business records. In addition, Section 8 tenant Francina N'Diaye pled guilty to committing theft of government funds. Between February 2005 and January 2010, the above defendants allegedly and N'Diaye admittedly failed to report income on housing certifications and collectively obtained \$133,300 in housing assistance they were not entitled to receive.



Glenda Rivera and Sylvester Okonoboh, former Section 8 tenants at Amiff Housing, a HUD-subsidized multifamily housing development, were collectively sentenced in U.S. District Court, **Boston, MA**, to 3 months home confinement and 72 months probation and ordered to pay HUD \$82,579 in restitution for their earlier guilty pleas to committing theft of government funds. Between October 2004 and June 2009, Rivera and Okonoboh failed to report income on housing certifications and together obtained \$82,579 in housing assistance they were not entitled to receive.



Annette Rhue, a Section 8 tenant at Central Gardens I Apartments (Central Gardens), a HUD-subsidized multifamily housing development, was indicted in Prince Georges Circuit Court, **Upper Marlboro, MD**, for allegedly making false statements and committing theft, welfare fraud, and perjury. In addition, Central Gardens Section 8 tenant Crystal Bailey was convicted of committing theft, and Section 8 tenants Sonia Johnson and Chequetia Burnett were collectively sentenced to 1 year incarceration (suspended) and 8 years supervised probation

and ordered to perform 200 hours of community service and pay the Maryland Department of Housing and Community Development \$27,421 in restitution for their earlier guilty pleas to making false statements or committing theft. Rhue allegedly (Bailey was found guilty) and Johnson and Burnett admittedly failed to report income or unauthorized residents on housing certifications and collectively obtained \$65,146 in housing assistance they were not entitled to receive.



Fatimah Washington, Shalleka Stephens, Estelle Fryar, and Deborah Young, Section 8 tenants at Druid Hills II Apartments, a HUD-subsidized multifamily housing development, were each arrested and charged or indicted in Walterboro Municipal or Colleton County Courts, **Walterboro, SC**, for allegedly making false statements. Between October 2004 and January 2010, the above defendants allegedly failed to report income on housing certifications and collectively obtained \$62,510 in housing assistance they were not entitled to receive.



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

Other Fraud/Crimes

Ronald Gifford, an attorney for Garden Court Apartments (Garden Court), a HUD-subsidized elderly housing development, was sentenced in Marshall County Superior Court, **Plymouth, IN**, to 12 months home detention and 24 months probation and ordered to perform 200 hours of community service and pay Garden Court \$17,000 in restitution for his earlier guilty plea to committing theft and deception. In June 2006 and June 2007, Gifford submitted fraudulent documents to HUD and falsely claimed that Garden Court was a nonprofit entity.



Chapter 4

Community Planning and Development Programs



The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted a number of outreach efforts (see chapter 8, page 122).

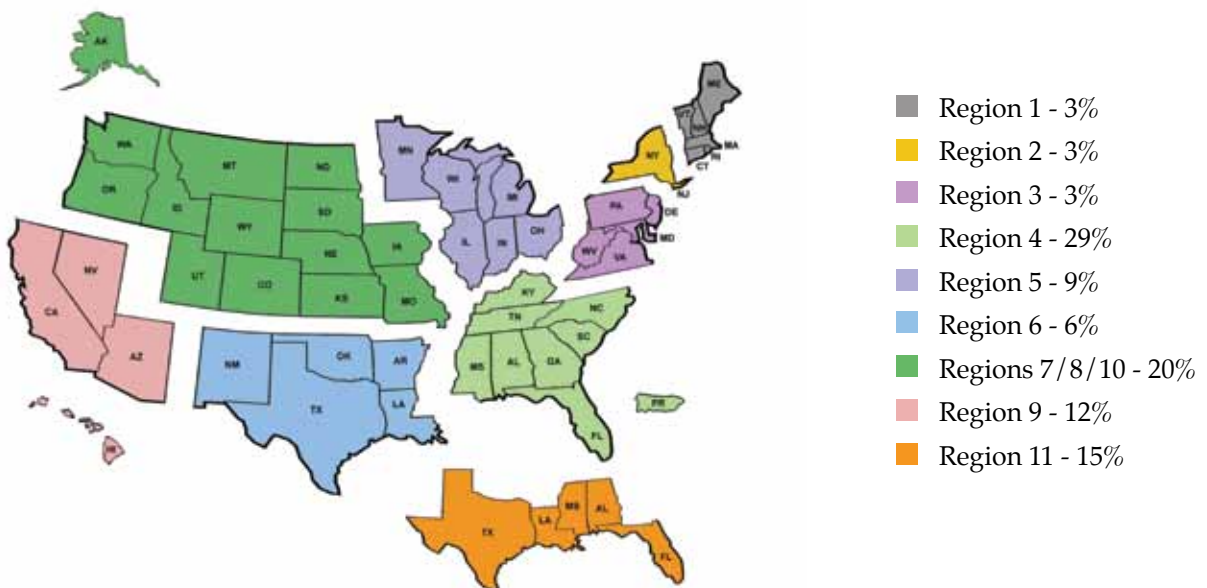
Audit

Strategic Initiative 3: Contribute to the strengthening of communities

Key program results		Questioned costs	Funds put to better use
Audit	34 audits*	\$52.8 million	\$71.7 million
Our focus	Page 67 Page 68 Page 71 Page 72	<ul style="list-style-type: none"> • Community Development Block Grant programs • HOME Investment Partnerships Program • Neighborhood Stabilization Program • Youthbuild and Supportive Housing program 	

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

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



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

Community Development Block Grant Programs

HUD OIG audited the City of **Jersey City, NJ**'s CDBG float loan activity and found that the City did not comply with applicable regulations and failed to take timely action when the float loan defaulted. Specifically, it did not (1) make a good faith effort to collect payment on the float loan in the amount of \$3.5 million, (2) identify a proper default remedy in case the float loan defaulted, (3) properly account for and report float loan program income to HUD, (4) follow the required steps when the terms of the float loan were extended, and (5) maintain adequate supporting documentation to show that the national objective was met.

OIG recommended that HUD instruct the City to (1) reimburse the CDBG program from non-Federal funds for the defaulted float loan, (2) provide supporting documentation related to nearly \$73,000 in program income generated from the float loan, (3) establish adequate policies and procedures to ensure that it complies with applicable CDBG float loan rules, and (4) and provide the supporting documents to show that the CDBG national objective was met. (Audit Report: **2010-NY-1012**)



HUD OIG audited the City of **East St. Louis, IL**'s CDBG program and found that the City awarded CDBG funds to 143 recipients without adequately verifying their eligibility to receive housing rehabilitation assistance. Specifically it did not verify eligibility criteria such as evidence of flood insurance, homeowners insurance, code compliance, and income eligibility.

OIG recommended that HUD require the City to (1) provide supporting documentation or reimburse its CDBG program more than \$1.2 million expended on ineligible recipients, (2) develop and implement a quality assurance plan to ensure that all program recipients meet program eligibility requirements, and (3) provide training to ensure future compliance. (Audit Report: **2010-KC-1008**)



HUD OIG audited the CDBG program administered by the City of **Deerfield Beach, FL**, and found that the City did not administer its program in accordance with applicable HUD requirements. It did not request exception to HUD's conflict-of-interest provision before the awarding of funds. As a result, HUD had no assurance that the City did not practice favoritism in the awarding of funds and may have placed HUD's funds at risk.

The City did not maintain adequate supporting documentation to demonstrate that it properly allocated salaries to the program. Without supporting documentation to substantiate the allocation of actual services performed by personnel, there was no assurance that the salary expenditures were accurate and program related.

The City did not comply with HUD requirements in meeting the national objective for its housing activities. It did not maintain adequate supporting documentation to demonstrate that the individuals served were low- and moderate-income persons. As a result, there was no assurance that expended program funds achieved the intended national objective.

OIG recommended that HUD require the City to (1) reimburse its program nearly \$225,000 from non-Federal funds for ineligible costs, (2) provide supporting documentation or reimburse its program more than \$142,000 from non-Federal funds for unsupported salary expenditures, and (3) provide supporting documentation or reimburse its program more than \$28,000 from non-Federal funds for an activity for which the national objective was unsupported. (Audit Report: **2010-AT-1015**)

HOME Investment Partnerships Program

HUD OIG audited the HOME program of the Puerto Rico Department of Housing in **San Juan, PR**, and found that the Department did not have adequate controls and procedures to ensure that HOME-funded activities met program objectives. It (1) disbursed more than \$4.4 million for ineligible expenditures and activities that failed to meet the HOME program objectives, (2) disbursed more than \$9 million for activities that reflected slow progress without assurance that the activities would generate the intended benefits, and (3) failed to reprogram and put to better use more than \$7.9 million in unexpended HOME funds for activities that were not carried out or terminated. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME objectives were met.

OIG recommended that HUD require the Government of Puerto Rico or its designee to (1) reimburse the HOME program more than \$4.4 million for ineligible expenses and activities that failed to meet program objectives, (2) reprogram and put to better use more than \$7.9 million in unexpended funds for activities that had not generated the intended benefits, and (3) establish and implement controls and procedures for its HOME program to ensure that HUD requirements and objectives are met. OIG also recommended that HUD determine the eligibility of more than \$9 million disbursed for projects with signs of slow progress, reevaluate the feasibility of these activities, and recapture any shortfall generated by the closure and deobligation of funds associated with terminated activities that do not meet statutory requirements for the timely commitment and expenditure of funds. (Audit Report: **2010-AT-1011**)



HUD OIG audited the **Polk County, FL**, NSP and HOME program and found that while implementing its NSP, the County did not comply with requirements that governed procurements, safeguarding of assets, and accurate reporting of NSP obligations. It also did not take proper actions to protect the ownership of abandoned and foreclosed-upon properties acquired with NSP funds or the revenues expected from their disposition. These violations put more than \$6.1 million at risk because the County allowed a nonprofit entity, with which it had no contract, to acquire abandoned and foreclosed-upon properties in its name without title restrictions and sell the properties. In addition, the County did not accurately report NSP acquisition obligations in HUD's Disaster Recovery Grant Reporting (DRGR) system and did not post NSP performance reports to its Web page in a timely manner.

While implementing its HOME program, the County did not require its community housing development organization (CHDO) to comply with its contract that required it to obtain competitive bids for procurements. As a result, the CHDO did not have documentation to support the reasonableness of more than \$1.2 million in construction contract costs examined during the review. OIG determined that the costs were reasonable. However, the violations reflected a lack of attention by County and CHDO officials to their obligation to enforce contract procurement requirements for construction costs paid with HOME funds.

OIG recommended that HUD require the County to (1) terminate its NSP administrative contract and arrange for the continued administration and implementation of its NSP by County staff or a properly procured contractor, (2) reimburse its NSP more than \$4.4 million if title to NSP-acquired properties is not transferred to the County or an entity with the legal authority to hold the titles, (3) establish proper safeguards

over its NSP funds, and (4) reimburse more than \$98,000 for questionable fees. OIG also recommended that HUD review and determine the accuracy of NSP obligations made after the completion of OIG's onsite review and ensure that the County posts its quarterly NSP performance reports to its Web page and that its CHDO complies with procurement requirements. (Audit Report: 2010-AT-1014)



HUD OIG audited the Puerto Rico Department of Housing HOME program in **San Juan, PR**, and found that the Department (1) did not reimburse the HOME program more than \$2 million for three activities that were terminated and did not meet HOME objectives, (2) failed to reprogram and put to better use more than \$1.84 million in unexpended HOME funds, (3) failed to collect more than \$1.26 million in overdue HOME loans and did not return to the United States Treasury more than \$275,000 in repayments, and (4) improperly reported to HUD more than \$6.4 million in HOME commitments without executing written agreements. Further, the Department's financial management system (1) did not account for more than \$991,000 in HOME receipts, (2) did not support the allocability of more than \$301,000 in disbursements and allowed the use of more than \$151,000 for ineligible expenditures, (3) did not deposit into its bank account more than \$137,000 in HOME receipts, and (4) failed to disburse funds in a timely manner. As a result, HUD had no assurance that the Department met HOME objectives and commitment requirements.

OIG recommended that HUD require the Department to (1) repay more than \$3.58 million for ineligible expenditures associated with terminated activities, unexpended 2002 HOME funds, and unallowable administrative costs; (2) collect and/or reprogram and put to better use more than \$3.62 million for HOME funds for terminated activities, uncollected loans, repayment funds not remitted to its treasury account, receipts not deposited into its bank account, and unsupported commitments; and (3) provide all supporting documentation to demonstrate the allocability and eligibility of more than \$1.29 million in HOME disbursements. (Audit Report: 2010-AT-1006)



HUD OIG audited the Mobile Housing Board in **Mobile, AL**, which serves as both the public housing agency and the administering agency for the City of Mobile's HOME and CDBG programs, and found that the City did not perform annual monitoring of the Housing Board to ensure that its HOME funds were used in accordance with all program requirements. Cost allocation plans were not developed by the Housing Board to properly allocate or prorate its HOME program costs for phases III and IV of its HOPE VI redevelopment project. The Housing Board arbitrarily charged more than \$1 million to phases III and IV. As a result, it disbursed nearly \$840,000 in unsupported costs in both phases. The Housing Board used nearly \$340,000 of its HOME funds to pay for ineligible costs in all four phases of its HOPE VI redevelopment project. As a result, nearly \$340,000 in HOME funds was not used as intended under the HOME program.

OIG recommended that HUD ensure that the City (1) establishes and maintains a subrecipient agreement with the Housing Board pursuant to HUD requirements, (2) develops procedures to monitor the Housing Board at least annually, and (3) reallocates the excessive \$1.9 million in HOME and CDBG funds to other eligible activities and program recipients. OIG also recommended that HUD require the Housing Board to (1) support the nearly \$840,000 in HOME funds it charged to phases III and IV with either a cost allocation or proration plan, repaying any amount that cannot be supported; (2) lower the sales prices of the HOME units in phase I to within HUD requirements and ensure that they are occupied by qualified low-income persons in a timely manner or repay the more than \$156,000 in ineligible HOME funds; and (3) recapture the nearly \$184,000 in HOME funds used to pay for ineligible costs for phases II, III, and IV of the HOPE VI redevelopment. (Audit Report: 2010-AT-1004)



HUD OIG reviewed the City of **Montebello, CA**'s HOME program and found that the City's Whittier and 6th Street project was not timely and the City committed and disbursed \$1.3 million in HOME funds without the required written agreement. It also recorded the project as completed in HUD's Integrated Disbursement and Information System (IDIS), although no project construction had begun.

OIG recommended that HUD require the City to (1) repay the HOME project funds, plus any interest due, and place the funds into the HOME U.S. Treasury account; (2) implement written procedures and controls regarding the HOME program; and (3) obtain IDIS training. (Audit Report: **2010-LA-1013**)



HUD OIG audited **Polk County, FL**. The audit identified more than \$1.6 million in incorrect commitment entries that the County made in IDIS. The incorrect entries masked a shortfall of more than \$400,000 that is subject to recapture by HUD. In addition, the County improperly executed agreements for its HOME-funded tenant-based rental assistance activities that obligated Section 8 funds to pay the costs, although the County used HOME funds to make the assistance payments. The Section 8 contracts did not legally support the commitment of HOME funds.

OIG recommended that HUD (1) recapture the HOME funds not committed by the County's October 31, 2008, deadline; (2) require the County to implement controls to ensure that future HOME funds are committed by the required deadline, monitor commitments entered into IDIS, and take appropriate action to promptly correct detected violations; and (3) require the County to prepare a proper legal contract template for its HOME-funded tenant-based rental assistance activities and use that contract template for all future HOME funds committed to those activities. (Audit Report: **2010-AT-1008**)



HUD OIG audited HUD's Office of Affordable Housing Programs' oversight of resale and recapture provisions for HOME-assisted home ownership projects and found that HUD did not ensure that participating jurisdictions complied with HUD's requirements in their use of resale and recapture provisions to enforce HUD's affordability requirements for HOME-assisted projects. Of the 40 projects reviewed, 27 participating jurisdictions did not include appropriate resale and/or recapture provisions in their 29 consolidated and/or action plans that were in effect at the time the participating jurisdictions set up 32 projects in IDIS. Further, 18 participating jurisdictions did not ensure that appropriate resale or recapture provisions were implemented for 21 projects. In addition, three participating jurisdictions did not ensure that HUD's interest was sufficiently protected in three projects for which more than \$43,000 in HOME funds was used for home-buyer assistance.

OIG recommended that HUD require the Office to (1) ensure that the State of New York and Cobb County, GA, Consortium reimburse their programs \$30,000 and nearly \$10,000, respectively, for two projects for which they did not ensure that they met HUD's affordability requirements; (2) ensure that the State of Montana places a deed restriction, land covenant, affidavit, and/or lien on a property to ensure that it would recoup all or a portion of the more than \$3,000 in HOME funds used for a project if the housing does not continue to be the principal residence of the household for the duration of the affordability period or reimburse its program more than \$3,000; and (3) implement adequate procedures and controls to address the finding cited. (Audit Report: **2010-CH-0002**)

Neighborhood Stabilization Program

HUD OIG audited the **State of Kansas'** Neighborhood Stabilization Program I (NSP I) and found that the State improperly obligated more than \$12 million of its NSP I funds by reporting its funds as obligated in HUD's DRGR system without those funds' being linked to a specific address and/or household. Also, the State entered into NSP I contracts without all of the required provisions.

OIG recommended that HUD require the State to (1) implement a system to track and support its obligations as defined by HUD rules and regulations and (2) deobligate any portion of the more than \$12 million in NSP I funds that has not been expended and was improperly obligated. In addition, OIG recommended that the State amend its NSP I contracts with its subrecipients to include the missing provisions and the additional NSP I funding awarded. Finally, OIG recommended that the State's NSP staff receive training regarding the required provisions of NSP I contracts. (Audit Report: **2010-KC-1006**)



HUD OIG audited the Sacramento Housing Redevelopment Agency in **Sacramento, CA**, and found that the Agency did not administer its NSP in accordance with HUD rules and regulations. Specifically, it (1) allowed ineligible properties to be rehabilitated; (2) did not adequately monitor projects, which resulted in ineligible costs; (3) permitted the developer to make unnecessary upgrades and overinflate the construction budget; (4) did not ensure that it met its reporting requirements; and (5) lacked management controls. These deficiencies resulted in ineligible costs and funds that could be put to better use.

OIG recommended that HUD require the Agency to repay from non-Federal funds more than \$1.1 million in ineligible costs and establish and implement effective management controls. Improvement of controls would ensure that more than \$5.3 million in funds could be put to better use. (Audit Report: **2010-LA-1011**)



HUD OIG audited the City and County of **Denver, CO's** NSP I and found that the City improperly obligated more than \$1.5 million of its NSP I funds by recording its funds as obligated in HUD's DRGR system without the funds being linked to a specific address and/or household. Additionally, the City did not follow HUD's NSP I reporting regulations. It did not post two quarterly NSP I performance reports on its official Web site within the 30-day requirement.

OIG recommended that HUD (1) require the City to develop and implement policies and procedures to ensure proper obligation of NSP I funding and deobligate any portion of the more than \$1.5 million in NSP I funds that was not properly obligated and (2) provide technical assistance to the City regarding HUD's reporting requirements to ensure that it posts quarterly NSP I performance reports on its official Web site within the 30-day requirement. (Audit Report: **2010-DE-1006**)



HUD OIG reviewed the City of **Chattanooga, TN's** NSP and found that the City generally administered its program in accordance with HUD's rules and regulations. However, it was sometimes inconsistent in identifying obligations and was not always accurate in its reporting to HUD.

OIG recommended that HUD continue to monitor the City's progress in obligating its program funds to ensure that it meets the September 6, 2010, deadline and that the City be required to develop and implement improved internal controls for tracking obligations and reporting. (Audit Report: **2010-AT-1012**)



HUD OIG reviewed the **Louisville/Jefferson County, KY**, Metropolitan Government's (Louisville Metro) NSP and found that Louisville Metro generally administered its program in accordance with HUD's rules and regulations and was making progress in obligating its funds. However, it was not always accurate in its reporting to HUD.

OIG recommended that HUD continue to monitor Louisville Metro's progress in obligating its program funds to ensure that it meets the September 20, 2010, deadline. OIG also recommended that Louisville Metro strengthen its internal controls over reporting. (Audit Report: **2010-AT-1013**)



HUD OIG reviewed the City of **Augusta, GA**'s NSP I and found that the City demonstrated the capacity to properly obligate its entire \$2.4 million NSP I grant by the September 5, 2010, statutory deadline. However, it (1) did not have internal controls in place to perform continuous and routine monitoring of its obligation process to ensure that its obligations were processed as intended and were valid and (2) entered its NSP I obligations into the DRGR system database in June 2010 for its LH25 set-aside activities. At that time, the obligations were not valid because the contracts for those obligations had not been signed by all parties.

Overall, the City's actions taken or planned indicated its willingness to make necessary improvements. Therefore, OIG made no recommendations. (Audit Report: **2010-AT-1806**)



HUD OIG reviewed **Clark County, NV**'s NSP and found that Clark County generally had sufficient capacity and had been administering its NSP in accordance with HUD requirements. However, it needs to revise its written procedures and developer agreements to ensure that properties to be sold to eligible home buyers will be sold at a price permitted by NSP requirements.

OIG recommended that HUD require Clark County to revise its written procedures and developer agreements to ensure that rehabilitated properties will be sold at no more than the cost of acquisition and rehabilitation. (Audit Report: **2010-LA-1012**)

Youthbuild and Supportive Housing Program

HUD OIG audited Sasha Bruce Youthwork, Incorporated, in **Washington, DC**, to determine whether it used its Youthbuild and Supportive Housing program grant funds in accordance with HUD regulations and its grant agreements.

Youthwork did not support the eligibility of more than \$1.9 million in expenditures. It failed to maintain records identifying the source and application of funds for its HUD-sponsored activities as required by HUD regulations and its grant agreements. Its accounting system did not separately track expenses paid by HUD versus expenses paid through other funding sources. Therefore, HUD had no assurance that \$1.9 million in grant funds it disbursed to Youthwork were used for eligible activities that met the intent of its grant agreements.

OIG recommended that HUD evaluate the issues identified and if appropriate, initiate administrative actions against responsible Youthwork officials. OIG also recommended that HUD require Youthwork to provide documentation to demonstrate that more than \$1.9 million was used for eligible activities or repay HUD from non-Federal funds, improve its financial management system, and implement improved accounting procedures to ensure that it meets Federal requirements. At a minimum, the financial management system should maintain accounting records that (1) track expenses paid by HUD versus expenses paid

through other funding sources; (2) demonstrate that expenditures paid were for eligible activities; (3) determine and adequately document the reasonableness, allocability, and allowability of costs; and (4) demonstrate that expenditures tie in with HUD-approved budget line items, thereby ensuring that more than \$686,000 in program funds will be used for eligible purposes. (Audit Report: **2010-PH-1008**)



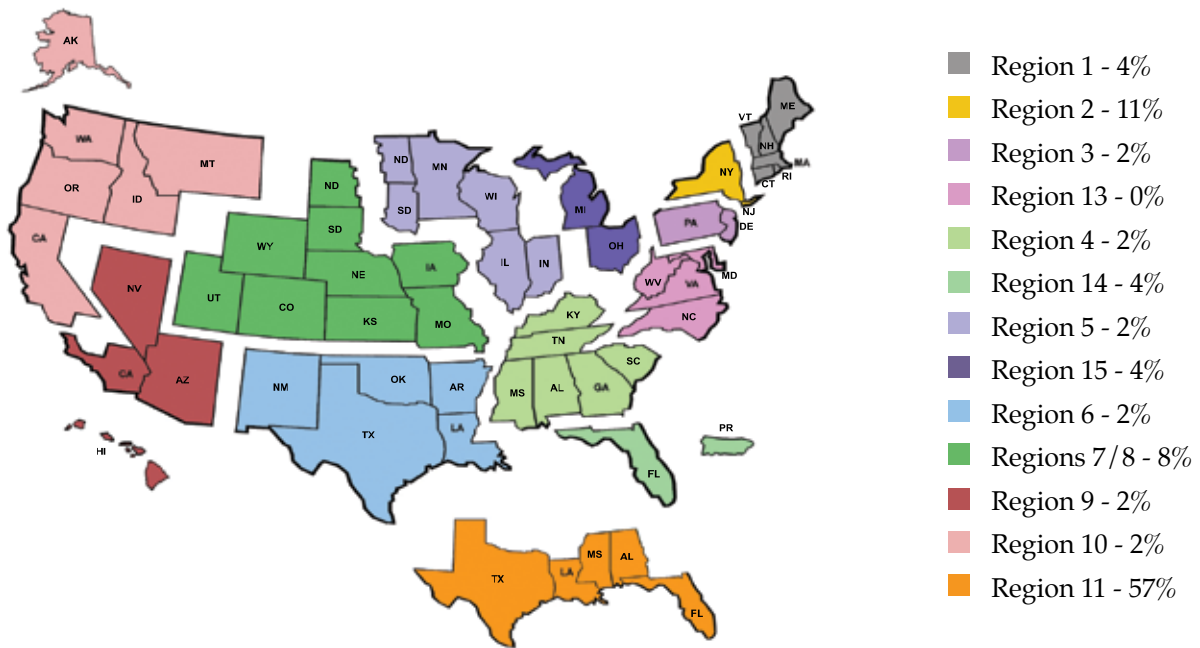
Investigations

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

Strategic Initiative 3: Contribute to the strengthening of communities

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	51	\$2,283,104	30	6
Our focus	Page 75 Page 76	<ul style="list-style-type: none"> • Theft/embezzlement • Other fraud/crimes 		

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



Theft/Embezzlement

Belinda Exon, an escrow administrator for Rehab Financial Corporation, an organization that manages HUD community planning and development and CDBG funds for a number of California municipalities, pled guilty in U.S. District Court, **Los Angeles, CA**, to committing embezzlement of property from organizations receiving Federal funds. From September 2002 to October 2008, Exon diverted and used about \$3.9 million in HUD funds for personal investments, including \$22,000 in City of Pomona American Recovery and Reinvestment Act funds.



