HUD Office of Inspector General
Semiannual Report to Congress as of September 30, 2001

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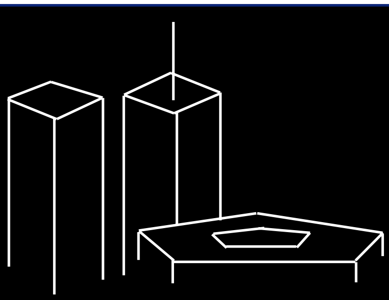

To everyone we lost, we will never forget you.

In Memoriam ~ September 11, 2001

Inspector General's Message

On July 23, 2001, I was sworn in as the Acting Inspector General of the HUD Office of Inspector General. During my tenure at HUD, the OIG has continued to address the major issues facing the Department. Chapter 1 of this Semiannual Report summarizes those areas where much of our audit and investigation resources have been directed during this 6-month period. These areas, which both the OIG and the General Accounting Office have advised the Congress as being HUD's major management challenges, include completing ongoing management reforms; improving financial management systems; assuring adequate and sufficiently trained HUD staff; improving FHA single family loan origination and real estate owned property oversight; and improving the effectiveness and efficiency of public and assisted housing program administration.

The audit resolution process is discussed in Chapter 6 of this Report. We appreciate the focus this Administration has put on the timely resolution of audit recommendations. The Inspector General Act requires that we report separately on significant audits where a management decision has not been reached for audits that are more than 6 months old. We are pleased to report that, as a result of the cooperation and support of the current HUD Administration, there are no such items to report in this Semiannual Report. In all the years we have been reporting on management decisions over 6 months old, there has been only one other occasion when we had no items to report. While Chapter 6 discusses a number of cases where the resolution of audit recommendations has been delayed, the number of outstanding audits with unresolved recommendations has declined from previous reporting periods. Additionally, we have formed a task force with the Deputy Secretary, Chief Financial Officer, and the General Counsel to identify ways to improve and expedite the audit resolution process. The efforts made by HUD management to make audit resolution a priority for this Administration are greatly appreciated.

There is evidence of continuing problems within the Single Family Mortgage Insurance Programs, as illustrated in Chapters 2 and 3 of this Report. Chapter 2 discusses our ongoing Housing Fraud Initiative efforts. These efforts find fraud in single family loan origination to be a continuing problem. During this reporting period, the OIG also conducted several audits as part of a nationwide review of Single Family Programs. The audits disclosed that some programs remain at risk for abuse, while others need strengthened monitoring.

HUD's programs serve only a portion of those families with worst case housing needs. Accordingly, it is critical that scarce resources be spent efficiently and effectively. Through our audits and investigations, our goal is to help each individual area within the Department manage its programs more effectively, and to make HUD's programs free from fraud and abuse.

Not reflected in this Report are the heroic efforts of HUD OIG personnel whose office was destroyed in the horrific events of September 11th. In the wake of this tragedy, they have been right in the thick of the action in the "war on terrorism" and the recovery actions in New York. Offices were opened immediately in alternate locations and back in business. I am deeply appreciative of their dedication and outstanding performance.

The OIG staff and I look forward to working with you and your staff in making HUD a better, more efficient organization.

David C. Williams
Acting Inspector General

Chapter 1

HUD's Management and Performance Challenges

HUD's Management and Performance Challenges

Information About the HUD Office of Inspector General

The HUD Office of Inspector General (OIG) provides independent oversight of HUD programs and operations. While organizationally located within the Department, the OIG maintains independence to initiate and carry out audits and investigations related to Departmental programs.

HUD OIG's audit and investigative activities are designed to:

- Promote economy, efficiency, and effectiveness in the administration of HUD programs and operations.
- Detect and deter fraud and abuse in HUD programs and operations.
- Investigate allegations of misconduct by HUD employees.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to HUD programs and operations.
- Recommend actions to resolve fraud, abuses, and deficiencies in HUD programs and operations.
- Inform the Secretary of HUD and the Congress of problems and the progress made in resolving such fraud, abuses, and deficiencies.

The OIG Offices of Audit and Investigation carry out these duties and are supported in these efforts by the OIG Office of Counsel and the Office of Management and Policy.