Eugene Telfair, president of the Florida Agriculture and Mining University Federal Credit Union (A&M Credit Union), and A&M Credit Union grant administrator Robert Nixon were each indicted in U.S. District Court, **Tallahassee, FL**, for allegedly committing theft of government funds, wire fraud, and a conspiracy to embezzle grant funds from HUD and others and filing false Federal income tax returns. From January 2002 to August 2009, Telfair and Nixon allegedly provided false consulting and administrative billings and obtained and embezzled \$134,253 in HUD Historically Black College grant funds through the A&M Credit Union.

U.S. Attorney: Men stole grants awarded to FAMU

Tallahassee credit union president, FAMU employee face federal charges

By Angeline J. Taylor
DEMOCRAT STAFF WRITER

A Tallahassee credit union president and a Florida A&M University program director were indicted on federal charges Wednesday in connection with the theft of \$134,253 in federal grant money awarded to the university.

FAMU Federal Credit Union President Eugene Telfair and Robert Nixon, FAMU's director of the Institute on Policy

and Commerce, were each charged with conspiracy, theft from an organization receiving federal funds and embezzlement of funds entrusted to a federally insured credit union.

The three-count indictment against the Tallahassee men is a formal charge that the two have committed a criminal offense. An indictment is not a finding of guilt.

FAMU spokeswoman Sha-



Telfair



Nixon

ron Saunders said FAMU does not use the credit union as a financial institution. She said normally Wachovia Bank is used. The university was made aware of the indictment Wednesday.

Saunders said, "The credit union is not affiliated with the university; however, Mr. Nixon

is an employee of the university. The university will review this matter as appropriate and will proceed in a manner that is in its best interest."

Saunders said Nixon also heads the university's Small Business Development Center.

Nelson Bennett Sr., a member of the credit union's board of directors, said he hoped the indictment wouldn't negatively affect the credit union. Telfair and Nixon could not be reached for comment Wednesday.

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Emmanuel Nwadike, a former contractor for the City of Opa-Locka who is currently suspended from doing business with the Federal government, was arrested and charged in Miami-Dade District Court, **Miami, FL**, with allegedly making a false statement and committing organized fraud, grand theft, and money laundering. From June 2009 to April 2010, Nwadike allegedly obtained about \$50,000 in HUD CDBG funds through the City of Opa-Locka for engineering services provided by General Design Professionals, a company Nwadike allegedly controls.



Kortni Calabrese, a former bookkeeper for Community Action in Self Help, Inc. (Community Action), a nonprofit organization that receives HUD HOME program funds, was sentenced in Wayne County District Court, **Lyons, NY**, to 12 months probation and ordered to pay Community Action \$3,692 in restitution for her earlier guilty plea to committing grand larceny and a scheme to defraud. From September 2004 to December 2005, Calabrese issued \$15,000 in unauthorized Community Action checks.



Lola May, the former executive director of the Queensborough Neighborhood Association (Queensborough), an organization that receives HUD CDBG funds, was sentenced in Louisiana State Court, **Shreveport, LA**, and ordered to pay Queensborough \$2,335 in restitution for her earlier guilty plea to unauthorized use of a moveable. During 2009, May used \$2,335 in Queensborough funds for personal gain.



Randy McRae, a former board member of the Central Prince Georges County Community Development Corporation (CDC), was indicted in Prince Georges County District Court, **Upper Marlboro, MD**, for allegedly uttering a counterfeit document and committing theft, aggravated theft, and counterfeiting. McRae allegedly forged CDC board member signatures on documents he submitted to become a certified CHDO, fraudulently obtained \$50,000 in HUD HOME and private investor funds, and used these funds for personal investments or expenses. HUD losses have not yet been determined.



Russell McLaughlin, Jr., the former president of Building Inspections Underwriters, Inc., was sentenced in U.S. District Court, **Newark, NJ**, to 12 months incarceration and 36 months supervised release and fined \$20,100 for his earlier guilty plea to giving and offering a bribe. McLaughlin paid about \$5,000 to previously sentenced Anthony Saccomanno, the former director of the Cherry Hill Department of Code Enforcement and Inspections (Cherry Hill), an organization that receives HUD CDBG funds, in return for \$240,000 in Cherry Hill contracts.

Other Fraud/Crimes

Anthony Sharpe, a former HUD Real Estate Assessment Center inspector and current City of Detroit building inspector, doing business as Sharpe Environmental; City of Detroit building inspector MoReno Taylor, doing business as Taylor Environmental Sampling & Testing (Taylor Environmental); Sharpe Environmental; and Taylor Environmental were each charged in U.S. District Court, **Detroit, MI**, with allegedly making false statements and committing mail fraud and fraud through the interstate transportation of money. From 2004 to 2007, Sharpe and Sharpe Environmental allegedly provided false residential lead inspection reports for Wayne Metropolitan Community Action Agency, an organization that receives HUD CDBG funds. In addition, Sharpe, Taylor, Sharpe Environmental, and Taylor Environmental allegedly created false lead inspection records for seven HUD-subsidized multifamily housing developments located in Cincinnati, OH, and four HUD-subsidized multifamily housing developments located in Detroit, MI. HUD losses have not yet been determined.



Robert Jacumin, also known as Roy or Kris King, a former HUD Housing Opportunities for Persons with AIDS (HOPWA) program participant, was sentenced in U.S. District Court, **Fort Lauderdale, FL**, to 5 years supervised release and ordered to pay HUD \$45,000 and the Social Security Administration (SSA) \$24,428

in restitution for his earlier guilty plea to making false statements and committing theft of government funds. Jacumin failed to report income or assets on housing and other certifications and obtained \$59,300 in housing assistance and \$21,695 in SSA benefits he was not entitled to receive.



Janice Morelock was charged in Atchison County District Court, **Atchison, KS**, with allegedly providing false information and committing theft by deception. Morelock, a HUD HOME program recipient through the Atchison County Housing Authority, allegedly provided false information on grant certifications and fraudulently obtained \$27,493 in HUD funds.



Richard Norton, a HUD HOME program participant, was arrested after his indictment in U.S. District Court, **Fresno, CA**, for allegedly committing mail fraud and interstate transportation of stolen property. Between October 2005 and September 2009, Norton allegedly stole more than \$900,000 in merchandise from his employer, resold the items and received more than \$1 million but failed to report this income on his HUD HOME loan application, and fraudulently obtained \$25,312 in HOME funds.



Josephine Moore pled guilty in U.S. District Court, **Buffalo, NY**, to committing theft of government funds. Between March and October 2008, Moore provided false information when she applied for and obtained \$24,000 in Community Block Lead Abatement grant funds through the City of Rochester, NY, a HUD CDBG-funded municipality.



Malcolm Crawford, also known as Calvin Gamble, a West Valley City Housing Authority HOPWA program recipient, was charged in U.S. District Court, **Salt Lake City, UT**, with allegedly committing mail fraud and willfully causing another to commit a Federal crime. From August 1993 to July 2010, Crawford allegedly failed to report income, used multiple names and Social Security numbers on housing and other certifications, and obtained about \$21,844 in housing assistance and about \$161,156 in SSA and other benefits he was not entitled to receive.



Michael Cenzi, Ronald Caceci, and Herbert Babcock, employees of Sinisgalli, Inc., a demolition contractor for the City of Rochester, a municipality that receives HUD CDBG funds, each pled guilty in Monroe County District Court, **Rochester, NY**, to endangering public health and illegally dumping hazardous waste. Cenzi, Caceci, and Babcock illegally discarded asbestos and other hazardous waste products removed from Rochester properties that received CDBG funds.



Chapter 5

American Recovery and Reinvestment Act of 2009



Introduction and Background

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

Table 1: HUD programs receiving ARRA funding

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

ARRA also provided \$15 million to the HUD Office of Inspector General (OIG). This funding will remain available until September 2013. The purpose of the funding is for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Housing and Urban Development.”

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



Audit

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

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

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

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

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

Strategic Initiative 3: Contribute to the strengthening of communities

Key program results		Questioned costs	Funds put to better use
Audit	28 audits*	\$9 million	\$13.8 million
Our focus	Page 82	• Departmentwide audits	
	Page 82	• Public Housing Capital Fund audits and reviews	
	Page 87	• Native American Housing Block Grant audits and reviews	
	Page 88	• Community Development Block Grant audits and reviews	
	Page 88	• Neighborhood Stabilization Program audits and reviews	
	Page 89	• Tax Credit Assistance Program	
	Page 89	• Homelessness Prevention and Rapid Re-housing Program	

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

In addition to the audits described in this chapter, HUD OIG, has conducted a number of outreach efforts (see chapter 8, page 123).

Departmentwide Audits

HUD OIG audited HUD's internal control structure for ensuring that ARRA recipient data are reported completely, accurately, and in a timely manner and to determine whether material omissions and significant errors were identified correctly.

HUD established the Recovery Implementation Team (Recovery Team) to monitor and maintain ARRA funding and reporting. The Recovery Team's accomplishments as of the March 31, 2010, reporting period were as follows: (1) developed policies and procedures for validating recipient reporting, (2) completed several rounds of validation checks of recipient data, (3) successfully assisted approximately 99 percent of the prime recipients (4,849 of 4,911) in meeting reporting requirements, and (4) met with OIG on a monthly basis to discuss ARRA activities. The overall quality assurance process was successful. However, the Recovery Team should provide additional and updated guidance to HUD program offices pertaining to enforcement actions for nonreporting. In accordance with Office of Management and Budget Memorandum 10-17, Federal agencies have additional requirements to ensure that recipients report in a timely manner. OIG recommended that the Recovery Team ensure that program offices have implemented this new memorandum and request updated enforcement action procedures from the program offices. (Audit Report: **2010-DP-0003**)



In response to a request from the Recovery Accountability and Transparency Board, HUD OIG reviewed HUD's guidance to ARRA recipients to post signs, logos, and emblems intended to publicly identify the expenditure of ARRA or "stimulus" funds. The Board was asked by Congressman Darrell Issa, ranking member of the Committee on Oversight and Government Reform, to determine the scope and impact of the Obama Administration's guidance to recipients on what he stated was politicized stimulus advertising. The Board in turn asked OIG to respond to a series of inquiries regarding such advertising as it pertained to HUD's ARRA programs. Congressman Issa characterized HUD's stimulus advertising as the most overtly political guidance that "provided recipients a suggested sign template informing the public that projects have been funded by American Recovery and Reinvestment Act, Barack Obama, President." The objective was to determine whether HUD required or encouraged its ARRA recipients to post signs to publicly identify projects that were funded with stimulus funds.

For two programs, HUD initially included provisions in the grant agreements requiring the posting of signs. HUD later issued agencywide guidance that "encouraged" ARRA recipients to post signs. (Audit Report: **2010-HA-0801**)

Office of Public and Indian Housing Audits and Reviews

Public Housing Capital Fund Audits and Reviews

HUD OIG reviewed the Housing Authority of the City of **Wilson, NC**, which was granted \$9.2 million for Public Housing Capital Fund projects under ARRA, to evaluate the Authority's capacity to administer additional capital funds received under ARRA and determine whether the Authority followed Federal procurement regulations. OIG expanded the objectives to include an assessment of the eligibility of the Authority's planned green renovation of 68 senior housing units using a \$7.6 million Public Housing Capital Fund competitive grant.

The Authority lacked sufficient capacity to administer the additional \$9.2 million in capital funds it received under ARRA. It failed to comply with procurement and financial management requirements in its administration of other capital and operating funds and could not provide assurance that it properly awarded more than \$2.4 million for contracts. The Authority's plan to substantially rehabilitate 68 senior housing units into an energy-efficient, green community using a \$7.6 million ARRA competitive capital fund grant was ineligible. The cost of renovating this development as planned would result in the inefficient and wasteful use of Federal funds and the unnecessary displacement of elderly tenants.

OIG recommended that HUD continue increased oversight and monitoring of the Authority and require it to develop, implement, and enforce written policies and procedures for its procurement and financial management functions. The Authority must also provide acceptable support for unsupported costs or repay them. OIG also recommended that HUD rescind the Authority's \$7.6 million ARRA competitive grant. (Audit Report: **2010-AT-1007**)



HUD OIG audited the Housing Authority of the City of **Terre Haute, IN**'s Public Housing Capital Fund (Capital Fund) program to determine whether the Authority (1) properly administered its program and (2) had the capacity to administer its ARRA funds.

Under the direction of its former executive director, the Authority violated its annual contributions contract with HUD when it obtained a \$2.3 million construction loan and a \$2 million line of credit to finance capital improvements without HUD approval. Further, the Authority did not follow HUD's and its own procurement requirements and failed to pay its maintenance staff and a contractor the appropriate Federal labor standard wage rates as required by the Davis-Bacon Act. The Authority obligated its ARRA funds in a timely manner. However, it lacked adequate written policies and procedures and staff knowledgeable of HUD's and other Federal procurement requirements. Therefore, it lacked sufficient capacity to expend the funds. As a result, the Authority encumbered \$2.3 million of its project assets, and HUD lacked assurance that it (1) used more than \$1.4 million in program funds for the intended purposes, (2) operated its program in an efficient manner, and (3) had the capability to effectively expend its ARRA funding. Further, the Authority owed more than \$49,000 in wage restitution.

OIG recommended that HUD require the Authority to provide documentation or reimburse HUD for the various costs associated with its finding, implement adequate procedures and controls to address the findings cited, and require the Authority to acquire the capacity to manage its ARRA and other similar funding.

OIG also recommended that HUD make an appropriate legal determination and (1) pursue the appropriate administrative sanction(s) against the Authority's former executive director for failing to enforce HUD's requirements and (2) determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud and Civil Remedies Act against the Authority's former board chairperson/principals for incorrectly certifying that the information contained in the Authority's annual plans was true and accurate. (Audit Report: **2010-CH-1010**)



HUD OIG audited the Hartford Housing Authority in **Hartford, CT**, regarding its \$5 million Public Housing Capital Fund grant under ARRA to determine whether the Authority (1) had adequate management controls over its obligation process, (2) maintained support for obligations, and (3) obligated its grant funds for eligible projects.

Overall, the Authority had adequate controls over obligating and supporting its ARRA capital grant. However, it did not always obligate funds for eligible activities. The Authority planned to use its ARRA funds to repair and federalize its State housing units. However, its plans changed when the full scope of the required repairs and funds needed was determined. The Authority shortened the normal procurement time and executed site improvement and boiler replacement contracts for the full amount of the grant before the statutory deadline. Most of the Authority's obligations were for eligible activities, properly procured, and adequately supported. However, the Authority contracted to replace 224 boilers, including 33 that had not reached the end of their useful life, with boilers that did not meet energy efficiency requirements.

OIG recommended that HUD ensure that the Authority stops its plans to replace boilers that have not reached the end of their economic life and reprograms nearly \$138,000 in future annual capital funds and ensures that boilers scheduled for replacement in years 2015-2018 are replaced with energy-efficient boilers, thereby putting more than \$954,000 in ARRA funds to better use. (Audit Report: **2010-BO-1005**)



HUDOIG performed a capacity review to assess the **Rochester, NY**, Housing Authority's administration of its Capital Fund program. The Authority was awarded \$5.9 million in capital funds under ARRA.

The Authority had weaknesses in its financial controls that if left unaddressed could lead to its having a diminished capacity to effectively administer its supplemental ARRA funds. Specifically, the Authority (1) charged ineligible and unsupported expenses to its Capital Fund program, (2) failed to reimburse eligible expenses from its Capital Fund program, and (3) inaccurately allocated employee payroll expenses charged to its Capital Fund program. Except for these issues, Authority officials demonstrated a positive attitude toward establishing and implementing additional financial controls, their procurement controls complied with regulations, and their capital program outputs were in accordance with their established plans. Thus, overall, the Authority had the capacity to effectively administer its Capital Fund program supplemental funds provided under ARRA according to applicable requirements.

OIG recommended that (1) HUD monitor and oversee the Authority's charges and withdrawals for Capital Fund program administrative expenses and ensure that only allocable 2009 payroll expenditures are charged to the Authority's Capital Fund programs. Further, OIG recommended that HUD instruct the Authority to (2) ensure that nearly \$380,000 in ineligible charges and withdrawals of capital funds is properly accounted for and reimbursed to HUD from non-Federal funds, (3) provide documentation to justify the more than \$177,000 in unsupported withdrawals and reimburse HUD for any unsupported costs determined to be ineligible, (4) provide documentation to HUD to ensure that nearly \$3,000 in relocation expenses was reclassified and charged to the Authority's operating fund and that more than \$3,000 in eligible modernization-related expenses is reimbursed from capital funds, (5) establish and implement policies and procedures that will ensure that allocation plan percentages are accurate and vouchers are supported, eligible, and in accordance with Capital Fund program policies and procedures; and (6) review and revise its financial controls for tracking capital fund expenditures to ensure that Capital Fund program expenses are requested in a timely manner and that all eligible expenses are included in voucher requests. (Audit Report: **2010-NY-1804**)



HUDOIG reviewed the Housing Authority of the County of **Salt Lake, UT**'s Public Housing Capital Fund ARRA grant to determine whether the Authority properly obligated and expended its formula grant funds.

The Authority did not properly obligate more than \$500,000 of its grant funds. It obligated the funds without executing contracts for the planned improvements. However, it generally expended more than \$600,000 of its formula grant funds properly.

OIG recommended that HUD recapture the nearly \$561,000 in grant funds that was not properly obligated by the deadline. (Audit Report: **2010-DE-1007**)



HUD OIG audited the Elkton Housing Authority in **Elkton, MD**, to determine whether the Authority obligated and disbursed capital funds received under ARRA according to ARRA requirements and applicable HUD rules and regulations.

The Authority did not comply with HUD regulations in obligating and disbursing capital funds. Specifically, it (1) did not award a contract totaling nearly \$125,000 in accordance with its request for proposals, (2) did not ensure that goods used for its ARRA project complied with the “buy American” requirement, and (3) improperly drew down nearly \$29,000 for administrative costs before incurring ARRA expenditures. It also did not accurately report the number of jobs created as a result of its ARRA projects.

OIG recommended that HUD require the Authority to (1) provide documentation to support the evaluation of proposals and the selection of the contractor or reimburse HUD nearly \$125,000 from non-Federal funds, (2) provide documentation to support that goods used for its ARRA project were produced in the United States, (3) provide documentation to support the administrative costs requested and received or reimburse HUD nearly \$29,000 from non-Federal funds, and (4) develop and implement adequate procedures to ensure that ARRA activities meet HUD requirements. (Audit Report: **2010-PH-1007**)



HUD OIG audited the Housing Authority of Baltimore City in **Baltimore, MD**, to determine whether the Authority administered capital funds provided under ARRA according to ARRA requirements and applicable HUD rules and regulations.

The Authority generally administered its grant funds in accordance with ARRA requirements and applicable HUD rules and regulations.

OIG recommended that HUD require the Authority to (1) properly record a \$19,000 transaction on its books, (2) strengthen controls for maintaining documentation to support cell phone expenditures and recording transactions in its general ledger, (3) track the performance of its energy conservation program, (4) report performance annually, and (5) identify funds it will use to repay the funds it borrowed to implement energy conservation measures if the projected savings from implementing the measures are not realized. (Audit Report: **2010-PH-1013**)



HUD OIG audited the ARRA funds awarded to the Housing Authority of the Sac and Fox Nation of Oklahoma in **Shawnee, OK**, to determine whether the Authority had the capacity to use its ARRA funds in accordance with HUD requirements.

The Authority did not always administer its procurement contracts or acquire property for planned ARRA activities in accordance with requirements. Specifically, it did not prepare a cost estimate or technical

evaluation factors for its architectural services contract or acquire two low-rent homes in accordance with HUD regulations. Further, it charged ARRA expenditures to other grants, which resulted in an inaccurate ARRA report.

OIG recommended that HUD (1) initiate enforcement actions to require the Authority to follow procurement and acquisition requirements, (2) ensure that Authority staff understands and complies with procurement and environmental review requirements, and (3) require the Authority to properly report ARRA activities. Further, HUD should increase monitoring and oversight of the Authority's planned ARRA activities and/or provide technical assistance and enter into a performance agreement with the Authority. (Audit Report: 2010-FW-1003)



HUDOIG reviewed the Housing Authority of the City of **Pueblo, CO**, to determine whether the Authority obligated and expended its Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant funds in accordance with ARRA rules and regulations and whether it properly reported ARRA information in federalreporting.gov. The Authority generally followed ARRA rules and regulations when obligating and expending its ARRA capital funds. However, it did not accurately report in federalreporting.gov the number of jobs created and the number of jobs retained using its ARRA capital funds.

OIG recommended that HUD assist the Authority in receiving formal training on how to properly report the number of jobs created and the number of jobs retained. (Audit Report: 2010-DE-1005)



HUDOIG audited HUD's compliance with obligation, recapture, and reallocation requirements for the ARRA Capital Fund program, specifically, its plans to recapture unobligated formula grants by the March 17, 2010, obligation deadline and reallocate the recaptured funds. HUD's plan was a generalized description of the process it would undertake to recapture and reallocate formula grant funds not obligated by the deadline.

OIG recommended that HUD improve its plan by revising it to include more detailed procedures for accomplishing HUD's goals and a timeline for completing them and use this plan for future recapture and reallocation events. (Audit Report: 2010-FW-0002)



HUDOIG audited the **Omaha, NE**, Housing Authority to determine whether the Authority (1) obligated ARRA grant funds in accordance with ARRA requirements and applicable HUD rules, (2) expended ARRA grant funds in accordance with ARRA requirements and applicable HUD rules, and (3) accurately and completely reported the ARRA grant information to Recovery.gov.

The Authority generally obligated and expended ARRA grant funds in accordance with ARRA requirements, but it did not accurately or completely report ARRA grant information to Recovery.gov.

OIG recommended that HUD require the Authority to obtain training for its staff and management on requirements for reporting to Recovery.gov. (Audit Report: 2010-KC-1009)



HUD OIG audited the Housing Authority of the City of **Pottsville, PA**, regarding a nearly \$993,000 grant that it received for its Capital Fund program under ARRA, to determine whether the Authority administered its grant funds according to ARRA requirements and applicable HUD rules and regulations.

Overall, the Authority administered its grant funds in accordance with ARRA requirements and HUD rules and regulations. Specifically, it (1) used grant funds for eligible activities included in its annual plan or 5-year action plan, (2) obligated and expended grant funds within established deadlines, (3) received and disbursed grant funds in a timely manner, (4) effectively monitored and reported on its grant funds, and (5) generally procured goods and services in accordance with applicable HUD requirements. However, it did not prepare independent cost estimates before soliciting bids for its grant-funded activities.

OIG recommended that HUD require the Authority to develop and implement controls to ensure that it creates independent cost estimates as required and documents them in its contract files. (Audit Report: **2010-PH-1006**)



HUD OIG audited the **Harrisburg, PA**, Housing Authority's administration of its Public Housing Capital Fund grant that it received under ARRA to determine whether the Authority administered its \$4.4 million in grant funds provided under ARRA according to ARRA requirements and applicable HUD rules and regulations.

The Authority generally administered its grant according to ARRA requirements and applicable HUD rules and regulations. However, it did not accurately enter job creation information into the appropriate Federal reporting Web site.

OIG recommended that HUD require the Authority to develop and implement controls to ensure that ARRA job creation data that it enters into the Federal reporting Web site are accurate. (Audit Report: **2010-PH-1009**)

Native American Housing Block Grant Audits and Reviews

HUD OIG conducted a capacity review of the Ft. Belknap Indian Community in **Harlem, MT**, to determine whether there was evidence that Ft. Belknap lacked the capacity to adequately administer its ARRA funding in accordance with requirements.

There were weaknesses in Fort Belknap's administration of its block grant program that could significantly affect its capacity to administer its ARRA funding. Fort Belknap (1) completed renovation work in violation of its Indian housing plans, (2) completed purchases in violation of cost principles for Federal awards, (3) did not submit its audited financial statements when required, (4) did not pursue collection of its past-due tenant accounts receivable, and (5) did not maintain equity accounts on its home buyers.

OIG recommended that HUD increase monitoring and oversight of Fort Belknap's administration and disbursement of ARRA funds, to include increased onsite monitoring if deemed necessary, to ensure compliance with program rules and regulations. (Audit Report: **2010-DE-1801**)

Office of Community Planning and Development Audits and Reviews

Community Development Block Grant Audits and Reviews

HUD OIG reviewed HUD's Office of Community Planning and Development's (CPD) risk assessment process to determine whether CPD had established and properly implemented a risk assessment process that used appropriate measures to determine risk and identify grantees for monitoring.

CPD had established and implemented a risk assessment process that used relevant assessment factors to determine risk and identify grantees for monitoring. OIG identified and reviewed risk assessment factors in existence, evaluated whether they were adequate, and considered additional factors required under ARRA. The risk assessment factors in place were adequate to identify grantees for appropriate monitoring. Additionally, the risk analyses prepared annually were used to select grantees for later monitoring.

OIG made no recommendations since no reportable deficiencies were identified. (Audit Report: **2010-BO-0801**)

Neighborhood Stabilization Program Audits and Reviews

HUD OIG audited the **State of Illinois'** Neighborhood Stabilization Program (NSP) to determine whether the State (1) had the capacity to effectively and efficiently administer its NSP and obligate NSP funds before the required 18-month obligation deadline, (2) awarded NSP funds for eligible projects, and (3) used NSP funds for eligible administrative costs.

The State needs to improve its capacity to effectively and efficiently administer its NSP. Although the Illinois Housing Development Authority, the current administrator of the State's NSP, had sufficient staffing levels and extensive experience with HUD programs, it is at risk of not meeting the required 18-month obligation deadline for NSP funds. Further, the Illinois Department of Human Services, the former administrator of the State's NSP, allocated more than \$4.8 million in NSP funds for a project that did not comply with HUD's requirements and did not comply with Federal requirements for maintaining sufficient documentation to support the use of nearly \$8,000 in NSP funds for administrative expenses. As a result, a significant portion of the State's nearly \$20.9 million in unobligated NSP funds is at risk of being recaptured by HUD and not being used to stabilize neighborhoods and stem the decline in value of neighboring homes in the State, and HUD lacked assurance that the State used nearly \$8,000 in NSP funds for eligible NSP administrative costs.

OIG recommended that HUD require the State to (1) implement adequate procedures and controls to ensure that it obligates its NSP funds for eligible projects before September 4, 2010; (2) implement the Authority's NSP reallocation award plan for the more than \$4.8 million in NSP funds available after the Authority rescinded one of the Department's allocations for a project; (3) provide sufficient supporting documentation or reimburse its NSP from non-Federal funds, as appropriate, for the nearly \$8,000 in NSP funds used for unsupported administrative costs; and (4) implement adequate procedures and controls to address the finding cited. (Audit Report: **2010-CH-1011**)



HUD OIG evaluated HUD's award process for the Neighborhood Stabilization Program 2 (NSP 2) to determine whether HUD's methodology and controls for the evaluation and selection of applications for

the \$1.93 billion in NSP 2 funds were in accordance with applicable requirements. OIG added a second objective to determine whether HUD included special conditions in the grant agreements of high-risk grantees.

HUD's methodology and controls for evaluating and selecting the applications were in accordance with requirements in the notice of funding availability. HUD followed the required procedures for evaluating applications against threshold requirements, such as program eligibility, and then rated the applications that passed threshold requirements against the six rating factors. At each step, HUD applied quality control procedures to ensure that its decisions were correct and supportable. HUD then ranked the applications according to their scores and properly selected 56 for funding. OIG also reviewed the grant agreements for the 56 selected grantees and found that HUD included special conditions as required by the regulations.

OIG made no recommendations since no reportable deficiencies were identified. (Audit Report: **2010-AT-0001**)

Tax Credit Assistance Program

HUD OIG audited the ARRA-funded Tax Credit Assistance Program (TCAP) of the Missouri Housing Development Commission in **Kansas City, MO**, to determine whether the Commission obtained wage reports and lobbying certifications required by Federal law and accurately reported job creation to Recovery.gov.

The Commission did not obtain and review all Davis-Bacon Act reports and lobbying certifications from contractors working on TCAP-funded projects. In addition, it did not accurately report job creation data to Recovery.gov.

OIG recommended that HUD require the Commission to (1) design and implement a system for identifying contractors working during the month on TCAP-funded projects and tracking the receipt of required documentation, (2) obtain and review the required lobbying certifications and Davis-Bacon Act files that were missing, (3) restate its fourth quarter 2009 and first quarter 2010 job creation figures in its administrative files, and (4) restate its second quarter jobs creation figures to Recovery.gov during the continuous correction period and establish an adequate system for reviewing the job creation reports to ensure proper reporting in future quarters. (Audit Report: **2010-KC-1007**)

Homelessness Prevention and Rapid Re-Housing Program

HUD OIG audited the **Washington State** Department of Commerce to determine whether the State disbursed its Homelessness Prevention and Rapid Re-Housing Program (HPRP) grant in accordance with ARRA requirements.

The State paid for HPRP services for ineligible participants and participants whose eligibility was not supported. In addition, it made a duplicate payment to one of its subgrantees for HPRP.

OIG recommended that HUD require the State to (1) reimburse its HPRP more than \$3,000 from non-Federal funds for one ineligible participant and either provide supporting documentation for the participants lacking adequate documentation or reimburse its program nearly \$167,000 from non-Federal funds for those affected participants and (2) reimburse its HPRP more than \$7,000 from non-Federal funds for the duplicate payment to its subgrantee. (Audit Report: **2010-SE-1001**)



HUD OIG audited the HPRP of the **State of Arizona** Housing Department to determine whether the Department administered the grant in compliance with ARRA and other applicable regulations.

The Department had adequate policies and procedures to ensure that ARRA funds were accounted for separately and reporting requirements were met. However, it did not have adequate policies and procedures to ensure that its subrecipients properly established eligibility for program participants and activities and maintained source documents for program expenditures in accordance with the applicable documentation requirements for Federal grants. Further, the Department's policies and procedures were not adequate to ensure that subrecipients received adequate training and monitoring to ensure compliance with the specific HPRP regulations.

OIG recommended that HUD require the Department to (1) provide supporting documentation or repay unsupported amounts for nearly \$76,000 in program expenditures and (2) provide adequate training and monitoring to its subrecipients to ensure that they have implemented policies and procedures to comply with HPRP requirements and maintain appropriate source documentation for program expenditures. By ensuring that its subrecipients properly establish and document that program participants and activities are eligible, the Department will reduce the risk of waste, fraud, and abuse for its remaining ARRA funds under the program. (Audit Report: **2010-LA-1010**)



HUD OIG audited The Other Place, Inc., in **Dayton, OH**, regarding its use of ARRA HPRP funds to determine whether The Other Place used program funds effectively and efficiently and complied with HUD's requirements.

The Other Place generally used its HPRP funds in accordance with HUD's and its requirements. However, it provided rental assistance for units with program rents that exceeded fair market rents for the area and for a larger unit than the one in which a program participant resided. As a result, nearly \$1,000 in program funds was not used effectively and efficiently or in accordance with HUD's requirements. Further, The Other Place did not ensure that the initial program participant consultation and eligibility determination was completed in a timely manner. Program participants began receiving rental assistance on October 1, 2009, but the program application forms were not completed by the participants until December 2009. However, the participants were eligible to receive program rental assistance.

OIG recommended that HUD require The Other Place to reimburse its program from non-Federal funds for the improper use of program funds and implement adequate procedures and controls to ensure that its program is operated in accordance with HUD's and its requirements. (Audit Report: **2010-CH-1006**)



Chapter 6

Disaster Grant Programs



Introduction and Background

Over the past several years, the U.S. Department of Housing and Urban Development (HUD) has allocated more than \$29.4 billion to various States through its Community Development Block Grant (CDBG) program. These supplemental appropriations provide additional funds for disaster relief; long-term recovery; and restoration of infrastructure, housing, and economic revitalization in areas affected by severe storms and flooding for which the President has declared a major disaster. As a result of the continuing natural disasters, HUD faces significant management challenges in administering these disaster recovery programs. A significant challenge for HUD is how to encourage States to undertake long-term strategies that focus on reducing damage from future natural disasters.

HUD, Office of Inspector General (OIG), audit efforts have highlighted these problems, as well as offering appropriate recommendations to resolve these challenges. Further, the HUD OIG Office of Audit continues to be diligent in its efforts to pursue fraud, waste, and abuse in the audits of the \$29.4 billion in HUD emergency supplemental funding provided for disaster recovery. In addition to performing audits of Hurricane Katrina funding, the Office of Audit has pursued audits of funding for the Midwest floods and Hurricanes Ike and Gustav. During the current semiannual period, the Office of Audit has completed five audits of Katrina funding and three audits of other disaster funding.



Audit

During this period, the OIG Office of Audit issued eight new audit reports on various HUD disaster programs. There were seven reviews involving the CDBG disaster programs and one review of the Federal Emergency Management Agency's (FEMA) and HUD, Office Public and Indian Housing's Disaster Housing Assistance Program (DHAP)-Ike. In addition to the audits, inspections, and investigations described in this chapter, OIG has conducted a number of outreach efforts (see chapter 8, page 126).

Key program results		Questioned costs	Funds put to better use
Audit	8 audits*	\$19 million	\$28.1 million

* The total disaster audits, questioned costs, and funds put to better use amounts include seven audits conducted in the community planning and development area and one audit in the public and Indian housing area.

HUD OIG performed a review of the State of Louisiana, Office of Community Development's Louisiana Tourism Marketing Program, administered by the State's subrecipient, the Department of Culture, Recreation and Tourism (DCRT) in **Baton Rouge, LA**, to determine whether DCRT, as the State's subrecipient, ensured that Program disbursements were adequately supported.

DCRT generally ensured that Program disbursements were adequately supported. However, in a few instances, it did not maintain adequate records to support the eligibility of costs. In addition, DCRT did not always ensure that supporting documentation was readily available for review. As a result, the State was unable to support its Program costs.

OIG recommended that HUD require the State to (1) support or repay its Program nearly \$83,000 in unsupported costs, (2) consider reviewing a sample of the remaining 128 disbursements related to its five subrecipients to provide reasonable assurance that the disbursements are adequately supported, and (3) ensure that DCRT's invoice file records are readily available for review. (Audit Report: **2010-AO-1003**)



HUD OIG audited the **State of Iowa's** business rental assistance program funded by CDBG disaster funds to determine whether the State ensured that the City of Cedar Rapids provided rental assistance to eligible businesses based on appropriate leases.

The State did not implement adequate controls over its program. It did not provide adequate guidance for determining whether leases were market rate. It also did not perform a complete duplicate benefits check to verify that the businesses did not receive duplicate benefits from any other program, insurance, or source before awarding the disaster assistance funds. In addition, it did not perform onsite monitoring reviews to evaluate program operations.

OIG recommended that HUD require the State to (1) provide documentation to support that program funds were properly paid or reimburse the CDBG program from non-Federal sources any amounts that it cannot support and (2) implement adequate controls over the program. (Audit Report: **2010-KC-1004**)



HUD OIG audited the **State of Mississippi**, a \$5.5 billion CDBG disaster recovery grantee, to determine whether the State ensured that contracts were procured in accordance with its and other applicable policies and procedures under its disaster recovery program.

Although the State generally ensured that contracts were procured in accordance with its program policies and procedures, it paid program funds to one contractor that exceeded the contract maximums.

OIG recommended that HUD require the State to support or repay its program nearly \$22,000 in unsupported costs and ensure that its staff is knowledgeable of its invoice verification policies and procedures. (Audit Report: **2010-AO-1004**)



HUD OIG audited HUD's CDBG Supplemental II Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA) to determine whether TDHCA followed Federal and **State of Texas** regulations in procuring the program management firm to administer the Housing Assistance and Sabine Pass Restoration Programs.

TDHCA did not follow requirements or best practices in the acquisition of its Disaster Recovery-funded program management firm. Specifically, it accepted and approved the only proposal received when the proposal's cost exceeded the request for proposals' specification by \$3.68 million. TDHCA made material changes to the contract that increased the maximum cost by \$1.99 million, budgeted \$210,000 in prohibited costs, and contracted to pay its program management firm using multiple payment types including \$2.23 million for a cost plus a percentage of cost type, which is prohibited by Federal regulations. In addition, TDHCA's contract with its program management firm lacked sufficient detail tying construction management services and oversight to the payment and budget section costs for the proper identification and allocation of \$14.33 million in costs. As a result, TDHCA could not ensure that it received the best value for the State, and its contract included ineligible and unsupported costs of nearly \$18.76 million.

OIG recommended that HUD require TDHCA to (1) adopt sound agency business procedures for Disaster Recovery-funded procurements in accordance with State policy, (2) train its staff members to ensure that they follow its policies, (3) reimburse its Disaster Recovery account for \$2.44 million in ineligible costs, (4) provide support for or reimburse \$16.32 million in unsupported costs, and (5) modify its contract language. (Audit Report: **2010-FW-1005**)



HUD OIG audited the State of Louisiana, Office of Community Development's Orleans Parish Long Term Community Recovery Program, in **Baton Rouge, LA**, administered by the State's subrecipient, the City of New Orleans, to determine whether the City, as the State's subrecipient, met the requirements of its cooperative endeavor agreement with the State during its administration of the New Orleans Redevelopment Authority's projects under the Program.

The City, as the State's subrecipient, did not always meet the requirements of its agreement with the State during its administration of the Authority's projects. Specifically, the City failed to meet agreement obligations as it did not (1) execute agreements with the Authority in a timely manner and ensure that the Authority completed projects within specified timeframes; (2) ensure that the Authority met its performance standards, reporting, and consultation requirements or implemented projects in an efficient manner; (3) set progressive deadline dates for the Authority or appropriately develop the Authority's initial agreement performance standard requirements; and (4) have monitoring controls in place to ensure that the Authority's projects effectively progressed. The State did not (1) conduct an onsite monitoring review of the City to

correct deficiencies, (2) set progressive deadline dates in its agreement with the City to adequately track the Program's progress, or (3) exercise its agreement options when the City failed to meet its obligations in a timely and effective manner. As a result, Program funds were not used in a timely, efficient, or effective manner, thus delaying the City's recovery from the damage caused by Hurricanes Katrina and Rita.

OIG recommended that HUD require the State to exercise its agreement option by deobligating the \$28.1 million in Program funds allocated to the Authority's projects and reallocate those funds to other disaster programs. In addition, the State must finalize its monitoring plan and consider including an individual subrecipient risk assessment requirement in its final monitoring plan to determine the frequency of monitoring. (Audit Report: **2010-AO-1005**)



HUD OIG audited DHAP-Ike in **Southeastern Texas** to determine whether HUD ensured that four housing agencies in Texas correctly calculated and paid DHAP-Ike payments to eligible tenants and for eligible units in accordance with program requirements.

HUD did not ensure that the 4 housing agencies in Texas that received the most assistance followed DHAP-Ike requirements for 51 of the 68 active files reviewed. Further, for 27 of the files, the housing agencies' errors affected the payment or tenant/unit eligibility. Projecting the results of the sample showed that of the 9,817 families assisted by the 4 housing agencies, at least 6,374 of the families likely had an error in their file, and at least 2,920 of the families' payments or eligibility was affected.

OIG recommended that HUD (1) perform additional monitoring of its contractor, (2) provide standardized guidance to the housing agencies, (3) perform onsite monitoring at the housing agencies, and (4) require the 4 housing agencies to correct the file documentation errors in the 51 identified files and repay or support the 27 questioned payments totaling nearly \$49,000. (Audit Report: **2010-FW-0004**)



HUD OIG audited the **State of Alabama**, Department of Economic and Community Affairs' Hurricane Katrina CDBG Disaster Funds program, administered by the State's subrecipient, the City of Bayou La Batre, to determine whether the State and Bayou La Batre administered the program in accordance with the requirements of their grant agreements.

In general, the State and Bayou La Batre properly administered the program by adequately documenting the housing applicants' use of financial assistance provided by other sources, ensuring that housing applicants did not receive a duplicate benefit. The State also ensured that Bayou La Batre adequately supported and expended program funds only for eligible costs.

Since the State ensured that Bayou La Batre properly administered its program in accordance with the requirements of its grant agreements, OIG did not recommend corrective action. (Audit Report: **2010-AO-1006**)



HUD OIG audited the **State of Alabama**, Department of Economic and Community Affairs' Hurricane Katrina CDBG Disaster Funds program, administered by the State's subrecipient, Mobile County Commission, to determine whether the State and Mobile administered the program in accordance with the requirements of the State's grant agreements.

In general, Mobile, as the State's subrecipient, met the requirements of its agreements when it usually ensured that program disbursements were (1) adequately supported and expended for only eligible expenses and (2) not used for the same purpose as financial assistance provided by other sources.

Since the State ensured that Mobile properly administered its program in accordance with the requirements of its grant agreements, OIG did not recommend corrective action. (Audit Report: **2010-AO-1007**)



Investigation

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

Homeowner Grant Fraud

Former HUD attorney Diane Walder and her husband James Groomes each pled guilty in U.S. District Court, **Gulfport, MS**, to committing theft of government funds. Walder and Groomes applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through the Mississippi Development Authority (MDA) and \$50,000 in Small Business Administration (SBA) disaster assistance for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Denise Gibbons-Stobaugh and Keith Stobaugh were collectively sentenced in U.S. District Court, **New Orleans, LA**, to 12 months and 1 day incarceration, 3 years supervised release, and 3 years probation; ordered to pay the Louisiana Office of Community Development \$150,000 in restitution; and fined \$1,500 for their earlier guilty pleas to committing theft of government funds or misprision of a felony. Gibbons-Stobaugh applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through the Louisiana Road Home (Road Home) program and \$38,800 in SBA disaster assistance after she claimed extensive property damage from Hurricane Katrina, but the property sustained only minimal storm damage; Keith Stobaugh concealed information and failed to report that his wife used false information when she fraudulently applied for and received CDBG and SBA disaster funds.



Lacombe woman gets prison sentence for theft

By Christine Harvey
St. Tammany bureau

A Lacombe woman has been sentenced to one year and one day in prison for stealing money in connection with a Small Business Administration disaster loan and a Louisiana Road Home grant she obtained after Hurricane Katrina, U.S. Attorney Jim Letten's office announced Thursday.

Denise Stobaugh pleaded guilty in December to two felony counts of theft of government funds.

In addition to the jail time, U.S. District Judge Sarah S. Vance on Wednesday ordered Stobaugh to pay \$150,000 in restitution and serve three years of supervised release after completing her sentence.

Stobaugh and her husband and co-defendant, Keith

Stobaugh, applied in 2005 for a low-interest disaster relief loan from the SBA based on supposed damage to their home during Katrina. The SBA granted a \$38,800 loan based on the application and representations that the Stobaughs made about the damage.

In addition, the couple applied for assistance from the Road Home program in 2006 for the same damage and received \$150,000 from the U.S. Department of Housing Development, which administered the program. The home suffered minimal damage from the storm, according to court documents.

Keith Stobaugh was sentenced in May to three years of probation, 100 hours of community service and a \$1,500 fine after pleading guilty to one count of misprision of a felony in connection with the SBA loan.

Assistant U.S. Attorney Matt Chester² prosecuted the case.

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Robert and Chressye Wallace each pled guilty in U.S. District Court, **New Orleans, LA**, to committing theft of government funds. Robert and Chressye Wallace applied for and received \$150,000 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



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



Ruth Goodman was charged in U.S. District Court, **New Orleans, LA**, with allegedly making false statements, committing theft of government funds and mail fraud, and possessing a false passport. Goodman applied for and received \$132,146 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$342,000 in SBA disaster assistance for hurricane-damaged residential property, but allegedly the damaged property was not her primary residence during Hurricane Katrina. In addition, Goodman allegedly submitted false documents to FEMA and possessed a fraudulent passport.



Frederick Rabito was sentenced in U.S. District Court, **New Orleans, LA**, to 36 months probation and fined \$3,000 for his earlier guilty plea to making false statements. Rabito applied for and received \$122,396 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Thomas Steele was sentenced in U.S. District Court, **New Orleans, LA**, to 6 months in a halfway house, 6 months home confinement, and 24 months probation; ordered to pay the Louisiana Office of Community Development \$119,935 in restitution; and fined \$1,500 for his earlier guilty plea to making false statements. Steele applied for and received \$119,935 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Ryant Price was sentenced in U.S. District Court, **New Orleans, LA**, to 3 years probation and ordered to pay the Louisiana Office of Community Development \$105,000 and FEMA \$14,858 in restitution for his earlier guilty plea to committing theft of government funds. Price applied for and received \$105,000 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$14,858 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Garrett Goodbee paid the Louisiana Office of Community Development \$104,900 and was sentenced in U.S. District Court, **New Orleans, LA**, to 2 years probation for his earlier guilty plea to committing theft

of government funds. Goodbee applied for and received \$104,900 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Walter Thayer was sentenced in U.S. District Court, **Gulfport, MS**, to 17 months incarceration and 3 years supervised release and ordered to perform 100 hours of community service and pay MDA \$100,000 and FEMA \$33,000 in restitution for his earlier guilty plea to committing theft of government funds. Thayer applied for and received \$100,000 in CDBG Disaster Recovery Assistance funds through MDA and \$26,200 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



LaTancia McMillan-Rogers and Wayne Rogers each pled guilty in U.S. District Court, **Jackson, MS**, to committing theft of government funds. McMillan-Rogers and Wayne Rogers applied for and received \$91,021 in CDBG Disaster Recovery Assistance funds through MDA and \$156,358 in SBA and FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



William Turnage, Jr., pled guilty in U.S. District Court, **New Orleans, LA**, to making a false statement. Turnage applied for and received \$89,355 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$12,500 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Robert Kenney was sentenced in U.S. District Court, **Hattiesburg, MS**, to 2 years probation, ordered to perform 100 hours of community service, and fined \$15,000 for his earlier guilty plea to making false statements. Kenney applied for and received \$86,490 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Mary Guidry was sentenced in U.S. District Court, **Gulfport, MS**, to 5 months home confinement and 3 years probation, ordered to perform 80 hours of community service and pay MDA \$69,742 in restitution, and fined \$3,000 for her earlier guilty plea to making false statements and committing theft of government funds. Mary Guidry applied for and received \$69,742 in CDBG Disaster Recovery Assistance funds through MDA and \$6,706 in FEMA disaster assistance for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.



Wayne Manning was sentenced in U.S. District Court, **New Orleans, LA**, to 5 years probation and ordered to pay the Louisiana Office of Community Development \$64,877 in restitution for his earlier guilty plea to making false statements. Manning applied for and received \$64,877 in CDBG Disaster Recovery

Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Michelle Carroll and Steven Gardner each pled guilty in U.S. District Court, **Gulfport, MS**, to committing mail fraud or aggravated identify theft. Carroll and Gardner applied for and received \$63,105 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property as husband and wife, but Carroll and Gardner were not married, and Carroll provided false identification and other documents to obtain the funds.



Sylvia Fleming was sentenced in U.S. District Court, **Gulfport, MS**, to 6 months home confinement and 5 years probation and ordered to perform 70 hours of community service and pay FEMA \$33,000 in restitution for her earlier guilty plea to committing theft of government funds. Fleming applied for and received \$60,074 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.



Hubert Sentino pled guilty in U.S. District Court, **New Orleans, LA**, to committing theft of government funds. Sentino applied for and received \$60,000 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Albert McCarty, Sr., was sentenced in U.S. District Court, **New Orleans, LA**, to 5 years probation and ordered to pay the Louisiana Office of Community Development \$56,000 and SBA \$43,067 in restitution for his earlier guilty plea to committing theft of government funds. McCarty applied for and received \$56,000 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$50,800 in SBA disaster assistance for hurricane-damaged residential property, but the damaged property was not his primary residence during Hurricane Katrina.



Elizabeth Holiday was sentenced in U.S. District Court, **New Orleans, LA**, to 5 months home confinement and 5 years probation and ordered to pay the Louisiana Office of Community Development \$54,566 in restitution for her earlier guilty plea to committing theft of government funds. Holiday applied for and received \$54,566 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.



Carlas Williams was charged in U.S. District Court, **Baton Rouge, LA**, with allegedly committing wire fraud. Williams allegedly provided fraudulent information when she applied for and received \$51,449 in CDBG Disaster Recovery Assistance funds through the Road Home program and \$98,000 in SBA disaster assistance for hurricane-damaged residential property.



David and Cindy Cole each pled guilty in U.S. District Court, **Gulfport, MS**, to committing theft of government funds and mail fraud. David and Cindy Cole applied for and received \$46,695 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but the damaged property was not their primary residence during Hurricane Katrina.



Sharon Baker paid the Louisiana Office of Community Development \$33,500 and was sentenced in U.S. District Court, **New Orleans, LA**, to 6 months home confinement and 2 years probation for her earlier guilty plea to committing theft of government funds. Baker applied for and received \$33,500 in CDBG Disaster Recovery Assistance funds through the Road Home program for hurricane-damaged residential property, but the damaged property was not her primary residence during Hurricane Katrina.



Barbara Dennis was charged in U.S. District Court, **Jackson, MS**, with allegedly making false statements and committing theft of government funds. Dennis applied for and received \$23,883 in FEMA disaster assistance and attempted to obtain \$48,452 in CDBG Disaster Recovery Assistance funds through MDA for hurricane-damaged residential property, but allegedly the damaged property was not her primary residence during Hurricane Katrina.



Shawntell Manuel was sentenced in U.S. District Court, **New Orleans, LA**, to 12 months and 1 day incarceration and 3 years supervised probation and ordered to pay SBA \$122,641 in restitution for her earlier guilty plea to committing theft of government funds. Manuel provided false information and fraudulent documents when she applied for and received \$122,641 in SBA disaster assistance loan funds and attempted to obtain CDBG Disaster Recovery Assistance funds through the Road Home program.



Lionel Perkins was charged in a superseding indictment filed in U.S. District Court, **New Orleans, LA**, with allegedly committing obstruction of justice. Perkins, who was previously charged with allegedly committing theft of government funds, aggravated identity theft, and other crimes, allegedly instructed other individuals to tamper with documents relating to his pending criminal trial.

HUD and FEMA Disaster Housing Assistance Fraud

Karen Jones, a Housing Authority of New Orleans (New Orleans) Section 8 tenant and FEMA disaster housing recipient, was charged in U.S. District Court, **New Orleans, LA**, with allegedly committing mail and wire fraud. From December 2006 to January 2009, Jones allegedly failed to report her nonresidency in her subsidized unit or her dual receipt of disaster housing assistance and obtained \$33,525 in New Orleans housing assistance she was not entitled to receive.