Major Issues Facing HUD

The Department's primary challenge is to find ways to improve housing and expand opportunities for families seeking to better their quality of life. HUD does this through a wide variety of housing and community development programs aimed at helping American families. These programs are funded through HUD's $30 billion annual budget. Additionally, HUD assists American families by insuring Federal Housing Administration (FHA) mortgages for single family and multifamily properties. FHA's outstanding mortgage insurance portfolio is approaching $550 billion. While HUD is a relatively small agency in terms of staff with about 9,500 nationwide, it relies on the performance and integrity of a large group of entities to administer a diversity of programs. Among HUD's administrators are hundreds of cities that manage HUD's Community Development Block Grant funds, hundreds of public housing authorities that manage assisted housing funds, and thousands of HUD approved lenders that originate FHA insured loans.

Over the last several years, both the General Accounting Office and our office have advised the Congress of the Department's management challenges to include:

- Completing ongoing management reforms.
- Improving financial management systems.
- Assuring adequate and sufficiently trained HUD staff.
- Improving FHA single family loan origination and real estate owned property oversight.
- Improving the effectiveness and efficiency of public and assisted housing program administration.

These challenges have been the focus of much of our audit and investigative activities during this 6-month reporting period. The following provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters. Our audit and investigative chapters of this Semiannual Report provide more detail on specific audits and investigations referenced below.

Completing Management Reforms

During the previous Administration, HUD underwent major organizational and management changes known as the "HUD 2020 Reform Plan." We continue to highlight this as a management challenge because of the significant organizational and staffing impact these reforms have had on the Department. Within some HUD organizations, this lengthy transition is still happening. There remains a pervasive tension between centralized control and local empowerment. More importantly, HUD stakeholders are still questioning some of the major management changes brought about by the reform. Questions regarding such issues as the fairness of Real Estate Assessment Center physical inspection scores, the appropriateness of consolidating all single family activities into just four Homeownership Centers (HOCs), or the need for a centralized Enforcement operation are still being raised, even today, months and years after the initial changes were made. These and other changes brought about by 2020 were radical departures from HUD's past business practices. Until these issues are ironed out, this remains a challenge for HUD.

Our audits and investigations have identified weaknesses brought about by delays in completing HUD 2020 operational changes. For example, in September 2001, we testified before the House of Representatives Subcommittee on Oversight and Investigations of the Committee on Financial Services regarding the 1998 scandals of the Section 203(k) Rehabilitation Home Mortgage Insurance Program in New York City. We noted that the rapidity of the changes taking place in Single Family Programs during this period made HUD extremely vulnerable. Single family staff was cut in half and those remaining HUD staff in New York were transferred to the Philadelphia HOC. These staffing shifts had a direct bearing on HUD's ability to provide adequate oversight.

Improving Financial Management Systems

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

The plans for enhancing or replacing the Department's core financial system and integrating this to related financial systems, such as those of FHA and the grants management systems, have varied significantly over the past few years. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system. In the meantime, the project to improve the FHA subsidiary accounting systems has made little progress because of necessary procurement delays.

Another challenge for the Department in this area is the new Joint Financial Management Improvement Program requirements for integrating certain transactions in the grants management systems with the core financial system. This has increased the importance of HUD's financial systems for consolidated financial reporting. However, the Department's efforts to implement the necessary grants management systems have made little progress to date.

Assuring Adequate and Sufficiently Trained Staff

HUD's Fiscal Year (FY) 1999 Annual Performance Plan noted that the Department no longer had a system for measuring work and reporting time, and that HUD lacked a single integrated system to support resource allocation. The National Academy of Public Administration (NAPA) examined HUD's practices for estimating human resource needs. HUD reported that it intended to work with NAPA to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

Two years ago, we examined the Department's progress in developing and implementing the Resource Estimation and Allocation Process (REAP) using the NAPA developed methodology. We found that the project did not appear to be a high priority at the time and it was proceeding slowly. However, HUD's current Administration has recognized the need to rationalize the allocation of staff as a management challenge. They are reviewing the staffing assigned to core programs to assure they get proper attention. The Department plans to look at resources using the REAP process later this year.

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

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of single family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

A comprehensive audit of FHA loan origination practices last year found significant problems with FHA's reviews of lender underwriting and property appraisals. Also, the monitoring of lenders by the Quality Assurance Division was deficient. We noted problems with the oversight of pre-endorsement contractors, and the accuracy of information in the automated tracking system. These weaknesses increase HUD's risk of losses and can result in inflated appraisals, fraudulent underwriting, property flipping and other lending abuses. HUD's procedures for monitoring both lenders and contractors were less than effective, resulting in an increased risk of fraud, waste and abuse.