Alicia Watt, a former Dupage Housing Authority (Dupage) Section 8 tenant and FEMA disaster housing recipient, was indicted in U.S. District Court, **Chicago, IL**, for allegedly committing mail fraud. From 2005 to 2009, Watt allegedly claimed Hurricane Katrina evacuee status and obtained FEMA disaster housing assistance at the same time she resided in Dupage subsidized housing; failed to report her receipt of FEMA disaster housing assistance on Dupage certifications or her receipt of dual housing benefits to

the Social Security Administration (SSA); and obtained \$32,971 in Dupage housing assistance, \$29,751 in FEMA disaster housing assistance, and \$60,000 in SSA benefits she was not entitled to receive.



Donna Gaines, a former Alameda County Housing Authority Section 8 tenant, was charged in U.S. District Court, **Oakland, CA**, with allegedly committing theft of government funds. From 2001 to 2008, Gaines allegedly failed to report income or her receipt of FEMA disaster assistance on housing certifications and obtained \$14,174 in housing assistance she was not entitled to receive.



Adrienne Breaux, a Harris County Housing Authority Hurricane Katrina disaster housing assistance recipient, was sentenced in U.S. District Court, **Houston, TX**, to 12 months and 1 day incarceration and 3 years supervised release and ordered to pay FEMA \$50,293 in restitution for her earlier guilty plea to making false statements and committing wire fraud and a conspiracy to submit false claims. Breaux and her previously sentenced husband, Odell Chambers, used the identities and Social Security numbers belonging to other individuals and applied for and received about \$11,322 in housing and \$92,890 in other disaster assistance they were not entitled to receive.



Cynthia Dixon, a former Marietta Housing Authority Housing Choice Voucher program participant and FEMA disaster housing assistance recipient, was sentenced in Cobb County Superior Court, **Marietta, GA**, to 5 years probation for her earlier guilty plea to making false statements and committing theft by deception. From March 2007 to February 2008, Dixon failed to report her receipt of disaster housing assistance on housing certifications and obtained \$7,882 in housing and utility assistance she was not entitled to receive.



Piquela Stelly, a former housing recipient at Wurzbach Manor Apartments (Wurzbach Manor), a HUD-subsidized multifamily housing development, was sentenced in U.S. District Court, **San Antonio, TX**, to 5 years probation and ordered to collectively pay HUD, FEMA, and the American Red Cross (Red Cross) \$78,484 in restitution for her earlier guilty plea to submitting a false or fraudulent claim. From October 2005 to June 2006, Stelly filed false FEMA and Red Cross disaster assistance claims, failed to report unauthorized residents or her receipt of disaster assistance on housing certifications, and fraudulently obtained \$6,957 in housing and \$71,535 in FEMA and Red Cross disaster assistance she was not entitled to receive.



Millie Singleton, a former Tarrant County Housing Authority Housing Choice Voucher program participant and FEMA disaster housing assistance recipient through the Harris County Housing Authority, was sentenced in Tarrant County District Court, **Fort Worth, TX**, to 4 years deferred adjudication and ordered to pay HUD \$4,405 in restitution for her earlier guilty plea to securing the execution of a

Woman admits bilking government

A San Antonio woman pleaded guilty Thursday to defrauding Hurricane Rita relief programs and the U.S. Housing and Urban Development Department out of \$71,000.

Piquela Anjelle Stelly, 33, admitted she made a series of fraudulent claims to the Federal Emergency Management Agency, HUD and the Red Cross between October 2005 and June 2006.

The indictment alleges Stelly requested assistance for relief from Hurricane Rita and also sought Section 8 housing assistance when she was not entitled to the aid. She received \$20,000 for rental assistance, and a \$39,000 trailer from FEMA that was later destroyed by a fire. She also received \$15,000 in housing assistance from the Red Cross and HUD paid \$7,000 on her behalf for an apartment where she claimed to live but did not.

Sentencing is scheduled for July 30 before U.S. District Judge Fred Biery. Stelly faces up to five years in federal prison.

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document by deception. Between June and November 2008, Singleton failed to report her receipt of dual housing subsidies on housing certifications and obtained \$4,405 in housing assistance she was not entitled to receive.



Monique Morris and Dawn Eppers, a former Brazos Valley Councils of Government Section 8 tenant and landlord and Hurricane Katrina disaster housing assistance recipients, were each indicted in Brazos County State Court, **Bryan, TX**, for allegedly securing the execution of a document by deception. From January 2006 to June 2007, Morris and Eppers allegedly submitted fraudulent documents, failed to report their receipt of dual housing subsidies, and together obtained \$3,243 in housing assistance they were not entitled to receive.



George Magee, a Housing Authority of New Orleans Section 8 tenant and Hurricane Katrina disaster housing assistance recipient, was sentenced in U.S. District Court, **New Orleans, LA**, to 14 months home confinement and 5 years probation and ordered to pay FEMA \$10,000 and the Louisiana Department of Social Services \$7,753 in restitution for his earlier guilty plea to committing theft of government funds and mail fraud. Magee submitted false documents and obtained \$15,474 in disaster housing assistance he was not entitled to receive.



Leslie Landrio, also known as Leslie Washington, a former Houston Housing Authority Housing Choice Voucher program participant and FEMA disaster housing assistance recipient through the Harris County Housing Authority, pled guilty in Harris County District Court, **Houston, TX**, to committing theft. From June 2006 to November 2007, Landrio failed to report her receipt of dual housing subsidies and fraudulently obtained \$5,824 in disaster housing assistance she was not entitled to receive.



Christine Tate, a former New Britain Housing Authority Section 8 tenant, was sentenced in U.S. District Court, **Hartford, CT**, to 3 years probation and ordered to pay the U.S. Department of Homeland Security, Office of Inspector General, \$3,742 in restitution for her earlier guilty plea to making false statements. From September 2005 to November 2006, Tate applied for and received \$3,742 in FEMA disaster assistance after she claimed Hurricane Katrina evacuee status, but Tate resided in either Connecticut or Alabama during the storm.

FEMA and Other Fraud by HUD Tenants

Alton Donahue and Jabar Triplett, unauthorized East Baton Rouge Housing Authority Section 8 tenants, were collectively sentenced in U.S. District Court, **Baton Rouge, LA**, to 12 months incarceration, 3 years supervised release, and 3 years probation, and Donahue was ordered to pay FEMA \$10,391 in restitution for their earlier guilty pleas to committing theft of government funds or mail fraud, illegal conversion of government property, or aiding and abetting. Donahue and Triplett fraudulently obtained and negotiated a \$10,391 FEMA disaster assistance check that belonged to another individual.



Chapter 7

Other Significant Audits and Investigations/ OIG Hotline



In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), has conducted a number of outreach efforts (see chapter 8, page 126).

Audit

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

Key program results		Questioned costs	Funds put to better use
Audit	9 audits*	\$3 million	\$15.2 million
Our focus	Page 106	• HUD's Office of the Chief Procurement Officer	
	Page 107	• Collections made under the False Claims Act	
	Page 107	• Fiscal Year 2009 review of information systems controls	
	Page 107	• Review of HUD's network devices	
	Page 107	• Review of controls over HUD's property and equipment	
	Page 108	• Review of HUD's Lead Hazard Reduction Demonstration Grant program	

* The total "other" audits include American Recovery and Reinvestment Act of 2009 (two audits) type audits conducted in other areas. The writeups for these audits are shown separately in chapter 5 of this semiannual report.

HUD OIG's more significant audits are discussed below.

HUD's Office of the Chief Procurement Officer

HUD OIG audited HUD's procedures for administering completed and expired contracts in compliance with applicable regulations to determine whether HUD performed contract closeout procedures on completed and expired contracts in a timely manner. OIG's objective was expanded to determine whether the contract files were complete and properly maintained.

HUD did not close contracts in a timely manner. Specifically, it did not close out more than 1,800 contract actions for which the performance period had expired or the work had been completed more than 6 months before OIG's review. Of these actions, 35 contracts had outstanding balances totaling \$15.2 million that should have been deobligated. Also, HUD did not maintain accountability for contract files. As a result, it could not locate 15 of the 94 files sampled, and 11 files were incomplete because required documents were missing.

OIG recommended that HUD (1) deobligate the outstanding balances remaining on the contracts reviewed, (2) increase the priority for closing expired and completed contracts and appropriately deobligate outstanding balances to avoid future backlogs, and (3) establish adequate administrative controls to properly maintain and safeguard contract files. (Audit Report: **2010-HA-0003**)

Collections Made Under the False Claims Act

HUD OIG reviewed the loan origination practices of Anchor Mortgage Corporation in **Chicago, IL**, to identify violations of Federal Housing Administration (FHA) requirements and the related losses incurred by HUD.

HUD sued the lender and its owner under the False Claims Act. In August 2010, the court entered a judgment of nearly \$3 million against the lender and its owner. The court concluded that Anchor had provided false information or violated HUD regulations for 11 loans. The lender had provided false gift affidavits in connection with applications it submitted to obtain FHA-insured loans. It had also paid fees to a real estate company for referring borrowers, although it certified to HUD that it had paid no kickbacks, fees, or consideration of any type to anyone in connection with the transaction except as permitted by HUD rules.

OIG recommended that HUD collect nearly \$2.8 million in damages and penalties awarded against Anchor and more than \$226,000 in damages and penalties awarded against the owner for violating the False Claims Act. (Audit Report: **2010-CF-1801**)

Fiscal Year 2009 Review of Information Systems Controls (Report Not Available to the Public)

HUD OIG reviewed general and application controls for selected information systems to assess management controls over HUD's computing environments as part of its audit of HUD's financial statements for fiscal year 2009 under the Chief Financial Officer's Act of 1990. The review was based on the Government Accountability Office's "Federal Information Systems Controls Audit Manual" and information technology guidelines established by the Office of Management and Budget and the National Institute of Standards and Technology.

OIG determined that the contents of this report would not be appropriate for public disclosure and has, therefore, limited its distribution to selected officials. (Audit Report: **2010-DP-0002**)

Review of HUD's Network Devices (Report Not Available to the Public)

HUD OIG audited HUD's network devices to determine whether the security configurations implemented on the devices provided adequate controls to prevent abuse or unauthorized access to HUD's information resources. OIG evaluated security measures that protect HUD information by scanning identified network devices and identifying vulnerabilities and suspect configurations that place sensitive information at risk. OIG conducted the audit as a component of the testing of general and technical controls for information systems in connection with (1) an audit of HUD's consolidated financial statements and (2) the annual evaluation of HUD's information system security program and practices required by the Federal Information Security Management Act of 2002.

OIG determined that the contents of this report would not be appropriate for public disclosure and, therefore, limited its distribution to selected HUD officials. (Audit Report: **2010-DP-0004**)

Review of Controls Over HUD's Property and Equipment

HUD OIG audited HUD's property and equipment to determine whether HUD properly recorded and tracked the acquisition and disposal of its capitalized and other accountable property and equipment.

Not all purchases of accountable equipment were recorded in HUD's inventory management system, the Facilities Integrated Resource Management System (FIRMS). Additionally, HUD lacked sufficient purchase documentation for accountable equipment in FIRMS. Also, there were deficiencies noted in FIRMS, and HUD's inventory policies and procedures needed to be updated. HUD properly recorded and tracked its capitalized equipment.

OIG recommended that HUD (1) develop and implement a system which would allow it to identify when equipment is purchased, (2) update and reissue the standard operating procedures for reporting the purchases of equipment and implement a set of standard operating procedures for users of purchase cards, (3) develop and implement system interfaces, and (4) develop and implement a process that can distinguish between capitalized and expensed equipment in FIRMS. OIG further recommended that HUD ensure that its employees are properly trained in the procedures for identifying which equipment needs to be reported and are aware of the requirement to report the purchase and, in some instances, the lease of equipment to HUD. (Audit Report: **2010-FO-0004**)

Review of HUD's Lead Hazard Reduction Demonstration Grant Program

HUDOIG audited HUD's grant program for Lead Hazard Reduction Demonstration (LHRD) to determine whether (1) HUD awarded grants in accordance with the selection criteria specified in the fiscal year 2009 notice of funding availability (NOFA) and (2) a hotline complaint, alleging that HUD changed application scores to award grants to applicants that were not ranked high enough to receive funding under the 2009 NOFA, had merit.

OIG found no intent to change scores to fund certain applicants; thus, the allegation could not be substantiated. The scores were changed to correct errors in the waiver matching requirement percentage during the threshold review. In addition, five LHRD applicants incorrectly received two bonus points because they were not in designated empowerment zones.

OIG recommended that HUD ensure that (1) the accuracy of threshold reviews is verified before the applications are sent to the application review panel, (2) the quality control reviews are completed and documented before the application review panel report is submitted for approval, and (3) the review panel members do not perform quality control reviews of applications that they reviewed. OIG also recommended that HUD follow the new procedures requiring the reviewers to verify that applicants are in a designated empowerment zone. (Audit Report: **2010-HA-0002**)



Investigations

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

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	36	\$216,234	1	6

Herman Ransom, a former director of the HUD Office of Multifamily Housing, was sentenced in U.S. District Court, **Kansas City, KS**, to 12 months incarceration and 2 years probation and ordered to pay HUD \$46,926 in restitution for his earlier conviction of committing theft of government funds and wire fraud. From September 2001 to June 2007, Ransom played tennis or gambled at local casinos during work hours. HUD realized losses of \$46,926.



Louis Simpson, the owner of Worldwide Communications Group, was sentenced in U.S. District Court, **Plano, TX**, to 183 months incarceration and 3 years supervised release and ordered to pay an amount of restitution not yet determined for his earlier conviction of committing wire fraud and aggregated identity theft. Simpson claimed an association with HUD and provided fraudulent HUD and financial institution documents in an attempt to gain investors and sell products or medical benefits to HUD low-income tenants.



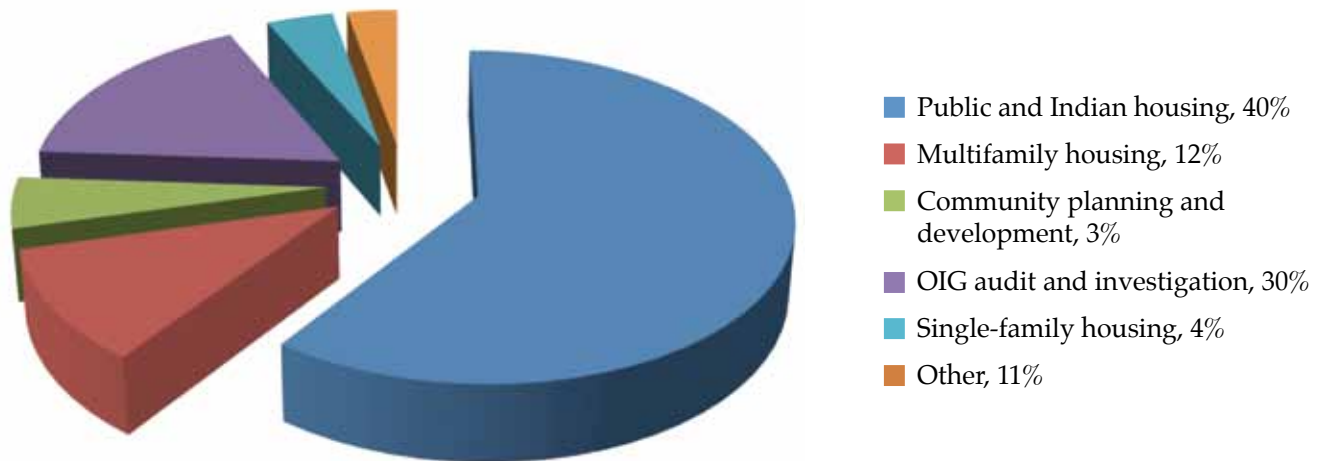
OIG Hotline

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

During this reporting period, the hotline received and processed 10,489 complaints -- 74 percent (7,784) received by telephone, 10 percent (1,001) by mail, and 16 percent (1,704) by e-mail. Every allegation determined to be related to the OIG mission is logged into a database and tracked.

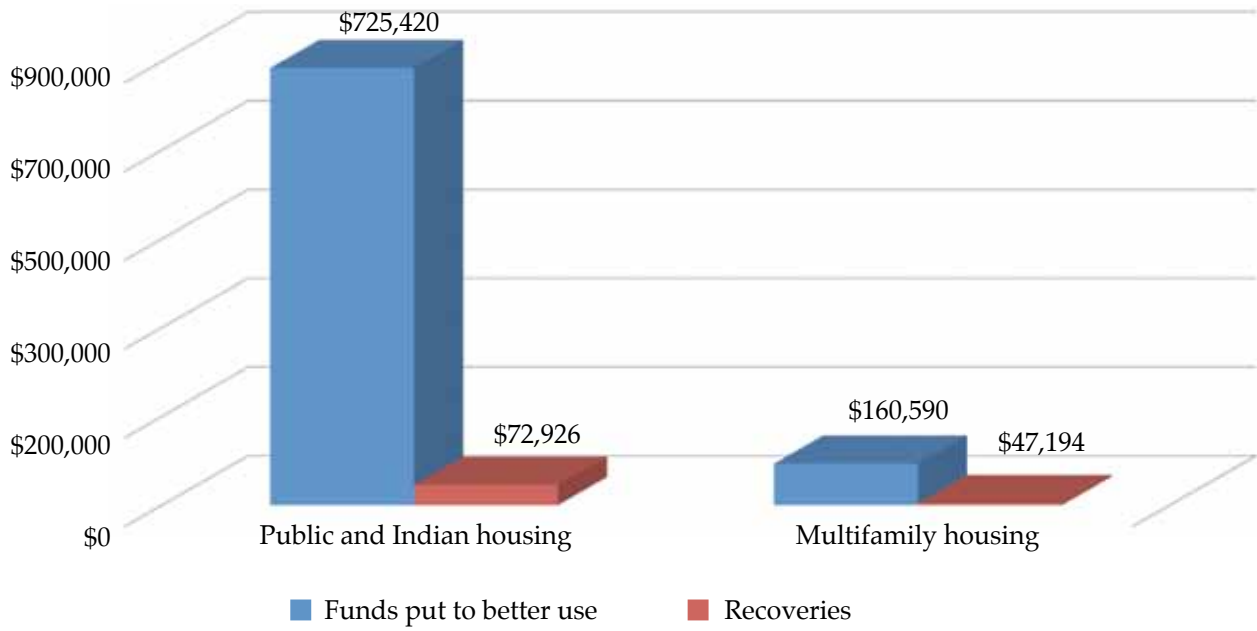
Of the complaints received, 493 were related to the mission of OIG and were addressed as hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of hotline case referrals by percentage.

Chart 7.1: Hotline cases opened by program area



The hotline closed 310 cases this reporting period. The closed hotline cases included 61 substantiated allegations. The substantiated allegations resulted in 20 administrative sanctions, including action taken against a tenant for failing to report all income and allowing unauthorized live-ins to reside in her HUD-subsidized residence. The Department also took 47 corrective actions that resulted in \$140,614 in recoveries of losses and \$933,674 in HUD funding that could be put to better use. The recoveries included repayments of overpaid rental subsidies. Some of the funds that could be put to better use were the result of cases in which tenants were terminated from public housing or multifamily housing programs for improperly reporting their incomes or family composition to qualify for rental assistance.

Chart 7.2: Hotline dollar impact from program offices



Chapter 8

Outreach Efforts



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

Single-Family Housing Programs

Deputy Assistant Inspector General for Audit (DAIGA) Joan Hobbs and Special Agent in Charge (SAC) Rene Febles provided information and insight and described the resources available for civil and criminal mortgage fraud investigations as panelists during a U.S. Attorney's Civil Chiefs conference in **Columbia, SC**. Approximately 80 prosecutors attended.



SAC Barry McLaughlin provided an overview of HUD OIG operations and mortgage fraud as a panelist at a Mortgage Bankers Association conference in **Chicago, IL**. The panel was moderated by Federal Deposit Insurance Corporation Inspector General Jon Rymer and included Deputy Special Inspector General for the Troubled Asset Relief Program Christopher Sharpley and Rachel Dollar from Smith-Dollar PC. Other panel members included personnel from the U.S. Department of Justice, the Federal Housing Administration (FHA), and the mortgage industry. Approximately 250 individuals attended each session.



SAC Herschell Harvell, Assistant Special Agent in Charge (ASAC) Lisa Gore, and Special Agent (SA) Eric Wilkins provided an overview of HUD OIG's mission and goals and described fraud and "red flag" indicators relating to the HUD Home Equity Conversion Mortgage (HECM) program at a training symposium sponsored by the National Association of Consumer Credit Counselors and the American Association of Residential Mortgage Regulators in **Memphis, TN**. Approximately 75 mortgage regulators attended.



SAC Rene Febles, SA Christina Scaringi, and Assistant U.S. Attorney (AUSA) Richard Hayes participated in a panel discussion and described issues found in mortgage fraud investigations at a meeting held for New York State Bar Association members in **Manhattan, NY**. Approximately 80 New York State attorneys attended.



SAC Barry McLaughlin sponsored and hosted an Illinois Mortgage Fraud Working Group meeting in **Chicago, IL**, and Federal Bureau of Investigation Supervisory SA Paul Holdeman provided an overview of the latest trends in mortgage fraud, suspicious activity reports, and law enforcement efforts. Approximately 25 regulators, investigators, and prosecutors attended.



ASAC Brad Geary and SA Julien Kubesh provided a presentation, entitled “The Latest Trends in Mortgage Fraud”; described the FHA, HECM, and the Neighborhood Stabilization programs (NSP); and discussed various Federal statutes and enforcement efforts for individuals attending an International Association of Financial Crime Investigators conference in **Minneapolis, MN**. Approximately 25 financial institution and law enforcement personnel attended.



ASAC Ray Espinosa provided a presentation, entitled “The Latest Trends in Mortgage Fraud,” described the FHA and HECM programs, and illustrated OIG’s undercover operations and enforcement efforts at a Bank and Credit Union Safety and Fraud seminar sponsored by the Chicago Police Department in **Chicago, IL**. Approximately 25 financial institution loss prevention and Federal, State, and local law enforcement personnel attended.



ASAC Suzanne Steigerwald and Assistant Regional Inspector General for Audit (ARIGA) Sarah Pon provided an overview of HUD OIG’s mission and hosted a question and answer forum for approximately 40 Colorado, Utah, Montana, Wyoming, and North and South Dakota congressional staff members and HUD personnel meeting in **Denver, CO**.



ASAC Gene Westerlind provided an overview of HUD OIG’s mission and priorities and described mortgage fraud schemes and OIG’s role in mortgage fraud investigations at the New England Chapter of the International Association of Financial Crimes Investigators conference in **Uncasville, CT**. At the conclusion, a question and answer forum was held for approximately 150 financial and law enforcement personnel in attendance.



ASAC Lisa Gore and SA Casey Fincher provided an overview of HUD and HUD OIG’s mission and goals, described the functions of the Offices of Investigation and Audit, explained common and emerging mortgage fraud schemes, and illustrated a short-sale mortgage fraud investigation at a Tennessee Land Title Association conference in **Nashville, TN**. Approximately 50 title industry professionals attended.



ASAC Michael Gibson provided an overview of reverse mortgage products and HECM fraud schemes, described potential FHA mortgage fraud indicators, and illustrated current investigations and the fraud referral process at a Reverse Mortgage Risk Management meeting in **Los Angeles, CA**. Approximately eight Bank of America senior executives and Financial Crimes Enforcement Network representatives attended.



ASAC Kedric McKnight provided an overview of HUD OIG’s mission and role in FHA mortgage fraud and described mortgage fraud detection and prevention strategies at a Mortgage Bankers Association meeting in **Fort Worth, TX**. More than 160 association members attended.



ASAC Tony Meeks and SA James Carrieres provided an overview of HUD OIG's mission and described successful Arizona mortgage fraud investigations for about 100 loan officers and underwriters meeting at AmeraFirst Mortgage in **Scottsdale, AZ**.



ASAC James Luu provided an overview of HUD OIG's mission and function and described investigative priorities relating to mortgage fraud and FHA programs at a seminar sponsored by the Chico Association of Realtors in **Chico, CA**. Approximately 75 real estate professionals attended.



ASAC Lisa Gore provided an overview of HUD OIG's mission and goals, described the functions of the office of Investigation, explained OIG's role in the use and analysis of Bank Secrecy Act data, and discussed the HECM program and foreclosure fraud schemes at a Southern District of Georgia Bank Secrecy Act Seminar in **Savannah, GA**. Approximately 100 financial industry professionals attended.



ASAC Kevin McBride provided an overview of the latest trends in FHA mortgage fraud and discussed mortgage fraud indicators at a HUD-sponsored training conference held in **Greensboro, NC**. Approximately 150 loan counselors attended.



ASAC Wallace Merriman provided an overview of HUD OIG's mission and described predatory lending, property flipping, equity skimming, and appraisal and HECM program fraud as a panelist at a housing conference in **Columbia, MD**. The conference was sponsored by the Baltimore Homeownership Preservation Coalition and the Maryland Housing Counselor Network. Approximately 100 State, local, and nonprofit agency representatives attended.



ASAC Brad Geary and Barbara Anderson, an attorney from Latimer, Levay, and Jurasek, LLC, provided a presentation, entitled "Real Time: Updates in Real Estate, Construction, and Lending Litigation," and discussed FHA mortgages, deed theft schemes, Federal statutes, and current law enforcement efforts at a continuing legal seminar held for attorneys and real estate professionals in **Chicago, IL**. Approximately 40 attorneys and title company employees attended.



ASAC James Luu provided an overview of HUD OIG's mission and function and described investigative priorities relating to mortgage fraud, FHA programs, and economic stimulus packages at a HUD-sponsored congressional briefing held in **San Francisco, CA**. Approximately 40 congressional, HUD, and local government representatives attended.



ASAC Brad Geary provided a presentation, entitled "The Latest Trends in Mortgage Fraud," and described the FHA and HECM programs and current law enforcement efforts as a panelist during a seminar

in **Chicago, IL**. The seminar was sponsored by the Practicing Law Institute. Other panelists included AUSA Toi Houston and Robert Burson, the Senior Associate Regional Director for the Securities and Exchange Commission. Approximately 50 attorneys attended.



ASAC Kedric McKnight provided an overview of HUD OIG's mission and role and described FHA and housing assistance fraud schemes at a "Housing Summit" held in **Fort Worth, TX**. Approximately 110 home buyers and mortgage and banking industry professionals attended.



ASAC Brad Geary provided a presentation, entitled "The Latest Trends in Mortgage Fraud," and discussed FHA mortgages, property flipping, and deed theft schemes; the HECM program and NSP; and Federal statutes and current law enforcement efforts for Chicago Association of Government Accountants meeting in **Chicago, IL**. Approximately 25 auditors from various OIG agencies attended.



ASAC Korey Brinkman and SA Rebecca Nickell provided an overview of HUD OIG's mission during a CitiMortgage teleconference in **St. Louis, MO**. Approximately 50 CitiMortgage fraud investigators participated.



SA James Carrieres provided an overview of HUD OIG's mission and described successful Arizona mortgage fraud investigations for about 300 real estate professionals attending an "Industry Partners" conference in **Scottsdale, AZ**.



SA John Raney provided an overview of HUD OIG's mission and described the HECM program, mortgage fraud schemes, and issues related to predatory lending at a public benefits forum hosted by AARP in **Denver, CO**. Approximately 85 individuals attended.



SAs Herminia Neblina and Ira Long provided an overview of HUD OIG and described the HECM program and schemes associated with fraudulent mortgages and loan modifications at a home rescue fair in **La Puente, CA**. The fair was hosted by Congresswoman Grace Napolitano. Approximately 105 La Puente government officials and others attended.



SA James Carrieres provided an overview of HUD OIG's mission and described successful Arizona mortgage fraud investigations at a meeting held for about 75 real estate agents from Coldwell Banker and Keller Williams Realty in **Mesa, AZ**.



SA Brian Gosselin provided an overview of HUD OIG's mission and role and described mortgage fraud for Vermont Mortgage Bankers Association members meeting in **Williston, VT**. Approximately 12 mortgage professionals attended.



SAs Timothy Lishner and Thomas Osting provided an overview of HUD OIG's mission and role in FHA mortgage fraud and described mortgage fraud detection and prevention strategies at a meeting held for the Colorado Association of Hispanic Real Estate Professionals in **Denver, CO**. Approximately 75 individuals attended.



ARIGA William Nixon, Senior Auditor Tamara Wallinger, and Auditor Stacey Streeter provided a mortgage fraud update to the 2010 Oklahoma Mortgage Broker Association Conference in **Tulsa, OK**. Approximately 45 people attended the seminar. Auditors answered questions before and after the presentation.



Regional Inspector General for Audit (RIGA) Heath Wolfe and SAC Barry McLaughlin provided a presentation to the Downstate Chapter of the Illinois Mortgage Bankers Association in **Bloomington, IL**. RIGA Wolfe discussed the new Civil Fraud Initiative, lender-related audit findings, and what to expect when undergoing an audit. SAC McLaughlin discussed the recent mortgage fraud trends, red flags of mortgage fraud, and what to do when you suspect fraud. The audience included managers and staff from mortgage bankers, real estate offices, and new home builders.



ARIGA William Nixon and Senior Auditor Danita Wade provided a mortgage fraud update to the Dallas-Ft.Worth Association of Mortgage Brokers/Professionals in **Dallas, TX**. Approximately 60 people attended the seminar. Auditors answered questions before and after the presentation.



RIGA Heath Wolfe gave two presentations in **Springfield, IL**, on HUD OIG's mission and goals and the functions of the Office of Audit. The first session consisted of 29 individuals representing FHA lenders, municipalities, housing authorities, nonprofits, and homeless advocacy groups. The second was made up of 19 State and Federal congressional staffers.

Public Housing and Rental Assistance Programs

SAC Michael Powell and RIGA Ron Hosking provided an overview of HUD OIG's priorities, past results, and future objectives during four breakout sessions at HUD's 2010 Sustainable Homes and Communities conference in **Fargo, ND**. The breakout sessions included one session for elected officials, board members, and policy makers; two sessions for public housing authority management; and one session for Native American program participants. Approximately 500 government and industry leaders and managers attended the conference, including U.S. Senator Kent Conrad and other Federal, State, and local government representatives.



SAC Wayne North provided an overview of HUD OIG's role in Indian housing and Community Development Block Grant (CDBG) investigations as a panelist at an Affiliated Tribes of Northwest Indians conference in **Spokane, WA**. Other panel members included representatives from the U.S. Department of Justice, the U.S. Attorney's Office, the Bureau of Indian Affairs, Warm Springs and Coleville Tribal Police chiefs, and HUD personnel from the Office of Native American Programs. More than 200 tribal leaders representing 56 Indian tribes attended.



SAC Rene Febles, ASAC Kevin Chan, and SAs Rasove Ramirez and Elizabeth Peralta provided an overview of HUD housing assistance investigations and described potential fraud within the American Recovery and Reinvestment Act of 2009 (ARRA) and NSP during a meeting with Westchester County Section 8 Administrators in **White Plains, NY**. More than 15 housing representatives attended.



SAC Mike Powell and Senior Auditor Dan Tipton provided an overview of HUD OIG's mission and described multifamily program investigations and audits at a Heartland Affordable Housing Management Association meeting in **Kansas City, MO**. At the conclusion, a question and answer forum was held for approximately 60 housing professionals in attendance.



SAC Barry McLaughlin and ARIGA Ron Farrell provided an overview of HUD OIG investigations and audits; explained "red flag" fraud indicators, rental assistance fraud schemes, and recent audits and civil enforcement efforts; and described ARRA funding fraud at a National Association of Housing and Redevelopment Officials (NAHRO) conference in **Indianapolis, IN**. Approximately 60 NAHRO members attended.



SAC Wayne North and ARIGA Ed Schmidt provided an overview of HUD OIG and described recent ARRA audit findings and housing investigations at an Idaho NAHRO conference in **Boise, ID**. Approximately 30 housing officials attended.



SAC Herschell Harvell and ASAC Nadine Gurley provided a presentation, entitled "How to Combat Fraud, Waste, and Abuse within Georgia Housing Authorities," at a Georgia Association of Housing and Redevelopment Authorities conference in **Savannah, GA**. Approximately 60 housing authority executive directors attended.



SAC Breck Nowlin and RIGA Heath Wolfe made presentations to more than 65 individuals at the Michigan NAHRO conference in **Troy, MI**. SAC Nowlin and RIGA Wolfe discussed the Public Housing Capital Fund program being funded by ARRA. Both presentations included ARRA accountability and reporting requirements. RIGA Wolfe's presentation covered the audit process, common findings in public housing agency nonprofit development activities and HUD's Section 8 Housing Choice Voucher and Project-

Based Voucher programs, and the Office of Audit's affirmative civil enforcement initiative. SAC Nowlin's presentation also included an overview of OIG's Office of Investigation's roles and responsibilities plus its priority areas.



ASAC Wallace Merriman, ARIGA Kimberly Harrison, and SA Michael Wagenhauser provided an overview of HUD OIG's mission and the Offices of Investigation and Audit; described HUD OIG investigations and audits, the audit process, prevention and risk management controls, best practices for housing authorities, and rental assistance fraud and identity theft; and provided avenues for protecting information and identifying and preventing fraud in multifamily housing programs at the Virginia Association of Housing and Community Development Officials conference in **Virginia Beach, VA**. Approximately 60 housing agency representatives attended.



ASAC Eric Bizjak provided an overview of HUD OIG's mission, goals, and priorities; explained the functions of the Office of Investigation; and described HUD OIG initiatives that monitor HUD ARRA and Housing and Economic Recovery Act of 2008 (HERA) funding at a meeting held for Federal, State, and local public and private housing representatives in **Columbus, OH**.



ASAC Suzanne Steigerwald and SA Trevor Wood provided an overview of HUD OIG's mission, described the functions of the Office of Investigation, and illustrated fraud detection and enforcement methods used to successfully prosecute housing investigations at a Colorado NAHRO conference in **Pueblo, CO**. Approximately 60 housing professionals attended.



ASAC Kevin Chan and SA Jarred Palmiotto provided an overview of the FHA, CDBG, and Section 8 programs and discussed HUD OIG's authority and the process for detecting and preventing fraud and selecting and conducting investigations at a New York State Association of Renewal and Housing Officials conference in **Albany, NY**. Approximately 25 housing officials attended.



ASAC Korey Brinkman and Senior Auditor Kim Dahl provided an overview of HUD OIG's mission at an annual NAHRO conference in **St. Louis, MO**. Approximately 80 housing officials attended.



ASAC Louis Mancini and SA Heather Yannello provided an overview of HUD OIG's mission, HUD programs, and the assistance available for housing authorities at the New York State Public Housing Authority Directors Association conference in **Verona, NY**. Approximately 150 housing officials attended.



ASAC Eric Bizjak and SA David Fredrick provided an overview of HUD OIG's mission, goals, and priorities; explained the functions of the Offices of Audit and Investigation; and described housing assistance

fraud trends at an Ohio Housing Authorities conference in **Columbus, OH**. Approximately 50 housing professionals and others attended.



ARIGA Sonya Lucas made a presentation to 70 members of the Georgia Association of Housing and Redevelopment Authorities Spring Conference in **Macon, GA**. She provided an overview of OIG and discussed fraud prevention for public housing authorities.



SA John Raney provided an overview of HUD OIG's mission, described the Office of Investigation functions, and illustrated fraud detection and enforcement methods used to successfully prosecute housing investigations at a Mountain Plains NAHRO conference in **Deadwood, SD**. Approximately 50 NAHRO members attended.



SA Tammy Hernandez provided an overview of HUD OIG's mission, goals, and priorities; explained the function of the Offices of Audit and Investigation; and described HUD OIG initiatives that relate to HUD funding in both ARRA and NSP at a Southwest Regional NAHRO conference in **Springdale, AR**. Approximately 75 NAHRO members attended.



SAs Edward Redmond and Stephen Tufts provided an overview of HUD OIG's mission and role and described the detection and investigation of waste, fraud, and abuse in HUD-funded programs at a New England NAHRO conference in **Breton Woods, NH**. At the conclusion, a question and answer forum was held for approximately 100 housing representatives in attendance.



SA Heather Yannello provided an overview of HUD programs and described HUD OIG's mission as it relates to the detection and investigation of program fraud at a training seminar hosted by the New York State Division of Criminal Justice in **Buffalo, NY**. Approximately 120 government officials attended.



SAs James Fincher, Keith Benderoth, and Jeffery Monnin provided an overview of HUD OIG's mission and goals; described the Offices of Investigation and Audit, rental assistance initiatives, and the HUD Enterprise Income Verification system; and illustrated management and tenant fraud schemes at a Housing Management conference in **Louisville, KY**. At the conclusion, a question and answer forum was held for 275 management agents and others in attendance.



SA Robert Petrole provided an overview of HUD OIG's mission and role in the Housing Choice Voucher and Multifamily housing programs, described current trends in rental assistance fraud investigations, and illustrated fraud detection methods at a Maryland Association of Housing and Redevelopment Agency conference in **Ocean City, MD**. Approximately 50 housing representatives attended.



SA Ronnyne Bannister provided an overview of HUD OIG's mission and described housing authority investigations and reviews at a meeting for Prince Georges County Housing Authority landlords in **Prince Georges County, MD**. At the conclusion, a question and answer forum was held for approximately 40 prospective landlords in attendance.



SA Gregory Williams provided an overview of HUD OIG's mission, role, and priorities and discussed fraud detection, prevention, and reporting methods at two public safety meetings held at Worcester Housing Authority housing units in **Worcester, MA**. Approximately 70 residents and law enforcement personnel attended.



SAs Jeffery Monnin and Keith Benderoth provided an overview of HUD OIG's mission and role and described rental fraud initiatives and reporting methods at a Kentucky Housing Corporation conference in **Bowling Green, KY**. More than 380 housing professionals attended.



SAs Eric Huhtala and Paul Richard provided an overview of HUD OIG's mission and authority and described fraud prevention and detection during a "Fraud Prevention and Personal Safety Training" seminar hosted by the Housing Authority of the County of San Joaquin in **Stockton, CA**. More than 30 housing authority representatives and law enforcement personnel attended.



SAs Bozena Schrank and Daniel Austin provided an overview of HUD OIG's mission and described the HUD Public and Indian housing program and OIG's role in tenant fraud at a Washington Auditor Managers meeting in **Olympia, WA**. Approximately 24 audit managers and legal staff attended.

Community Planning and Development

Michael Beard, Charlene Mills, and Lakesha Mays of the Technical Oversight and Planning Division (TOP) participated in a panel at the HUD Office of Community Planning and Development (CPD) Managers Training in **Washington, DC**. TOP joined headquarters CPD representatives Jenny Sardone and Jessie Kome to discuss the fiscal year 2011 CPD audit plan and the results of recent audits. Discussion centered around the national NSP and HOME Investment Partnerships Program (HOME) program.



SAC Diane DeChellis and ARIGA Michael Motulski presented an overview of HUD OIG's mission and priorities; described OIG's organizational structure, the functions of the Offices of Audit and Investigation, current management challenges, HUD stimulus funds, and recent audits and investigations; and provided information relating to audit reports and the OIG Internet Web site for Rhode Island Bureau of Audit staff members meeting in **Providence, RI**. At the conclusion, a question and answer forum was held for 15 staff members in attendance.



SAC Rene Febles, ASAC Steven Perez, and SA Jennifer Schofield-Lake provided an overview of HUD Community Planning and Development programs and fraud detection and prevention methods and described the NSP and recovery funds for Nassau County Intergovernmental and Housing Agency employees meeting in **Hempstead, NY**. Approximately 20 individuals attended.



RIGA Tanya Schulze, ASAC James Luu, and ARIGA Vincent Mussetter provided an overview of HUD OIG’s mission and conducted two workshops that described fraud detection and prevention methods at a CDBG and HOME conference in **Sacramento, CA**. Approximately 50 nonprofit grantees and State and local government officials attended.



ARIGA Helen Sparks and Senior Auditor Chad Gagon attended a “welcome home” ceremony for the first homeowner in the City of **North Las Vegas, NV**, to receive keys to an NSP-acquired and -rehabilitated home. The ceremony was attended by the mayor and staff of the City of North Las Vegas, HUD CPD representative M. Roy Porter, and staff from the nonprofit developer.



SAs Chris Conn and Tim Mugrage provided an overview of HUD OIG’s mission and described the functions of the Office of Investigation at a Missouri CDBG training seminar held in **Jefferson City, MO**. At the conclusion, a question and answer forum was held for approximately 100 grantees in attendance.



SA Victoria Marquez provided an overview of HUD OIG’s mission at a “Faith-based and Neighborhood Partners” grant writing seminar held in **San Antonio, TX**. Approximately 75 grant writers and grantees attended.



SA David Smith provided an overview of HUD OIG’s mission, described the functions of the Office of Investigation, and illustrated fraud detection and enforcement methods used to successfully prosecute grant fraud investigations for Utah grant administrators meeting in **West Valley, UT**. Six grant administrators attended.



SA Victoria Marquez provided an overview of HUD OIG’s mission and priorities at a meeting held for community development directors in **San Antonio, TX**. Approximately 25 directors attended.

American Recovery and Reinvestment Act

SAC Joseph Clarke and ARIGA David Kasperowicz gave a presentation on HUD OIG reviews involving funds provided under ARRA at a Middle Atlantic NAHRO conference in **Wilmington, DE**. The presentation included an overview of HUD OIG’s mission and goals and the functions of the Offices of Audit and Investigation and focused primarily on anticipated and ongoing HUD OIG oversight of ARRA funding. ARIGA Kasperowicz presented information on the Office of Audit’s plans for auditing ARRA funds and

concerns about the risks in ARRA programs. SAC Clarke described the HUD OIG zero tolerance stance, presented information on potential criminal activities associated with the ARRA programs, and provided examples of HUD OIG criminal cases involving government funds. Approximately 30 grantees attended the presentation.



RIGA John Buck and ARIGA David Kasperowicz were guest speakers at the 2010 Governor's Conference on Housing and Community Development hosted by the New Jersey Housing and Mortgage Finance Agency and the New Jersey Department of Community Affairs in **Atlantic City, NJ**. RIGA Buck presented an overview of HUD OIG's mission and goals and the function of the Office of Audit. ARIGA Kasperowicz presented information on the Office of Audit's plans for auditing ARRA funds; concerns about the risk of fraud, waste, and abuse in ARRA programs; and information on findings identified in recent audits of the Tax Credit Assistance Program. Approximately 20 housing development professionals attended the presentation.



RIGA Tanya Schulze and ARIGA Helen Sparks met with the directors of the State of Nevada Legislative Auditors and the Internal Auditors in **Reno, NV**. The main focus of the discussion was ARRA and how efforts and resources related to HUD's ARRA-funded activities can be coordinated. The officials expressed an interest in coordinating with OIG in the future.



RIGA Tanya Schulze and SAC James Todak participated in a briefing in **Los Angeles, CA**, with about 35 local congressional representatives and HUD officials. They spoke about OIG's organization, workload, and current initiatives and priorities. The questions and discussions focused largely HUD's and OIG's current activities related to ARRA.



ASAC Eric Bizjak provided an overview of HUD OIG's mission, goals, and priorities; explained the functions of the Offices of Audit and Investigation; and described HUD OIG initiatives that monitor HUD ARRA and HERA funding for seven congressional staff members meeting in **Columbus, OH**.



ASAC Kedric McKnight and ARIGAs Nikita Irons and Tracey Carney provided an overview of the ARRA, FHA mortgage fraud, and the HECM program; described HUD program requirements, current trends, audit findings, and fraud schemes; and discussed OIG's investigative enforcement strategies and audit expectations at an "Annual Neighborhoods" conference in **Little Rock, AR**. Approximately 50 real estate and mortgage industry professionals attended.



ASAC Korey Brinkman and ARIGA Carrie Gray provided an overview of HUD OIG's mission and described fraud schemes, recent audit findings, and HUD ARRA funding at a project-based contract administrator summit held in **St. Louis, MO**. At the conclusion, a question and answer forum was held for approximately 50 housing finance agency staff members from Missouri, Iowa, Kansas, Nebraska, and Oklahoma.



ASAC Eric Bizjak provided an overview of HUD OIG's mission, goals, and priorities; explained the Office of Investigation functions; and described HUD OIG initiatives that monitor ARRA and HERA HUD funding at a meeting held for employees from the Cincinnati/Hamilton County Continuum of Care for the Homeless in **Columbus, OH**.



ARIGA Karen Campbell spoke at the HUD Manager's Conference in **Saratoga Springs, NY**. She provided an overview of the Office of Audit's 2010 initiatives and work plans. There were approximately 20 managers in attendance. Discussions included ARRA funds and planned and completed audits.



ARIGA Tracey Vargas and SAC Wayne North spoke at a meeting of The Association of Washington Housing Authorities in **Yakima, WA**. The meeting was attended by approximately 20 housing authority executive directors from Washington. ARIGA Vargas and SAC North provided an overview of HUD OIG, its organization, and findings noted in ARRA audits of housing authorities.



ARIGA Carrie Gray and ASAC Korey Brinkman spoke at a HUD training session for community planning and development formula grantees in **St. Louis, MO**. The training was attended by approximately 25 staff members from various entitlement cities in the eastern half of Missouri. ARIGA Gray and ASAC Brinkman provided an overview of HUD OIG, various fraud schemes, recent audit findings, and ARRA funding.



ARIGA Helen Sparks spoke about the OIG audit process and ARRA audits at a briefing hosted by HUD in **San Francisco, CA**, for Region IX Federal, State, and local government elected officials to discuss HUD activities in various program areas. The briefing was followed by a roundtable question and answer period.



ARIGA Kevin Smullen and Senior Auditors Llyod Currie and Kristen Ekmalian attended the STOP Fraud Task Force meeting at the offices of the Massachusetts Attorney General in **Boston, MA**. The Task Force, established in 2009 in response to the enactment of ARRA, includes representatives from Massachusetts State and U.S. Federal investigative, audit, and inspector general agencies. The discussion topics focused on what fraud prevention techniques had worked in the past and indicated that going forward, the focus would be more on identifying ARRA-related fraud and less on prevention. A teamwork approach in combating fraud was encouraged. A discussion was held on successes to date. Approximately 15 Task Force members were in attendance.



SA Juan Juarez provided an overview of HUD OIG's mission, goals, and priorities; described the functions of the Office of Investigation and OIG initiatives that monitor HUD ARRA and NSP funding; and illustrated procurement fraud detection and prevention at a meeting in **Houston, TX**. Employees from the Texas Department of Rural Affairs and the City of Huntsville along with NauticalAffordable Housing subgrantees attended.

Law Enforcement Outreach

SA Heather Yannello and Investigative Student Trainee Matthew Begeal provided an overview of HUD OIG's witness relocation process at a "Cultivation and Protection of Witnesses" training conference in **Hamburg, NY**. The event was sponsored by the U.S. Attorney's Office. Approximately 100 law enforcement officials attended.



In cooperation with the National Center for Missing and Exploited Children, SA Scott Savedow and SAs from the Federal Law Enforcement Officers Association fingerprinted about 170 children during National Missing Children's Day events held at the Pahokee and Fort Lauderdale Housing Authorities in **Pahokee and Fort Lauderdale, FL**.

Other Outreach

Inspector General (IG) Kenneth Donohue and DAIGA Joan Hobbs addressed a group of 200 auditors and information technology professionals at the 2010 Association of Government Accountants / American Society of Military Comptrollers Technology and Fraud Conference in **Honolulu, HI**. The session was entitled "Civil Fraud: Going after the Money." IG Donohue discussed civil fraud techniques and how to bring money back to Federal organizations. The presentation included a question and answer session.



DAIGA Joan Hobbs, Counsel to the Inspector General Bryan Howell, and Civil Fraud Division Director Kim Randall held a teleconference with the Department of Justice Civil Divisions in **Washington, DC**, and more than 20 U.S. Attorney's Offices nationwide, as well as HUD's Office of General Counsel. They explained the makeup of OIG's new Civil Fraud Division and the Division's focus on mortgage fraud. In addition, the group discussed a major tool in litigating mortgage fraud, the Financial Institution Reform, Recovery, and Enforcement Act of 1989, as well as HUD-related cases recently filed using the Act. They answered questions from the participants and expressed a desire to work closely with HUD and the Department of Justice to pursue civil actions against those that commit fraud against HUD.



Michael Beard, Director of HUD OIG's Technical Oversight and Planning Division, presented Region VI's Distinguished Service Recognition Award to Nicole Faison, HUD Program Advisor, in **Washington, DC**. Region VI recognized Ms. Faison for her efforts regarding OIG's deceased tenants assignment. She aided OIG throughout the assignment and championed the report to ensure the implementation of the recommendations.



Civil Fraud Division Director Kim Randall met in **St Louis, MO**, with the Criminal and Civil Divisions of the U.S. Attorney's Office for the Eastern District of Missouri. Director Randall provided an overview of HUD OIG's new Civil Fraud Division and how HUD OIG was working with HUD's Office of General Counsel in preparing civil action referrals to the Department of Justice. Director Randall also discussed how HUD OIG and the U.S. Attorney's Offices could work together on civil cases.



Civil Fraud Division Director Kim Randall met in **Fairview Heights, IL**, with the Civil and Criminal Divisions of the U.S. Attorney's Office for the Southern District of Illinois. Director Randall described HUD OIG's new Civil Fraud Division and how HUD OIG was working with HUD's Office of General Counsel in preparing civil action referrals to the Department of Justice. Director Randall discussed ongoing and potential civil cases regarding fraudulent use of HUD program funds and OIG's continued commitment to working with HUD's Office of General Counsel on future cases.



ARIGAs Ed Schmidt and Tracey Vargas met with Chuck F. Pfeil, Director of Audit, and Kelly Collins, Deputy Director of State and Local Audits, of the Washington State Auditor's office in **Olympia, WA**. They discussed the work of each office and how the offices can work together.



ARIGA Sarah Pon and Auditor Sally Yang held a teleconference with Mike Geesey, Director of Audit, and Pam Robinson, State Legislative Auditor, of the State of Wyoming auditor's office in **Denver, CO**. The purpose of the meeting was for the two offices to become familiar with each other and discuss the possibilities for pooling resources. They discussed the work that each office does and how the offices can work together. They agreed to keep in touch and pool resources if the possibility arises.



ARIGA Sarah Pon and Auditor Sally Yang met in **Denver, CO**, with Cindi M. Radke, Legislative Audit Manager, State of Colorado; Sally Symanski, State Auditor, State of Colorado; and two of their staff members that oversee State of Colorado audits to discuss the roles of each office and how they can work together. As a result, the offices agreed to coordinate oversight of HUD funds when opportunities arise.



ARIGAs Narcell Stamps and Sonya Lucas met with the Chief of the Civil Division of the United States Attorney's Office, Northern District of Georgia, and one of her AUSAs in **Atlanta, GA**. ARIGAs Stamps and Lucas obtained feedback on factors OIG should consider when referring cases to the United States Attorney for civil action and factors the United States Attorney should consider when deciding whether to accept referrals and open civil cases. The AUSA stated that the United States Attorney's Office is interested in referrals that involve single-family mortgage loans and individuals who violate requirements that are subject to civil action. ARIGAs Stamps and Lucas discussed and obtained constructive feedback on issues such as dollar thresholds, ability to pay, necessity for there to be a loss to the government, preservation of assets to settle civil judgments, jurisdictional issues, pursuit of administrative action as parallel proceedings, and content of the referral package. The AUSA expressed an interest in working with OIG as it pursues civil fraud.



ASAC Kedric McKnight and ARIGA Theresa Carroll gave presentations at the 2010 Congressional Briefing held at the **Albuquerque, NM**, HUD office. The presentations covered OIG's opening of a new office in Albuquerque and the mission, roles, responsibilities, and results of OIG. The briefing was attended by one congressman, several congressional aides, and local activists.



Computer Audit Specialist (CAS) Cliff Cole participated as a guest speaker at the Association of Government Accountants (AGA) national audio conference on “The Latest Tools and Techniques for Auditors.” The audio conference was broadcast live from **Alexandria, VA**, to more than 100 locations and nearly 2,000 participants across the United States. CAS Cole highlighted how using audit analytics could add value to the organization and demonstrated how the efficiencies of using these techniques could produce better results with bigger returns on investment while consuming fewer resources. He further described the history of HUD OIG’s computer-assisted audit techniques (CAATs) journey that ultimately brought it to the forefront of the inspector general community as one of the leading Federal agencies in innovative audit and investigative data analytics. The conference was attended by members of AGA; the National Association of State Auditors, Comptrollers, and Treasurers; and the Association of Local Government Auditors.



Senior Auditor Amber Eyster presented a description of the HUD OIG Office of Audit at HUD’s Region VIII New Employee Program Orientation in **Denver, CO**. She discussed OIG’s independence from HUD, OIG’s mission, internal versus external audits, and how OIG selects audits. The audience consisted of approximately 20 new HUD employees, representing various program areas including the Offices of Single Family Housing, Multifamily Housing, Fair Housing and Equal Opportunity, and Regional Counsel and the OIG Office of Investigation.



Senior Auditor Chad Gagon and Auditor Stacey Streeter visited with senior pastors and church officials from several faith groups in **Las Vegas, NV**. The congregations of the respective churches are situated in areas that have been hit hard by the recent foreclosure crisis. Auditor Streeter provided an overview of HUD OIG’s mission and goals and the function of the Office of Audit. Auditor Gagon discussed audit findings related to the single-family program, types of mortgage fraud, and current foreclosure and loan modification scams. Approximately 17 people attended.



SAs Lori DiCriscio and Robert Petrole participated in the 9th annual 5K “Run to Remember” in **Baltimore, MD**, to commemorate the lives of those lost on September 11, 2001.



Chapter 9

Reviews of Policy Directives



Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG has committed approximately 464 hours to reviewing 160 issuances. The draft directives consisted of 36 notices of funding availability, 96 mortgagee letters or notices, and 28 other directives. OIG provided comments on 99 percent of these directives. This chapter highlights some of OIG's comments for this reporting period.

Enacted Legislation

Due to the collapse of the subprime mortgage market and resulting increase in foreclosures, Congress and the President approved the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA). These laws contained significant new funding and programs for the U.S. Department of Housing and Urban Development (HUD). Specifically, the Neighborhood Stabilization Program (NSP) was created under HERA and provided an initial \$3.92 billion in funding to State and local governments for the redevelopment of abandoned and foreclosed-upon homes and residential properties. ARRA provided an additional \$13.61 billion to existing programs, including an additional \$2 billion for NSP. On May 20, 2009, the President signed the Helping Families Save Their Homes Act of 2009. This new law provides the Federal Housing Administration (FHA) with additional loss mitigation authority to assist FHA borrowers under the Making Home Affordable program. Further, this legislation expanded the authority to use FHA loss mitigation to assist defaulted home buyers in avoiding foreclosure to include those facing imminent default. Lastly, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. This legislation establishes an office of housing counseling within HUD to boost home ownership and rental housing counseling. Further, it provides for foreclosure legal assistance. Specifically, the bill authorizes a HUD-administered program for making grants to provide foreclosure legal assistance to low- and moderate-income homeowners and tenants related to home ownership preservation, home foreclosure prevention, and tenancy associated with home foreclosure.

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

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

The Federal Housing Commissioner continued to propose a number of risk management initiatives related to HUD's single-family programs and has started the process of updating its multifamily program requirements. As part of the issuances reviewed, OIG provided comments on the preliminary rules. Many of the proposed changes required rule making. On April 20, 2010, HUD issued the final rule of Federal Housing Administration: Continuation of FHA Reform; Strengthening Risk Management Through Responsible FHA-Approved Lenders [**Docket No. FR 5356-F-02**]. This final rule increases the net worth requirements for FHA-approved lenders, provides for the elimination of FHA approval of loan correspondents, and updates FHA regulations to incorporate criteria specified in the Helping Families Save Their Homes Act of 2009 designed to ensure that only entities of integrity are involved in the origination of FHA-insured loans.

Notices and Policy Issuances

OIG objected to a mortgagee letter advising about the new architect/owner agreement, which provides a consistent documentary framework for the design and construction of a project. Working cooperatively with the Department, OIG continues its efforts to resolve its objections.



Chapter 10

Audit Resolution



In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon the needed actions and timeframes for resolving audit recommendations. Through this process, OIG hopes to achieve measurable improvements in HUD programs and operations. The overall responsibility for ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant revised management decisions and significant management decisions with which OIG disagrees. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 3, table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 2010."

Audit Reports Issued Before Start of Period With No Management Decision as of September 30, 2010

Registered Sex Offenders' Occupancy of HUD-Subsidized Housing

Issued August 14, 2009. The Inspector General referred this issue to the Assistant Secretaries for Housing and Public Housing on December 28, 2009, because agreement could not be reached with the Deputy Assistant Secretaries on 13 of the 22 recommendations. The recommendations relate to OIG's audit of HUD's requirement prohibiting lifetime registered sex offenders from admission to HUD-subsidized housing. Based upon a statistical sample, OIG determined that HUD subsidized an estimated 2,094 to 3,046 households that included lifetime registered sex offenders. As a result, it did not accomplish the objective of the statute to prevent admission of dangerous sex offenders, and the same offenders who were deemed too dangerous for admission were allowed to continue living in subsidized housing.

OIG recommended that HUD seek legislative and program rule changes to require denial of continued occupancy and termination of tenancy or continued subsidy, as appropriate, for all lifetime registered sex offenders residing in subsidized housing. OIG also recommended that if legislative changes are passed, HUD develop and implement a plan to detect lifetime registered sex offenders occupying subsidized housing. Additionally, OIG recommended that HUD require projects and housing authorities to revise their admission, screening, and recertification procedures and urge them to aggressively pursue termination of assistance for lifetime sex offenders to the extent allowed by law.

Both Assistant Secretaries submitted new proposed management decisions on March 31, 2010. OIG agreed with the Assistant Secretaries on all but two recommendations, which related to the need for legislative changes to require denial of continued occupancy and termination of tenancy for all lifetime registered sex offenders residing in subsidized housing. Specifically, OIG's audit identified tenants who were eligible at the time of admission but later became lifetime registered sex offenders. While Congress has banned lifetime registered sex offenders from being admitted to federally assisted housing, current statutes do not effectively empower HUD to purge all lifetime registrants who already reside there. This issue is troubling because HUD possesses sufficient legal authority to terminate other groups. To compensate for this gap in its statutory authority, HUD's only present option is to employ a mix of regulations, policies, and procedures, the statutory basis and ultimate efficacy of which are disputable. A statutory fix authorizing and requiring termination of lifetime registrants from federally assisted housing is the surest means to enable HUD to protect residents from known sex offenders.

On April 29, 2010, OIG referred this matter to the Deputy Secretary for a final decision. On June 22, 2010, OIG met with the Assistant Secretaries and their staff. On July 7, 2010, the Assistant Secretaries submitted "PIH [Office of Public and Indian Housing] and Multifamily Housing Alternate Proposal to Seeking Legislation Mandating Termination of Assistance or Tenancy of State Lifetime Registered Sex Offenders."

This proposal was to amend the U.S. Housing Act of 1937 to ban admission and mandate the termination of tenancy and assistance for public and assisted housing tenants who become tier III sex offenders, rather than attaching the standards to State registration law. In addition, PIH and the Office of Multifamily Housing would strongly encourage public housing agencies and owner/agents to establish standards concerning admission and termination of tier I and tier II sex offenders. On July 19, 2010, OIG rejected the Assistant Secretaries' alternate proposal because it would loosen the standards that Congress has already established and again referred the matter to the Deputy Secretary for a final decision. (Audit Report: **2009-KC-0001**)

HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME Funds

Issued September 28, 2009. HUD OIG audited HUD's HOME Investment Partnerships Program (HOME). OIG recommended that the HUD Office of Community Planning and Development (CPD) establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for eligible activities in time to avoid losing them to recapture by the United States Treasury under provisions of Public Law 101-510. OIG also recommended that CPD obtain a formal legal opinion from HUD's Office of General Counsel regarding whether

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

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

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

HUD explained that CPD's use of cumulative accounting in its financial management represents a reasonable interpretation of the statutory duties imposed on the HUD Secretary and addresses the complex administrative challenges inherent in managing the HOME Investment Trust. HUD also explained that obligations and expenditures under the HOME program are accounted for on a FIFO basis by fund type instead of by fiscal year and that CPD, in enforcing the obligation and expenditure requirements, looks to total cumulative obligations and expenditures instead of accounting for them by fiscal year. Based on the Chief Financial Officer's financial analysis, given the origin of these requirements and the fundamental nature of this block grant program, HUD believed that the FIFO accounting method for obligations and expenditures by fund type was consistent with Federal accounting requirements and had no objection to the total cumulative obligations and expenditures methods used for assessing compliance with the 24-month commitment and 5-year expenditure requirements.

OIG continues to disagree that CPD's use of the FIFO method for recognizing commitments and expenditures that participating jurisdictions make against their HOME appropriations or CPD's cumulative accounting are consistent with the legislation under 42 U.S.C. § 12748, requiring recapture of funds not committed by statutory deadline dates. These methods of accounting also potentially violate the closure of accounts under 31 U.S.C. § 1552.

Another issue raised by CPD's accounting methods is whether HUD's FIFO accounting method complies with Federal accounting requirements for maintaining the U.S. Standard General Ledger and general appropriations law. The accounting issues require review for compliance with Federal accounting standards and appropriation law. Since OIG's last semiannual report date, in conjunction with its annual audit of HUD's financial statements, OIG has discussed the FIFO accounting method with the Government Accountability Office (GAO) to obtain its views on whether the method violates Federal standards for appropriation accounting. (Audit Report: **2009-AT-0001**)

Significantly Revised Management Decisions

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

Mays Property Management, Inc., Multifamily Management Agent - Little Rock, AR

Issue Date: September 17, 2004. As part of OIG's initiative to combat equity skimming, OIG audited nine multifamily projects managed by Mays Property Management, Inc. (Mays). The objective was to determine whether Mays complied with project regulatory agreements and HUD regulations when disbursing funds.

Mays officials disbursed project operating funds for items that violated project regulatory agreements with HUD. They charged management agent expenses to projects, paid for unsupported expenditures, diverted project funds to Mays and a property owner, and overcharged expenses to projects. In addition, Mays split its management fee with a project owner and transferred project funds to other projects having cash-flow problems. As a result, Mays' officials misspent more than \$979,000 in project funds and made unauthorized advances of more than \$20,000 from five projects to other projects. These violations had a negative financial impact on the projects.

OIG made several recommendations to HUD's Multifamily Housing Directors in Fort Worth, TX, and Little Rock, AR, including (1) require Mays to repay the projects nearly \$492,000 for the ineligible expenditures of project funds (recommendation 1A); (2) require Mays to furnish required documentation and if it does not, require Mays to repay the projects more than \$437,000 (recommendation 1C); and (3) with HUD approval, require projects to pay their debt to other projects (recommendation 1E). There were other recommendations, but they were not affected by the revised management decisions below.

HUD and OIG agreed on the original management decisions in February 2005. On April 2, 2010, OIG agreed with HUD's request to revise the management decision to allow it to request approval from the Assistant Secretary for Housing-Federal Housing Commissioner to write off the amounts as they were deemed uncollectible. On July 15, 2010, the Assistant Secretary for Housing-Federal Housing Commissioner requested OIG concurrence to write off nearly \$929,000 for recommendations 1A and 1C, which would also resolve recommendation 1E. On August 4, 2010, OIG agreed with HUD's request to write off the nearly \$929,000. OIG agreed with the writeoff based primarily on a judgment against Mr. Mays that awarded more than \$1.7 million to a third party, which required several of Mays' properties to be sold to satisfy the

judgment. HUD also sought administrative enforcement through its Departmental Enforcement Center. However, the statutes of limitations had expired. (Audit Report **2004-FW-1009**)

East Meyer Community Association - Kansas City, MO

Issue Date: November 24, 2003. HUD OIG conducted an audit of East Meyer Community Association to determine whether East Meyer used its Community Development Block Grant and Neighborhood Initiative Grant funds in accordance with applicable guidelines. OIG found that East Meyer improperly spent nearly \$727,000 of its Neighborhood Initiative Grant and recommended that HUD take necessary action to recoup the nearly \$727,000.

HUD agreed with the recommendation; however, East Meyer filed a Chapter 7 (liquidation) bankruptcy on April 3, 2003. According to the records in the bankruptcy court, the Clerk of the Court initially issued a notice to creditors advising that there were no assets and that it was unnecessary for any creditor to file any claim. On December 31, 2003, the Clerk issued another notice to creditors advising that it appeared that the bankruptcy estate had assets and that creditors had to file claims in order to share in any distribution from the estate. HUD did not file a claim and, therefore, HUD did not share in any distribution from the estate. The bankruptcy case was fully administered, and it was terminated on September 21, 2009.

In April 2004, HUD's Office of General Council advised CPD that "the available evidence indicates that East Meyer has no money that HUD could recover." HUD's Office of General Council recently reassessed the likelihood that HUD would recover any funds from East Meyer and on March 8, 2010, again advised that it was "unlikely that HUD will be able to recover any funds from East Meyer." In addition, on June 24, 2010, HUD received a letter from the U.S. Department of Justice stating that the Federal Claims Collection Standards, 31 CFR (Code of Federal Regulations) Part 903, grant HUD authority to terminate collection activity because HUD failed to file a claim with the bankruptcy court. On September 24, 2010, OIG agreed with the revised management decision to write off the nearly \$727,000 in improperly spent funds. (Audit Report **2004-KC-1001**)

Tenant-Based Section 8 Vouchers Used for Tax Credit-Subsidized Units - Washington, DC

Issue Date: November 8, 2006. HUD OIG conducted an internal, nationwide review of rents that HUD allowed tax credit project owners to charge to tenant-based Section 8 voucher households. OIG initiated the review as a follow-up to previous OIG audit work at a public housing agency, which noted that low-income housing tax credit (tax credit) projects charged higher rents to tenant-based housing choice voucher households than to tenants without vouchers. The rents charged for voucher households also exceeded the rent restrictions established by the Internal Revenue Service for these tax credit projects. OIG found that, consistent with program regulations, tax credit project owners were allowed to charge the Housing Choice Voucher program more than \$13.5 million annually for rents that exceeded the Internal Revenue Service maximum rent when they leased rent-restricted units to households with tenant-based housing choice vouchers (tenant-based vouchers). OIG also determined that accurate and up-to-date information on the use and cost of tenant-based vouchers in tax credit units was not available because no agency monitored the overlap of these programs. Without the tenant-based vouchers, the same tax credit units would have been available to the same households at the lower, Internal Revenue Service restricted rent. The restricted rents were established for all of the units in each project because the owners had proposed and agreed to them in exchange for a capital subsidy in the form of tax credits. HUD had already disallowed similar rent levels for other subsidized affordable housing programs on the basis that the additional portion amounted to an extra subsidy. Further, use of tenant-based voucher funds to pay such unnecessarily high rents directly reduced scarce program funds that could be used to assist additional low-income families.

OIG recommended that PIH draft and implement tenant-based voucher program regulations that required housing authorities to limit housing assistance payments contract gross rent to an amount not to exceed the applicable area's tax credit-restricted rent at the 60 percent income level for units in projects that are 100 percent rent restricted, thus increasing the availability of tenant-based Section 8 voucher funds by at least \$13.5 million annually (recommendation 1A).

HUD officials at PIH disagreed with the recommendation (1A), and the matter was referred to the Deputy Secretary of HUD. In a May 9, 2007, memorandum, the Deputy Secretary noted that "OIG may be correct in finding that the current PIH policy of allowing project owners to charge the tenant-based voucher program rents that exceed the maximum tax credit rent is, in fact, an 'extra subsidy.' The extent to which this practice is unnecessary, wasteful, or overlaps other subsidy programs is not clear and needs further study." Accordingly, HUD and OIG agreed that the recommendation would remain open until sufficient data from the implementation of recommendations 2A and 2B (which required HUD to track the use of tenant-based Section 8 vouchers in tax credit units and establish controls to ensure that available data on the costs of using multiple program subsidies to provide affordable housing are tracked and reported) had been gathered and analyzed by HUD and evaluated by OIG. Once data were available, OIG was to reevaluate recommendation 1A, make any appropriate revisions, and submit the revised recommendation(s) to the Deputy Secretary. The final action target dates for all of the recommendations were set for 2009 and 2010 to accommodate the effort needed to establish tracking mechanisms and gather data.

In 2008, the United States Congress passed the Housing and Economic Recovery Act (HERA), which contained a provision that allows tax credit projects to charge tenant-based voucher holders rents higher than the tax credit limits. PIH subsequently issued regulations to implement the policy. In a May 4, 2010, memorandum to OIG, the Office of Public Housing and Voucher Programs proposed closing recommendation 1A based on this legislative change. OIG agreed with PIH's interpretation of HERA regarding the allowable rents for tenant-based vouchers used for tax credit-subsidized units and closed the recommendation on June 15, 2010. (Audit Report **2007-LA-0001**)

Significant Management Decision With Which OIG Disagrees

The Puerto Rico Public Housing Administration Mismanaged Its Capital Fund Financing Program and Inappropriately Obligated \$32 Million in Recovery Act Funds – San Juan, PR

Issue date: September 30, 2009. OIG audited the Puerto Rico Public Housing Administration's (authority) Capital Fund Financing Program (Financing Program) as part of OIG's strategic plan goals to improve HUD's fiscal accountability. The objectives of the audit were to determine whether (1) the authority obligated and expended the 2003 Financing Program funds in accordance with HUD requirements, (2) the authority's financial management system complied with program requirements, (3) the authority completed the proposed modernization activities under its 2003 Financing Program, and (4) the authority had the capacity to administer additional funds under the American Recovery and Reinvestment Act of 2009 (ARRA).

The authority did not manage the 2003 Financing Program in an economical, efficient, and effective manner. In addition, it inappropriately obligated \$32.12 million in ARRA funds to supplant expenditures from other non-Federal funds in violation of its annual contributions contract with HUD.

Three of the recommendations in the report requested that HUD obtain a formal legal opinion regarding the following two issues:

- Whether the authority's use of capital funds to pay for interest expenses for 2003 bond proceeds used to pay off the bonds is allowable and consistent with regulations at 2 CFR Part 225.
- Whether the authority obligated \$31.65 million and expended nearly \$463,000 in ARRA funds for five cited contracts in accordance with ARRA requirements, HUD Notice PIH 2009-12(HA), and the authority's annual contributions contract.

HUD obtained a legal opinion from the Assistant General Counsel on March 18, 2010. The legal opinion concluded that the authority's actions complied with the applicable requirements.

OIG disagrees with this determination and stands by the conclusion that HUD should hold the authority accountable for the improper use of capital and ARRA funds. The Office of General Counsel ignored the fact that the authority and its residents did not receive a single benefit from the \$57.4 million expended on interest for unused bond funds. It also ignored the fact that the construction contracts paid with ARRA funds were awarded in 2008, were registered with the State controller's office, and were already obligated with other sources of funding. Also, the scopes of the work were not expanded or increased and were not for new projects. The contracts were awarded significantly before ARRA was signed into law and before the authorized obligation start date of March 18, 2009. (Audit Report: **2009-AT-1015**)

HUD's Community Development Block Grant Set-Aside for Colonias Was Not Used for Its Intended Purposes –Washington, DC

Issue date: July 29, 2008. OIG has been unable to reach agreement with CPD on the actions necessary to correct the deficiencies identified in OIG's audit entitled "HUD's Community Development Block Grant Set-Aside for Colonias Was Not Used for Its Intended Purposes," issued on July 29, 2008. OIG has an agreed-upon management decision for recommendation number 1C wherein CPD's Office of Block Grant Assistance decided to issue guidance to satisfy the recommendation that HUD issue criteria or other guidance that (1) better defines a colonia, (2) requires the States to support the colonia designations with objective criteria, and (3) requires the States to prioritize funding to colonias with the greatest need, thereby better assuring compliance with the Cranston-Gonzales National Affordable Housing Act of 1990.

However, OIG has nonconcurred on CPD's proposed guidance because OIG disagreed with CPD's interpretation of the statute implementing the colonia set-aside. OIG and CPD define a colonia, as found in Section 916 of the Act, differently. Moreover, OIG believes that to comply with the Act, CPD should require the States to (1) support their colonia designations using the objective criteria from the Act, (2) expend set-aside funds in accordance with the Act, and (3) prioritize funding to colonias with the greatest need.

Further, the GAO issued its December 2009 report on "Rural Water Infrastructure - Improved Coordination and Funding Processes Could Enhance Federal Efforts to Meet Needs in the U. S.-Mexico Border Region" (GAO-10-126), which found that HUD has "not always ensured compliance with statutory requirements and regulations concerning the eligibility of applicants or projects or the prioritization of funds from programs targeted at the border region." Moreover, GAO also "found that HUD has not developed guidance for determining what constitutes a colonia, has not made such determinations, and has not reviewed states' determinations. Lacking guidance and direction from HUD, states have applied requirements differently." OIG has discussed the matter with CPD's Assistant Secretary and agrees that CPD and OIG are at an impasse. Therefore, OIG is forwarding the issue to HUD's Deputy Secretary for a final decision on this audit. (Audit Report **2008-FW-0001**)

Federal Financial Management Improvement Act of 1996

In fiscal year 2009, HUD did not substantially comply with FFMIA. In this regard, HUD's financial management systems did not substantially comply with Federal financial management system requirements.

During fiscal year 2009, HUD made limited progress in bringing the financial management systems into compliance with FFMIA. HUD's financial management systems continued to not meet current requirements. HUD's systems were not operated in an integrated fashion and linked electronically to efficiently and effectively provide agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. HUD is in the process of modernizing its financial management systems by developing an integrated financial management system. The modernization development, HUD's Integrated Financial Improvement Project (HIFMIP), was launched in fiscal year 2003 but has been plagued by delays. Originally planned for implementation in 2006, the contract for HIFMIP was awarded on September 23, 2010. The Office of Management and Budget (OMB) approved the 18-month base period of performance for the contract, which is expected to run through April 2012. Future option periods will require OMB approval.

FFMIA requires OIG to report in its Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its mediation plan required by FFMIA. At the end of 2009, the Department reported that 2 of its 40 financial management systems were not in substantial compliance with FFMIA. These two systems are the HUD Procurement System and Small Purchase System. The Department plans to acquire a new application, which will bring these systems into compliance with FFMIA. The acquisition of the new application was completed on September 30, 2010. Although 38 individual systems had been certified as compliant with Federal financial management systems requirements, HUD had not performed independent reviews of all of its financial management systems within the 3-year period required by OMB Circular A-127. Collectively and in the aggregate, deficiencies continued to exist.

In addition, OIG audit reports have disclosed that security of financial information was not provided in accordance with OMB Circular A-130, Management of Federal Information Resources, appendix III, and the Federal Information Security Management Act.



Appendix 1

Peer Review

Reporting



Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), Section 989C, requires Inspectors General to report the latest peer review results in their semiannual reports to Congress. The purpose in doing so is to enhance transparency within the government. Both the Office of Audit and Office of Investigation are required to undergo a peer review of their individual organizations every 3 years. The purpose of the reviews is to ensure that the work completed by the respective organizations meets the applicable requirements and standards. The following is a summary and status of the latest round of peer reviews for both organizations.

Office of Audit

Peer Review Conducted on HUD OIG

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), received a rating of pass (the highest rating) on the peer review report issued by the U.S. Treasury Inspector General for Tax Administration on September 22, 2009. There were no recommendations included in the System Review Report. The report stated:

In our opinion, the system of quality control in effect for the year ended March 31, 2009, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. The HUD OIG has received a peer review rating of pass.

Peer Review Conducted by HUD OIG on USDA

The U.S. Department of Agriculture (USDA) OIG received a rating of pass on the peer review report issued by HUD OIG on September 30, 2009. The System Review Report contained no findings or recommendations.

Office of Investigation

Peer Review Conducted on HUD OIG

The most recent peer review of the Office of Investigation was conducted in 2008 by the United States Postal Service's Office of Inspector General. The results of the peer review found HUD OIG compliant (the highest rating) with the quality of standards established by the inspector general community and the attorney general guidelines.



Appendix 2

Audit Reports Issued



Internal Reports

19 Audit Reports

Chief Information Officer (2 Reports)

2010-DP-0002 Fiscal Year 2009 Review of Information Systems Controls in Support of the Financial Statements Audit, 05/14/2010.

2010-DP-0004 Security Weaknesses on HUD's Network Devices, 09/30/2010.

Chief Procurement Officer (1 Report)

2010-HA-0003 HUD Needs To Improve Controls Over Its Administration of Completed and Expired Contracts, 09/30/2010. Better use: \$15,200,000.

Community Planning and Development (2 Reports)

2010-AT-0001 HUD Evaluated and Selected Applications for the Recovery Act's NSP 2 in Accordance With Applicable Requirements, 06/25/2010.

2010-CH-0002 The Office of Affordable Housing Programs' Oversight of Resale and Recapture Provisions for HOME Investment Partnerships Program-Assisted Homeownership Projects Was Inadequate, 04/13/2010. Questioned: \$43,086.

Housing (4 Reports)

2010-FW-0003 HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than \$2.5 Billion, 08/25/2010. Better use: \$35,494,896.

2010-KC-0002 FHA Delayed Sending Violation Notices to Lenders That Did Not Meet Recertification Requirements, 08/06/2010.

2010-KC-0003 HUD's Written Policies and Procedures for Loan Indemnifications Were Generally Adequate, But Did Not Include Procedures for Pursuing Signed Indemnification Agreements From Lenders, 09/28/2010.

2010-LA-0002 HUD's Office of Single Family Housing's Management Controls Over Its Automated Underwriting Process, 09/15/2010. Better use: \$1,887,442.

Lead Hazard Control (1 Report)

2010-HA-0002 HUD's Office of Healthy Homes and Lead Hazard Control Grant Selection Procedures Used for the Lead Hazard Reduction Demonstration Program, 09/29/2010.

Office of Chief Human Capital Officer (1 Report)

2010-FO-0004 Review of HUD's Property and Equipment, 08/17/2010.

Office of Strategic Planning and Management (1 Report)

2010-DP-0003 Review of the Effectiveness of HUD's Data Quality Review Processes for the ARRA, 09/17/2010.

Public and Indian Housing (4 Reports)

2010-BO-0003 Public Housing Authorities Generally Paid Voucher Subsidy Payments to Subsidized Multifamily Properties Correctly, 08/09/2010.

2010-FW-0002 HUD's Recapture and Reallocation Plan for Recovery Act Public Housing Capital Fund Grants Had Weaknesses, 04/13/2010.

- 2010-FW-0004 HUD's Oversight of the Hurricane Ike Disaster Housing Assistance Program in Texas Needed Improvement, 09/30/2010. Questioned: \$85,103; Unsupported: \$53,510; Better use: \$800.
- 2010-KC-0001 HUD Took Appropriate Steps to Improve Its Controls Over Net Restricted Assets but Overpaid Section 8 Set-Aside Funds to One Public Housing Agency, 04/16/2010. Questioned: \$17,992; Unsupported: \$17,992.

Audit-Related Memorandums¹

Community Planning and Development (1 Report)

- 2010-BO-0801 HUD Region 1 Community Planning and Development Offices' Monitoring of Homelessness Prevention and Rapid Re-Housing Program Grants Funded Under the ARRA Was Appropriately Targeted to Higher Risk Grantees, 04/16/2010.

Office of the Secretary (1 Report)

- 2010-HA-0801 HUD's Guidance on Posting Signs for ARRA Projects, 08/06/2010.

Public and Indian Housing (1 Report)

- 2010-NY-0801 Corrective Action Verification, Utica Municipal Housing Authority, Low-Rent Housing Program, Utica, NY, Audit Report Number 2006-NY-1005, 09/13/2010.



¹ The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

External Reports

96 Audit Reports

Community Planning and Development (29 Reports)

2010-AO-1003	The State of Louisiana's Subrecipient Generally Ensured Costs Were Supported Under Its Tourism Marketing Program, Baton Rouge, LA, 04/30/2010. Questioned: \$82,752; Unsupported: \$82,752.
2010-AO-1004	The Mississippi Development Authority Generally Ensured That Contracts Were Procured in Accordance With Its Disaster Recovery Program Policies and Procedures, Jackson, MS, 06/22/2010. Questioned: \$21,964; Unsupported: \$21,964.
2010-AO-1005	The State of Louisiana's Subrecipient Did Not Always Meet Agreement Requirements When Administering Projects Under the Orleans Parish Long Term Community Recovery Program, Baton Rouge, LA, 08/04/2010. Better use: \$28,125,000.
2010-AO-1006	The State of Alabama Generally Ensured That the City of Bayou La Batre Properly Administered Its Hurricane Katrina CDBG Disaster Funds Program, Montgomery, AL, 09/30/2010.
2010-AO-1007	The State of Alabama Generally Ensured Mobile Administered Its Hurricane Katrina CDBG Disaster Funds Program in Accordance With HUD Requirements, Montgomery, AL, 09/30/2010.
2010-AT-1004	Mobile Housing Board Used HOME Investment Partnerships Program Funds for Ineligible and Unsupported Costs for Its HOPE VI Redevelopment, Mobile, AL, 05/17/2010. Questioned: \$1,179,370; Unsupported: \$839,713; Better use: \$1,991,149.
2010-AT-1006	The Puerto Rico Department of Housing Failed To Properly Manage Its HOME Investment Partnerships Program, San Juan, PR, 06/11/2010. Questioned: \$4,880,023; Unsupported: \$1,293,336; Better use: \$3,625,127.
2010-AT-1008	Polk County Entered Incorrect Commitments Into HUD's Integrated Disbursement and Information System for Its HOME Program, Bartow, FL, 07/30/2010. Better use: \$400,776.
2010-AT-1011	The Puerto Rico Department of Housing Did Not Ensure Compliance With HOME Program Objectives, San Juan, PR, 08/25/2010. Questioned: \$13,455,261; Unsupported: \$9,027,082; Better use: \$7,958,225.
2010-AT-1012	The City of Chattanooga Needs To Strengthen Controls for Tracking Obligations and Reporting for Its NSP, Chattanooga, TN, 09/03/2010.
2010-AT-1013	The Louisville/Jefferson County Metropolitan Government Needs To Strengthen Controls Over Reporting for Its NSP, Louisville, KY, 09/17/2010.
2010-AT-1014	Polk County Did Not Comply With Procurement and Contract Requirements in Its NSP and HOME Program, Bartow, FL, 09/28/2010. Questioned: \$4,524,621; Unsupported: \$4,426,071; Better use: \$7,010,369.
2010-AT-1015	The City of Deerfield Beach Did Not Properly Administer Its CDBG Program, Deerfield Beach, FL, 09/29/2010. Questioned: \$395,288; Unsupported: \$170,546; Better use: \$33,444.
2010-CH-1006	The Other Place, Inc., Needs To Improve the Administration of Its Homelessness Prevention and Rapid Re-Housing Program Under the ARRA, Dayton, OH, 04/30/2010. Questioned: \$970.

- 2010-CH-1011 The State of Illinois Needs To Improve Its Capacity To Effectively and Efficiently Administer Its NSP, Chicago, IL, 08/05/2010. Questioned: \$7,938; Unsupported: \$7,938; Better use: \$4,833,000.
- 2010-DE-1003 The City of Ogden Appropriately Administered the HOME Investment Partnerships Program, Ogden, UT, 04/02/2010.
- 2010-DE-1006 The City and County of Denver Did Not Properly Obligate and Report NSP I Funding, Denver, CO, 09/17/2010. Better use: \$1,535,289.
- 2010-FW-1005 The Texas Department of Housing and Community Affairs Did Not Fully Follow Requirements or Best Practices in the Acquisition of Its Disaster Recovery-Funded Program Management Firm, Austin, TX, 07/20/2010. Questioned: \$18,763,330; Unsupported: \$16,321,965.
- 2010-KC-1004 The State of Iowa Did Not Implement Adequate Controls Over Its Business Rental Assistance Program, Des Moines, IA, 05/26/2010.
- 2010-KC-1006 The State of Kansas Did Not Properly Obligate Its NSP Funds, Topeka, KS, 08/20/2010. Better use: \$10,145,313.
- 2010-KC-1007 The Missouri Housing Development Commission Did Not Always Obtain Required Documents and Properly Report on the Tax Credit Assistance Program Funded Under the Recovery Act, Kansas City, MO, 09/10/2010.
- 2010-KC-1008 The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, East St. Louis, IL, 09/28/2010. Questioned: \$1,228,994; Unsupported: \$1,228,994.
- 2010-LA-1010 Arizona Department of Housing's Administration of Its Recovery Act Grant: Homelessness Prevention and Rapid Re-Housing Program, Phoenix, AZ, 05/07/2010. Questioned: \$75,543; Unsupported: \$75,543.
- 2010-LA-1011 Sacramento Housing and Redevelopment Agency Did Not Always Administer the NSP in Accordance With HUD Rules and Regulations, Sacramento, CA, 06/02/2010. Questioned: \$1,114,587; Better use: \$5,317,180.
- 2010-LA-1012 Clark County Needs To Revise Its Written Procedures and Developer Agreements To Ensure Compliance With NSP Requirements, Las Vegas, NV, 06/09/2010.
- 2010-LA-1013 The City of Montebello Did Not Comply With HOME Requirements, Montebello, CA, 07/08/2010. Questioned: \$1,300,000.
- 2010-NY-1012 The City of Jersey City's CDBG Funds Used for a Float Loan Did Not Comply With Applicable Regulations, Jersey City, NJ, 07/01/2010. Questioned: \$3,572,517; Unsupported: \$72,517.
- 2010-PH-1008 Sasha Bruce Youthwork, Incorporated, Did Not Support More Than \$1.9 Million in Expenditures, Washington, DC, 05/11/2010. Questioned: \$1,945,050; Unsupported: \$1,945,050; Better use: \$686,342.
- 2010-SE-1001 Washington State Did Not Disburse Its Homelessness Prevention and Rapid Re-Housing Funds in Accordance With Program Requirements, Olympia, WA, 08/31/2010. Questioned: \$177,254; Unsupported: \$166,785.

Housing (10 Reports)

- 2010-AT-1005 Lendamerica Home Loans Did Not Follow HUD Requirements in Originating Loans and Implementing Its Quality Control Program, Coral Gables, FL, 05/20/2010. Better use: \$1,098,683.

2010-BO-1007	New England Regional Mortgage Corporation Generally Complied With HUD Requirements for Loan Origination but Did Not Properly Underwrite One Loan, Salem, NH, 08/03/2010. Better use: \$221,590.
2010-BO-1008	The Avesta Housing Management Corporation Did Not Properly Follow HUD Rules and Regulations, Portland, ME, 09/03/2010. Questioned: \$5,060,513; Unsupported: \$5,060,513.
2010-CH-1009	National Home Management Solutions Did Not Fully Comply With HUD's Requirements for the Management and Marketing of HUD Real Estate-Owned Properties, Independence, OH, 07/22/2010. Questioned: \$36,455; Unsupported: \$36,455.
2010-CH-1012	Michaelson, Connor, and Boul Did Not Provide Adequate Oversight of Closings on the Sales of HUD Real Estate-Owned Homes, Southfield, MI, 09/15/2010. Questioned: \$47,947; Unsupported: \$47,947.
2010-CH-1014	Consumer Credit Counseling Service of the Midwest Did Not Materially Comply With HUD's Requirements and Its Grant Agreement Regarding Housing Counseling, Columbus, OH, 09/30/2010. Questioned: \$10,574; Unsupported: \$1,700; Better use: \$126,310.
2010-DE-1004	Access National Mortgage Corporation Did Not Follow HUD Requirements When Submitting Two of Its Loans for Endorsement, Denver, CO, 07/02/2010. Better use: \$241,464.
2010-KC-1005	National Bank of Kansas City Did Not Follow HUD's Underwriting and Quality Control Requirements, Overland Park, KS, 06/04/2010. Better use: \$399,919.
2010-LA-1014	The Retreat at Santa Rita Springs Did Not Comply With HUD Rules and Regulations and Other Federal Requirements, Green Valley, AZ, 08/02/2010. Questioned: \$30,216; Unsupported: \$2,817.
2010-PH-1010	Prospect Mortgage, LLC, Generally Complied With HUD Requirements Regarding FHA-Insured Single-Family Loans, Fairfax, VA, 06/22/2010. Better use: \$116,014.
Public and Indian Housing (31 Reports)	
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY, 04/28/2010. Questioned: \$1,150,665; Unsupported: \$1,148,415.
2010-AT-1007	The Housing Authority, City of Wilson, Lacked the Capacity To Effectively Administer Recovery Act Funds, Wilson, NC, 07/27/2010. Questioned: \$2,462,249; Unsupported: \$2,422,039; Better use: \$7,820,272.
2010-AT-1009	The Puerto Rico Public Housing Administration Needs To Improve Its Procurement Procedures, San Juan, PR, 08/13/2010. Questioned: \$13,389,382; Unsupported: \$9,784,157.
2010-AT-1010	The Housing Authority of DeKalb County Improperly Used Its Net Restricted Assets, Decatur, GA, 08/23/2010. Questioned: \$2,583,244.
2010-BO-1005	The Hartford Housing Authority's Plan To Replace Boilers Did Not Meet Recovery Act and Federal Efficiency Requirements, Hartford, CT, 07/21/2010. Better use: \$1,092,325.

2010-BO-1006	Waltham Housing Authority Needs To Improve Controls Over Its Interprogram Fund Transactions, Procurement, and Travel for Its Housing Choice Voucher and Low-Income Public Housing Programs, Waltham, MA, 07/27/2010. Questioned: \$4,547,463; Unsupported: \$4,519,535.
2010-BO-1009	The Manchester Housing Authority Obligated its Recovery Act Grant Funds in a Timely Manner for Eligible Projects and Properly Supported Expenditures, Manchester, CT, 09/21/2010.
2010-BO-1010	The Boston Housing Authority Generally Administered Its Capital Fund Recovery Grant as Required, Boston, MA, 09/27/2010.
2010-CH-1005	Housing Authority of the City of Terre Haute Did Not Effectively Operate Its Section 8 Housing Quality Standards Inspection Program, Terre Haute, IN, 04/09/2010. Questioned: \$11,974; Better use: \$341,088.
2010-CH-1007	The Michigan State Housing Development Authority Needs To Improve Its Controls Over Section 8 Project-Based Housing Assistance Payments, Lansing, MI, 05/14/2010. Questioned: \$873,213; Unsupported: \$754,574; Better use: \$90,527.
2010-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL, 06/15/2010. Questioned: \$4,532,241; Unsupported: \$3,924,954; Better use: \$191,864.
2010-CH-1010	The Housing Authority of the City of Terre Haute Substantially Mismanaged Its Capital Fund Program and Lacked Capacity To Adequately Administer Its Recovery Act Funds, Terre Haute, IN, 07/27/2010. Questioned: \$4,878,428; Unsupported: \$3,837,268.
2010-CH-1013	The Housing Authority of the City of Terre Haute Did Not Materially Operate Its Programs According to HUD's Requirements and Did Not Effectively Operate Its Section 8 Housing Choice Voucher Program, Terre Haute, IN, 09/29/2010. Questioned: \$195,318; Unsupported: \$8,893; Better use: \$15,825.
2010-CH-1015	The Lake Metropolitan Housing Authority Needs To Improve Its Administration of Its Section 8 Housing Choice Voucher Program, Painesville, OH, 09/30/2010. Questioned: \$132,824; Unsupported: \$64,264; Better use: \$19,573.
2010-DE-1005	The Housing Authority of the City of Pueblo Generally Followed Recovery Act Rules and Regulations When Obligating and Expending Its Recovery Act Capital Funds but Did Not Accurately Report Recovery Act-Funded Jobs, Pueblo, CO, 09/17/2010.
2010-DE-1007	The Housing Authority of the County of Salt Lake Properly Expended Its Recovery Act Capital Grant Funds But Did Not Properly Obligate All of the Funds, Salt Lake City, UT, 09/24/2010. Questioned: \$560,726.
2010-FW-1003	The Housing Authority of the Sac and Fox Nation of Oklahoma Did Not Demonstrate the Administrative Capacity To Appropriately Expend Its Recovery Act Funding, Shawnee, OK, 05/13/2010. Better use: \$850.
2010-FW-1004	The Georgetown Housing Authority Used \$195,855 for Ineligible and Unsupported Expenditures, Georgetown, TX, 06/02/2010. Questioned: \$186,387; Unsupported: \$29,310; Better use: \$9,468.
2010-FW-1006	Housing Authority of the City of Odessa Generally Complied With HUD Regulations and Guidance in Its Transactions With Its Related Entity and Its Administration of Its Section 8 Programs, Odessa, TX, 08/23/2010.

2010-KC-1009	The Omaha Housing Authority Did Not Comply With Recovery Act Requirements When Reporting on Recovery Act Capital Funds, Omaha, NE, 09/30/2010.
2010-LA-1015	The Housing Authority of the City and County of San Francisco Did Not Effectively Operate Its Housing Choice Voucher Housing Quality Standards Inspections, San Francisco, CA, 08/31/2010. Questioned: \$318,154; Unsupported: \$39,018; Better use: \$11,420,400.
2010-LA-1016	The Compton Housing Authority Was Not Fully Reimbursed for Housing Assistance Payments for Portability Tenants, Compton, CA, 09/28/2010. Better Use: \$245,654.
2010-NY-1010	New Rochelle Municipal Housing Authority Had Control Weaknesses in Its Low-Rent Housing Program, New Rochelle, NY, 04/07/2010. Questioned: \$95,607; Unsupported: \$57,252; Better use: \$114,948.
2010-NY-1011	New Rochelle Municipal Housing Authority Had Weaknesses in Its Self-Sufficiency Grant Programs, New Rochelle, NY, 04/07/2010. Questioned: \$320,617; Unsupported: \$100,637; Better use: \$36,570.
2010-PH-1006	Audit of the Housing Authority of the City of Pottsville's Recovery Act Capital Fund Grant, Pottsville, PA, 04/13/2010.
2010-PH-1007	The Elkton Housing Authority Did Not Comply With HUD Regulations in Obligating and Disbursing Recovery Act Capital Funds, Elkton, MD, 05/03/2010. Questioned: \$286,947; Unsupported: \$286,947.
2010-PH-1009	The Harrisburg Housing Authority Generally Administered Its Recovery Act Capital Fund Grant in Accordance With Applicable Requirements, Harrisburg, PA, 05/13/2010.
2010-PH-1011	The Philadelphia Housing Authority Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards, Philadelphia, PA, 07/08/2010. Questioned: \$70,932; Better use: \$18,625,950.
2010-PH-1012	The Harrisburg Housing Authority Did Not Procure Goods and Services in Accordance With HUD Regulations and Its Procurement Policy, Harrisburg, PA, 07/27/2010. Questioned: \$1,736,962; Unsupported: \$1,736,962.
2010-PH-1013	The Housing Authority of Baltimore City Generally Administered Its Recovery Act Capital Fund Grants in Accordance With Applicable Requirements, Baltimore, MD, 09/20/2010. Better use: \$19,263.
2010-SE-1002	Alaska Housing Finance Corporation Needs To Improve Its Quality Control Plan, Anchorage, AK, 09/27/2010.

Audit-Related Memorandums²

Community Planning and Development (2 Reports)

2010-AT-1806	The City of Augusta Demonstrated the Capacity To Obligate Its NSP1 Funds, Augusta, GA, 09/24/2010.
2010-FW-1804	The City of Oklahoma City Had the Capacity To Manage Recovery Acts Funding, Oklahoma City, OK, 06/03/2010.

² The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

General Counsel (2 Reports)³

2010-CF-1801 Final Civil Action, Anchor Mortgage Corporation, Loan Origination Fraud - Violations of the False Claims Act, Chicago, IL, 09/30/2010. Questioned: \$2,992,941.

Housing (17 Reports)

2010-CH-1806 1st Advantage Mortgage, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Lombard, IL, 07/15/2010. Questioned: \$325,452.

2010-CH-1807 Birmingham Bancorp Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, West Bloomfield, MI, 07/21/2010. Questioned: \$643,340.

2010-CH-1808 Mac-Clair Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Flint, MI, 07/22/2010. Questioned: \$562,551.

2010-CH-1809 Columbus Properties Limited Partnership, Property Renovations, Columbus, OH, 08/03/2010.

2010-CH-1810 Dell Franklin Financial, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Millersville, MD, 07/30/2010. Questioned: \$542,330.

2010-CH-1811 D&R Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Farmington Hills, MI, 08/04/2010. Questioned: \$936,572.

2010-FW-1805 Financial Freedom Senior Funding Corporation Improperly Funded One Ineligible HECM Loan, Irvine, CA, 09/17/2010. Questioned: \$74,906.

2010-LA-1803 Alacrity Lending Company Did Not Properly Underwrite a Selection of FHA Loans, Southlake, TX, 07/26/2010. Questioned: \$1,599,529.

2010-LA-1804 Assurity Financial Services, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Englewood, CO, 08/05/2010. Questioned: \$1,180,997.

2010-LA-1805 Americare Investment Group Did Not Properly Underwrite a Selection of FHA Loans, Arlington, TX, 08/06/2010. Questioned: \$741,498.

2010-LA-1806 American Sterling Bank Did Not Properly Underwrite a Selection of FHA Loans, Sugar Creek, MO, 08/24/2010. Questioned: \$492,239.

2010-LA-1807 Alethes, LLC, Did Not Properly Underwrite a Selection of FHA Loans, Lakeway, TX, 09/08/2010. Questioned: \$1,056,447.

2010-NY-1805 Webster Bank Did Not Properly Underwrite a Selection of FHA Loans, Cheshire, CT, 09/01/2010. Questioned: \$516,990.

2010-NY-1806 Security Atlantic Mortgage Company, Inc., Did Not Properly Underwrite a Selection of FHA Loans, Edison, NJ, 09/22/2010. Questioned: \$553,730.

2010-NY-1807 First Tennessee Bank, N.A., Did Not Properly Underwrite a Selection of FHA Loans, Memphis, TN, 09/27/2010. Questioned: \$435,574.

2010-NY-1808 Pine State Mortgage Corporation Did Not Properly Underwrite a Selection of FHA Loans, Atlanta, GA, 09/29/2010. Questioned: \$1,095,202.

2010-NY-1809 Sterling National Mortgage Company, Inc., Did Not Properly Underwrite a Selection of FHA Loans, Great Neck, NY, 09/30/2010. Questioned: \$508,823.

³ Quality control review not included in listing.

Public and Indian Housing (5 Reports)

- 2010-AT-1805 The Wilmington Housing Authority Misused Federal Funds in the Purchase of Two Properties, Wilmington, NC, 05/19/2010. Questioned: \$267,914.
- 2010-CH-1805 The Benton Harbor Housing Commission Had Sufficient Capacity To Adequately Administer Its Recovery Act Funding, Benton Harbor, MI, 04/14/2010.
- 2010-DE-1801 The Fort Belknap Indian Community Had Weaknesses That Could Significantly Affect Its Capacity To Administer Its Recovery Act Funding, Harlem, MT, 04/23/2010.
- 2010-NY-1804 The Rochester Housing Authority Had Financial Control Weaknesses That Could Affect Its Capacity to Administer Recovery Act Funds, Rochester, NY, 06/04/2010. Questioned: \$557,242; Unsupported: \$177,289; Better use: \$6,075.
- 2010-SE-1801 Seattle Housing Authority's Capacity To Administer Recovery Act Funding Under the Capital Fund Program, Seattle, WA, 04/21/2010.



Appendix 3

Tables



Table A

Audit reports issued before the start of the period
with no management decision at September 30, 2010

*Significant audit reports described in previous semiannual reports

Report number and title	Reason for lack of management decision	Issue date
* 2009-KC-0001 HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders	See chapter 10, page 132.	08/14/2009
* 2009-AT-0001 HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME Funds	See chapter 10, page 133.	09/28/2009

Table B

Significant audit reports on which final action had not been completed within 12 months after the date of the Inspector General's report

Report number	Report title	Issue date	Decision date	Final action
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	07/01/2015
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	08/30/2011
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	12/31/2011
2004-PH-1008	Safe Haven Outreach Ministry, Incorporated, Washington, DC	06/03/2004	08/31/2004	11/30/2010
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD	09/10/2004	01/06/2005	Note 2
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-CH-1002	Washington Mutual Bank, Underwriting of FHA-Insured Loans, Downers Grove, IL	11/29/2004	01/28/2005	Note 2
2005-NY-1005	The Housing Authority of the City of Newark Bond Financing Activities and Section 8 Housing Choice Voucher Administrative Fee Reserves, Newark, NJ	05/26/2005	09/23/2005	10/11/2011
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance with HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	Note 1
2006-CH-0001	Real Estate Assessment Center's Physical Condition Assessment Was Compromised	11/30/2005	01/10/2006	12/31/2011
2006-NY-1003	The Housing Authority of the City of Newark's Controls Over Bond Financing Activities, Obtaining Supporting Documentation, and Legal Settlements Require Improvement, Newark, NJ	02/14/2006	08/17/2006	09/13/2012

Report number	Report title	Issue date	Decision date	Final action
2006-BO-1009	The Rhode Island Housing and Mortgage Finance Corporation Incorrectly Made More Than \$1.8 Million in Section 8 Subsidy Payments and Released More Than \$900,000 from Restricted Residual Receipts Accounts, Providence, RI	07/06/2006	10/24/2006	11/01/2010
2006-SE-0002	The Office of Single Family Housing Expanded Late Endorsement Eligibility Without Studying Associated Risks	08/16/2006	03/30/2007	Note 1
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2012
2006-DP-0802	Assessment of HUD's Compliance with OMB Memorandum M-06-16, "Protection of Sensitive Agency Information"	09/21/2006	11/24/2006	Note 2
2007-LA-0001	Tax Credit Project Owners Are Allowed To Charge Higher Rents for Tenant-Based Section 8 Voucher Households than Non-voucher Households	11/08/2006	07/05/2007	10/01/2010
2007-DP-0003	Review of HUD's Procurement Systems	01/25/2007	05/25/2007	Note 2
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts To Reduce Housing Assistance Payments	01/29/2007	01/29/2007	01/31/2011
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	Note 2
2007-BO-0002	HUD Did Not Process Multifamily Accelerated Processing Applications within Established Processing Goals and the Multifamily Accelerated Processing Guide Is Outdated	05/21/2007	09/07/2007	Note 2
2007-SE-0001	HUD's Oversight of the Section 8 Project-Based Contract	06/07/2007	10/05/2007	Note 1
2007-FW-1011	Capmark Finance, Inc., Misrepresented Asbury Square Apartments' Financial and Physical Condition When Underwriting the \$9.098 Million Loan, Tulsa, OK	07/02/2007	10/23/2007	11/30/2010

Report number	Report title	Issue date	Decision date	Final action
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	Note 2
2007-DP-0006	Review of HUD's Personal Identity Verification and Privacy Program	08/28/2007	12/20/2007	Note 2
2007-AT-0001	HUD Needs To Improve Controls Over Its Contract Administration Processes	09/19/2007	09/19/2007	Note 2
2007-KC-0801	Lenders Submitted Title II Manufactured Housing Loans for Endorsement without the Required Foundation Certifications	09/24/2007	03/11/2008	Note 2
2007-AT-1011	The Wilmington Housing Authority Did Not Follow HUD Requirements for Its Nonprofit Development Activities, Wilmington, NC	09/26/2007	01/24/2008	01/01/2011
2007-CH-1017	The City of Cincinnati Lacked Adequate Controls over Its HOME Investment Partnerships Program, Cincinnati, OH	09/30/2007	01/28/2008	09/30/2011
2008-LA-0001	The Los Angeles Multifamily Hub Did Not Properly Monitor Its Performance-Based Contract Administrator, Los Angeles LOMOD	11/05/2007	03/03/2008	Note 1
2008-LA-1003	Home for Life Foundation Did Not Properly Administer Its Supportive Housing Program Grants, Los Angeles, CA	12/18/2007	02/26/2008	04/01/2013
2008-AT-1004	The City of West Palm Beach Did Not Properly Administer Its CDBG Program, West Palm Beach, FL	01/09/2008	05/05/2008	05/01/2012
2008-AT-1005	The City of Fort Lauderdale Did Not Properly Administer Its CDBG Program, Fort Lauderdale, FL	01/11/2008	05/05/2008	05/01/2012
2008-NY-1003	The City of New York's Department of Housing Preservation and Development Had Administrative Weaknesses in Its HOME Program, New York, NY	01/23/2008	05/21/2008	Note 2

Report number	Report title	Issue date	Decision date	Final action
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	Note 1
2008-KC-0002	HUD Did Not Ensure That Housing Authorities Properly Administered the Community Service and Self-Sufficiency Requirement	03/24/2008	07/22/2008	10/01/2011
2008-AO-0801	Review of Duplication of Participants Benefits under HUD's Katrina Disaster Housing Assistance Program and Disaster Voucher Program	03/28/2008	08/01/2008	Note 2
2008-AT-0002	The Miami Dade Housing Agency Did Not Maintain Adequate Controls over Its Capital Fund Program	04/24/2008	08/22/2008	Note 2
2008-AT-0003	HUD Lacked Adequate Controls over the Physical Condition of Section 8 Voucher Program Housing Stock	05/14/2008	09/10/2008	09/30/2012
2008-BO-0002	Maintenance of Effort Requirements Are Needed To Ensure Intended Use of CDBG Program Funds	05/21/2008	10/02/2008	Note 2
2008-CH-1010	The City of Cincinnati Lacked Adequate Controls over Its System Reporting and Rental Rehabilitation Projects for Its HOME Investment Partnerships Program, Cincinnati, OH	06/11/2008	10/09/2008	07/13/2011
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 2
2008-LA-1012	The Housing Authority of the City of Calexico Did Not Comply with Public Housing Program Rules and Regulations, Calexico, CA	07/01/2008	10/14/2008	12/31/2013
2008-FW-0001	HUD's CDBG Set-Aside for Colonias Was Not Used for Its Intended Purposes	07/29/2008	11/24/2008	12/31/2010
2008-AO-1005	State of Louisiana, Road Home Program, Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible, Baton Rouge, LA	08/07/2008	01/13/2009	Note 2

Report number	Report title	Issue date	Decision date	Final action
2008-CH-1014	The City of Cincinnati Did Not Adequately Manage Its HOME Investment Partnerships Program, Cincinnati, OH	09/26/2008	01/22/2009	01/31/2011
2009-CH-1001	New Phoenix Assistance Center Substantially Failed To Manage Its Supportive Housing Program Grant, Chicago, IL	10/24/2008	02/20/2009	Note 2
2009-BO-1002	Orchard Court Multifamily Project Was Not Properly Managed in Accordance with HUD Regulations, Bath, ME	11/06/2008	01/16/2009	02/25/2011
2009-FO-0002	Audit of the FHA's Financial Statements for Fiscal Years 2008 and 2007	11/07/2008	03/13/2009	04/15/2011
2009-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2008 and 2007 Financial Statements	11/14/2008	03/19/2009	12/31/2011
2009-FW-1002	The Owner of Ebony Lake Healthcare Center Violated Its Regulatory Agreement with HUD, Brownsville, TX	11/25/2008	03/25/2009	01/31/2011
2009-NY-1003	Lower Manhattan Development Corporation CDBG Disaster Recovery Assistance Funds, New York, NY	12/04/2008	05/06/2009	01/12/2011
2009-DP-0003	Review of the Centralized HUD Account Management Process	01/09/2009	04/30/2009	Note 2
2009-CH-1002	The Indianapolis Housing Agency Failed to Operate Its Housing Choice Voucher Program According to HUD's and Its Requirements, Indianapolis, IN	01/23/2009	05/08/2009	11/30/2010
2009-NY-1006	The City of Rome Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Rome, NY	01/26/2009	05/27/2009	Note 2
2009-AO-0002	HUD's Receivership Did Not Ensure That the Housing Authority of New Orleans Properly Accounted for Its Fungibility Funding, Monitored and Paid Two of Its Contractors, and Paid Its Accounts Payable Disbursements	01/29/2009	08/21/2009	Note 2

Report number	Report title	Issue date	Decision date	Final action
2009-FW-1005	Allied Home Mortgage Capital Corporation Did Not Fully Follow HUD's Branch Office Requirements, Houston, TX	02/10/2009	06/10/2009	10/18/2010
2009-DE-1001	The Adams County Office of Community and Development Did Not Comply with HOME Investment Partnerships Program Regulations, Denver, CO	02/11/2009	04/29/2009	Note 2
2009-NY-1008	The City of Newburgh Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Newburgh, NY	02/24/2009	06/11/2009	Note 2
2009-AT-1004	The City of Durham Did Not Adequately Administer Its CDBG Program, Durham, NC	03/31/2009	06/09/2009	Note 2
2009-AO-0003	HUD Could Not Demonstrate That Its Receivership Improved the Housing Authority of New Orleans' Performance	04/08/2009	08/21/2009	11/30/2010
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 2
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 2
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	09/08/2011
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance with HUD Requirements, Rome, NY	05/20/2009	09/23/2009	Note 2
2009-FW-0801	Tenant Confirmation for Disaster Housing Assistance Program for March and April 2009	05/28/2009	09/25/2009	10/01/2011

Report number	Report title	Issue date	Decision date	Final action
2009-DP-0004	FY 2008 Review of Information Systems Controls in Support of the Financial Statements Audit	05/29/2009	09/25/2009	10/31/2010
2009-DP-0005	Review of Implementation of Security Controls over HUD's Business Partners	06/11/2009	11/17/2009	12/31/2014
2009-AT-1008	Miami-Dade County Did Not Properly Administer Its CDBG Program, Miami, FL	06/19/2009	09/25/2009	Note 2
2009-PH-0801	Corrective Action Verification Review, Upfront Grant for Ridgecrest Heights Apartments, CEMI-Ridgecrest, Inc., Washington, DC, Audit Memorandum 98-AO-219-1804	06/19/2009	07/09/2009	Note 2
2009-FW-0001	HUD's Disaster Recovery Grant Reporting System Can Collect the Basic Information Needed To Monitor the Neighborhood Stabilization Program	06/25/2009	10/23/2009	03/25/2011
2009-LA-1011	City of Los Angeles Housing Department Did Not Ensure That the Buckingham Place Project Met HOME Program Requirements, Los Angeles, CA	07/01/2009	10/21/2009	09/01/2011
2009-FW-1012	Financial Freedom Senior Funding Corporation Did Not Fully Follow HUD's Reverse Mortgage Requirements for Loans in the San Antonio, Texas Area, Irvine, CA	07/14/2009	11/20/2009	Note 2
2009-AT-1009	The Housing Authority of the City of Newnan Inappropriately Encumbered Assets and Advanced Funds To Support Its Nonprofit Organization, Newnan, GA	07/20/2009	11/16/2009	06/30/2011
2009-KC-1008	Grace Hill Used Neighborhood Initiative Grant Funds To Pay Unsupported Payroll Expenses and Duplicated Computer Support Costs, St. Louis, MO	07/24/2009	10/13/2009	Note 2
2009-CH-1011	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN	07/31/2009	11/24/2009	01/01/2030

Report number	Report title	Issue date	Decision date	Final action
2009-NY-1014	The Lackawanna Municipal Housing Authority Needs To Improve Controls and Operational Procedures Regarding Its Capital Fund Program, Lackawanna, NY	07/31/2009	11/06/2009	10/08/2010
2009-BO-1010	The City of New London Housing Authority Lacks the Capacity to Properly Administer Its Capital Fund Program and Recovery Act Funds, New London, CT	08/07/2009	03/31/2010	03/31/2011
2009-KC-0001	HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders	08/14/2009	07/23/2010	Note 3
2009-FW-1015	The Housing Authority of Travis County Could Not Adequately Account For or Support Its Use of Federal Program Funds, Austin, TX	08/17/2009	12/03/2009	10/27/2010
2009-FW-1801	Travis County Housing Authority Lacks Capacity To Administer ARRA Public Housing Capital Funds, Austin, TX	08/17/2009	10/27/2009	10/15/2010
2009-AT-1011	The City of Miami Did Not Properly Administer Its CDBG Program, Miami, FL	08/18/2009	12/15/2009	12/15/2010
2009-BO-1011	The City of Boston's Department of Neighborhood Development in Boston, MA, Did Not Administer Its HOME Program in Compliance with HUD Requirements	08/19/2009	09/29/2010	12/17/2010
2009-CH-0002	The Office of Affordable Housing Programs' Oversight of HOME Investment Partnerships Program Income Was Inadequate	08/28/2009	12/26/2009	03/31/2011
2009-LA-1018	DHI Mortgage Company, LTD's Scottsdale and Tucson, AZ, Branches Did Not Always Follow FHA-Insured Loan Underwriting and Quality Control Requirements	09/10/2009	01/08/2010	01/08/2011
2009-LA-1019	The Owner of Park Lee Apartments Violated Its Regulatory Agreement with HUD, Phoenix, AZ	09/15/2009	01/13/2010	07/13/2011
2009-CH-1013	The Housing Authority of the City of Milwaukee Did Not Adequately Maintain a Separate Identity for Commingled Funds, Milwaukee, WI	09/17/2009	01/14/2010	01/07/2011

Report number	Report title	Issue date	Decision date	Final action
2009-CH-1802	Cook County Needs To Improve Its Capacity To Effectively and Efficiently Administer Its Neighborhood Stabilization Program, Chicago, IL	09/17/2009	01/15/2010	10/31/2010
2009-DE-1005	Adams County Did Not Have Adequate Controls over Its Block Grant Funds, Westminster, CO	09/17/2009	01/15/2010	01/07/2011
2009-AO-1003	Louisiana Land Trust, As the State of Louisiana's Subrecipient, Did Not Always Ensure That Properties Were Properly Maintained, Baton Rouge, LA	09/23/2009	01/26/2010	Note 2
2009-DE-1801	Adams County, Colorado, Had Weaknesses That Could Significantly Affect Its Capacity To Administer Its Recovery Act Funding, Commerce City, CO	09/24/2009	01/14/2010	01/11/2011
2009-LA-1020	The Housing Authority of the City of Richmond Did Not Follow Procurement Requirements and Had Internal Control Weaknesses, Richmond, CA	09/24/2009	12/29/2009	12/29/2010
2009-AT-1012	The Municipality of Río Grande Needs To Improve Administration of Its CDBG Program and Its Recovery Act Funds, Rio Grande, PR	09/25/2009	01/22/2010	01/27/2011
2009-AT-0001	HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds	09/28/2009	03/03/2010	Note 3
2009-AT-1013	The City of Atlanta Entered Incorrect Commitments into HUD's Integrated Disbursement and Information System for its HOME Program, Atlanta, GA	09/28/2009	11/05/2009	03/25/2011
2009-AT-1014	The Housing Authority of the City of Winston-Salem Needs To Improve Financial Controls, Winston-Salem, NC	09/29/2009	12/01/2009	12/01/2010
2009-CH-1017	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements Regarding Its Turnkey III Homeownership Program Units' Sales Proceeds, Terre Haute, IN	09/29/2009	01/22/2010	12/30/2010

Report number	Report title	Issue date	Decision date	Final action
2009-DP-0006	Review of HUD's Web Application Systems	09/29/2009	12/17/2009	09/30/2011
2009-AT-1015	The Puerto Rico Public Housing Administration Mismanaged Its Capital Fund Financing Program and Inappropriately Obligated \$32 Million in Recovery Act Funds, San Juan, PR	09/30/2009	01/27/2010	04/15/2011
2009-CH-0003	HUD's Oversight of FHA Lenders Underwriting of Home Equity Conversion Mortgages Was Generally Adequate	09/30/2009	03/02/2010	11/30/2010
2009-CH-1019	The Michigan State Housing Development Authority Failed To Operate Its Section 8 Project-Based Voucher Program According to HUD's and Its Requirements, Lansing, MI	09/30/2009	01/27/2010	02/01/2012
2009-CH-1020	The City of Flint Lacked Adequate Controls over Its Commitment and Disbursement of HOME Investment Partnerships Program Funds, Flint, MI	09/30/2009	01/27/2010	10/01/2010
2009-DP-0007	Review of Selected Controls within the Disaster Recovery Grant Reporting System	09/30/2009	03/26/2010	Note 2
2009-DP-0008	Review of Recovery Act Management and Reporting System	09/30/2009	01/12/2010	12/31/2010
2009-FW-1016	The Texas Department of Housing and Community Affairs' Disaster Recovery Action Plan Needs Improvement, Austin, TX	09/30/2009	01/26/2010	11/30/2010
2009-SE-0004	Controls over FHA's Single-Family Lender Approval Process Need Improvement	09/30/2009	01/27/2010	Note 2

Significant audit reports issued within the past 12 months
that were described in previous semiannual reports
on which final action had not been completed
as of September 30, 2010

Report number	Report title	Issue date	Decision date	Final action
2010-PH-1002	The Philadelphia Housing Authority Needs To Improve Its Controls over Housing Assistance Payments, Philadelphia, PA	10/06/2009	12/03/2009	11/30/2010
2010-NY-1002	Jersey Mortgage Company Did Not Always Comply with HUD/FHA Loan Underwriting Requirements, Cranford, NJ	10/09/2009	03/19/2010	10/09/2010
2010-BO-1001	The State of Connecticut Department of Social Services' Section 8 Housing Units Did Not Always Meet HUD's Housing Quality Standards, Hartford, CT	11/02/2009	03/01/2010	10/29/2010
2010-FW-0001	HUD Did Not Maintain Documentation To Determine whether Public Housing Agencies Took Corrective Action on its January 7, 2008 Memorandum and Public Housing Agencies Paid an Estimated \$7 Million for Deceased Tenants	11/10/2009	01/08/2010	10/31/2010
2010-LA-0001	HUD's Performance-Based Contract Administration Contract Was Not Cost Effective	11/12/2009	03/12/2010	01/01/2011
2010-FO-0002	Audit of the FHA's Financial Statements for Fiscal Years 2009 and 2008	11/13/2009	03/05/2010	01/31/2011
2010-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2009 and 2008 Financial Statements	11/16/2009	04/02/2010	10/26/2010
2010-AT-1801	Miami-Dade County Needs To Strengthen Controls over Its NSP, Miami, FL	11/20/2009	03/15/2010	11/19/2010
2010-BO-1002	The City of Holyoke, Office of Community Development, Needs To Improve Its Administration of HOME- and CDBG-Funded Housing Programs, Holyoke, MA	11/23/2009	09/30/2010	04/01/2011
2010-CH-1003	The Grand Rapids Housing Commission Needs To Improve Its Administration of Its Section 8 Project-Based Voucher Program, Grand Rapids, MI	11/24/2009	03/22/2010	10/01/2011

Report number	Report title	Issue date	Decision date	Final action
2010-NY-1004	Ark Mortgage, Incorporated, Did Not Always Comply with HUD/FHA Loan Origination Requirements, North Brunswick, NJ	11/24/2009	04/02/2010	11/30/2010
2010-LA-1003	City of Los Angeles' Community Development Department Projects Did Not Comply with CDBG Program Requirements, Los Angeles, CA	12/04/2009	03/11/2010	12/04/2010
2010-AT-1802	The City of Atlanta Needs To Improve Certain Aspects of Its NSP To Meet the Program's 18-Month Obligation Deadline, Atlanta, GA	12/14/2009	02/03/2010	12/13/2010
2010-AO-0801	HUD Needs To Ensure That the Housing Authority of New Orleans Strengthens Its Capacity To Adequately Administer Recovery Funding	12/15/2009	04/19/2010	04/30/2012
2010-AO-1001	Mississippi Development Authority Did Not Always Ensure Compliance under Its Public Housing Program, Jackson, MS	12/15/2009	04/27/2010	Note 2
2010-PH-1801	Audit of the Scranton Housing Authority, Scranton, PA	12/17/2009	02/23/2010	01/31/2011
2010-DE-1001	Kier Paid or Recorded Ineligible Costs and Did Not Properly Compute Subsidies, Denver, CO	12/18/2009	02/24/2010	11/08/2010
2010-NY-1005	The City of Paterson Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Paterson, NJ	12/18/2009	03/19/2010	03/03/2011
2010-NY-1006	SFDS Development Corporation Had Weaknesses in Its Financial, Procurement and Administrative Controls, New York, NY	12/22/2009	01/13/2010	11/16/2010
2010-LA-1004	Although the County of Riverside Had Sufficient Overall Capacity, It Lacked Necessary Controls To Administer Its NSP, Riverside, CA	12/29/2009	04/26/2010	12/29/2010

Report number	Report title	Issue date	Decision date	Final action
2010-AO-1002	State of Louisiana Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program, Baton Rouge, LA	01/04/2010	05/14/2010	11/05/2010
2010-CH-1801	Wayne County Needs To Improve Its Capacity To Effectively and Efficiently Administer Its NSP, Wayne County, MI	01/12/2010	05/12/2010	10/01/2010
2010-NY-1802	Control Weaknesses at the Syracuse Housing Authority May Affect Its Capacity To Administer American Recovery and Reinvestment Act Funds, Syracuse, NY	01/14/2010	03/04/2010	08/31/2011
2010-LA-1005	The Department of Hawaiian Home Lands Generally Had Capacity To Manage; However, It Needs To Improve Controls Over Its Administration of Recovery Act Funds, Kapolei, HI	01/19/2010	04/09/2010	04/09/2011
2010-BO-1004	The City of Waterbury's Subrecipient, Waterbury Development Corporation, Needs To Improve Its Capacity To Effectively Administer Its Neighborhood Stabilization Program, Waterbury, CT	01/20/2010	03/18/2010	10/05/2010
2010-FW-1002	The Housing Authority of the Sac and Fox Nation of Oklahoma Improperly Spent More Than \$800,000 in Contracts and Did Not Always Operate in Accordance with HUD Rules and Regulations or Its Own Policies, Shawnee, OK	01/20/2010	04/23/2010	03/31/2011
2010-PH-1004	Residential Home Funding Corporation Did Not Always Comply With HUD Requirements in Originating FHA-Insured Single-Family Loans, Gaithersburg, MD	01/21/2010	05/21/2010	01/11/2011
2010-BO-1804	The City of Meriden Had Sufficient Capacity To Effectively Administer Its NSP, Meriden, CT	01/27/2010	04/07/2010	10/05/2010
2010-NY-1007	The City of Jersey City Needs To Strengthen Its Controls To Ensure That It Will Be Able To Effectively Administer CDBG-R Funds, Jersey City, NJ	02/02/2010	04/05/2010	04/01/2011

Report number	Report title	Issue date	Decision date	Final action
2010-LA-1007	The County of San Bernardino Had Questionable Capacity To Administer Its Allocation of NSP Funds, San Bernardino, CA	02/11/2010	06/09/2010	12/31/2010
2010-BO-0001	HUD Was Not Effective in Recovering the New London Housing Authority From Troubled Status and Did Not Take the Required Regulatory or Statutory Action	02/18/2010	06/18/2010	05/01/2011
2010-CH-1803	The State of Indiana's Administrator Awarded NSP Funds for an Inappropriate Project, Indianapolis, IN	02/25/2010	06/11/2010	01/31/2011
2010-PH-0001	HUD's Philadelphia, PA, Homeownership Center Did Not Always Ensure That Required Background Investigations Were Completed for Its Contracted Employees	02/26/2010	06/25/2010	10/31/2010
2010-DE-1002	Fort Belknap Indian Community Did Not Properly Administer Its Indian Housing Block Grant Funds, Harlem, MT	03/07/2010	06/25/2010	06/30/2011
2010-KC-1001	The State of Iowa Misspent CDBG Disaster Assistance Funds and Failed To Check for Duplicate Benefits, Des Moines, IA	03/10/2010	09/13/2010	10/31/2012
2010-NY-1803	The New York City Housing Authority Had the Capacity To Administer Capital Funds Provided Under the American Recovery and Reinvestment Act, New York, NY	03/12/2010	06/03/2010	06/01/2011
2010-LA-1009	DHI Mortgage Company, LTD's Scottsdale, AZ, Branches Did Not Follow FHA-Insured Loan Underwriting Requirements	03/19/2010	07/16/2010	03/19/2011
2010-KC-1003	The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process To Secure a Consulting Services Contract, East St. Louis, IL	03/26/2010	07/22/2010	03/30/2011
2010-NY-1009	Somerset Investors Corporation Did Not Always Comply With HUD/FHA Loan Underwriting Requirements, Melville, NY	03/26/2010	06/30/2010	06/30/2011

Report number	Report title	Issue date	Decision date	Final action
2010-CH-0001	The Office of Block Grant Assistance Lacked Adequate Controls Over the Inclusion of Special Conditions in NSP Grant Agreements	03/29/2010	07/27/2010	06/01/2011
2010-AT-1002	Broward County Needs To Strengthen Controls Over Its NSP, Fort Lauderdale, FL	03/31/2010	07/12/2010	01/01/2011
2010-CH-1804	The City of Saginaw Needs To Improve Its Capacity To Effectively and Efficiently Administer Its CDBG Program Under the ARRA, Saginaw, MI	03/31/2010	07/21/2010	12/15/2010

Audits Excluded:

78 audits under repayment plans

29 audits under debt claims collection processing, formal judicial review, investigation, or legislative solution

Notes:

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

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

3 No management decision

Table C

Inspector General-issued reports with questioned and unsupported costs at September 30, 2010
(thousands)

Audit reports	Number of audit reports	Questioned costs	Unsupported costs
A1 For which no management decision had been made by the commencement of the reporting period	15	43,737	38,009
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	5	7,247	4,599
A3 For which additional costs were added to reports in beginning inventory	-	54	0
A4 For which costs were added to noncost reports	0	0	0
B1 Which were issued during the reporting period	63	111,475	69,793
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	83	162,513	112,401
C For which a management decision was made during the reporting period	32 ¹	39,324	31,679
(1) Dollar value of disallowed costs:			
- Due HUD	6 ²	7,432	6,532
- Due program participants	25	14,558	9,616
(2) Dollar value of costs not disallowed	7 ³	17,334	15,531
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	7,041	4,424
E For which no management decision had been made by the end of the reporting period	47 <102> ⁴	116,148 <104,001> ⁴	76,298 <64,663> ⁴

¹ 15 audit reports also contain recommendations with funds be put to better use.

² 1 audit report also contains recommendations with funds due program participants.

³ 5 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 September 30, 2010
(thousands)

Audit reports	Number of audit reports	Questioned costs
A1 For which no management decision had been made by the commencement of the reporting period	17	618,633
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	1	2,957
A3 For which additional costs were added to reports in beginning inventory	-	58,637
A4 For which costs were added to noncost reports	0	0
B1 Which were issued during the reporting period	38	166,499
B2 Which were reopened during the reporting period	0	0
Subtotals (A+B)	56	846,726
C For which a management decision was made during the reporting period	25 ¹	625,214
(1) Dollar value of disallowed costs:		
- Due HUD	8 ²	580,759
- Due program participants	17	37,066
(2) Dollar value of costs not disallowed	4 ³	7,389
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	1	2,957
E For which no management decision had been made by the end of the reporting period	30 <43> ⁴	218,555 <155,642> ⁴

¹ 15 audit reports also contain recommendations with questioned costs.

² 1 audit report also contains recommendations with funds due program participants.

³ 3 audit reports also contain recommendations with funds agreed to by management.

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

Explanations of Tables C and D

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

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



Appendix 4

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