More recently, we looked at the participation of not-for-profits in HUD Single Family Programs and found that the Department was receiving little or no benefit from discounted sales of REO properties to not-for-profits. In many cases, not-for-profits were fronts for profit-motivated entities, or were unduly influenced by real estate agents, consultants, investors, contractors, and lenders that stood to profit from the discounted transaction. Discounted sales should have reduced the ultimate costs to low- and moderate-income homebuyers.

The audit of FHA's FY 2000 financial statements includes a reportable condition on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. As of September 30, 2000, FHA had not yet fully implemented certain initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

FHA contracted for the management and marketing (M&M) of its single family properties in March of 1999. Seven companies received awards for the 16 M&M contracts to manage HUD's single family property inventory. The objective of the contracts was to reduce the inventory in a manner that: "(1) expands home ownership, (2) strengthens neighborhoods and communities, and (3) ensures a maximum return to the mortgage insurance fund." FHA has realized some success from outsourcing. Sales volume increased and property inventories decreased. Also, contractors implemented new marketing tools such as bidding through the Internet. Sales of properties in FY 2000 exceeded $5 billion.

During this semiannual reporting period, we looked at the management of the REO program by the Philadelphia HOC. We found that the HOC needed to strengthen its M&M contractor monitoring and follow-up procedures. Performance deficiencies were not being corrected and HUD property conditions declined, resulting in decreased marketability. We also identified weak M&M voucher payment controls and identified $937,000 of potential duplicate payments. HOC staffs were ill equipped to manage the voluminous amount of paperwork associated with M&M contractors.

Public and Assisted Housing Program Administration

HUD relies on intermediaries to make rental subsidy calculations for the billions of dollars in subsidy payments made each year. Because of insufficient on-site monitoring of intermediaries and the absence of an ongoing quality control program to periodically assess the accuracy of rent determinations, we consider this a significant internal control risk. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. A recent study of rent determinations under housing assistance programs estimates that errors made by intermediaries result in substantial subsidy overpayments and underpayments. Using a statistical sample of tenant files, tenant interviews, and income verification data, the study concluded that:

- Thirty-six percent of all households paid at least $5 less rent a month than they should have (with an average error of $105).

- Forty percent of all households paid the correct amount of monthly rent within $5 (29 percent paid exactly the right amount).

- Twenty-four percent of all households paid at least $5 more rent per month than they should have (with an average error of $56).

The study projected subsidy overpayments of about $1.7 billion annually and underpayments of about $0.6 billion. Payment errors of this magnitude take on added significance in light of HUD's estimate of 4.9 million unassisted households. These households pay more than half of their income for housing or live in severely substandard housing. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration. A task force is currently preparing a comprehensive plan for achieving these results.

In addition to problems with subsidy overpayments, HUD continues to experience problems in accounting, budgeting, and overseeing its Section 8 portfolio. HUD's inability to ensure that public housing and rent subsidies are based on correct tenant income has been reported as a material weakness in our financial audit for the past 9 years. Also, General Accounting Office and OIG reviews of HUD operations, such as the Troubled Agency Recovery Centers and the Real Estate Assessment Center, that were intended to oversee public housing authority activities, continue to disclose problems the Department is working to address.

Chapter 2

Housing Fraud Initiative

Housing Fraud Initiative

The Housing Fraud Initiative (HFI) is a proactive law enforcement effort using a unified approach to the detection and prosecution of fraud in HUD programs. The concept combines OIG audit and investigative resources together with FBI Agents and Assistant United States Attorneys for the purpose of rooting out corruption and fraud in all HUD funded activities within targeted Federal Judicial Districts. HFI arose out of concern by Members of the House Appropriations Subcommittee on VA, HUD, and Independent Agencies that HUD funds may not be reaching those needing federal assistance due to pervasive fraud.

In October 1998, the following Federal Judicial Districts were designated as HFI sites: (1) the Eastern District of New York; (2) the District of Maryland; (3) the District of Columbia; (4) the Northern District of Illinois; (5) the Central District of California; and (6) the Northern District of Texas.

Efforts during this reporting period resulted in a number of significant indictments and convictions. Fraud in single family loan origination continues to be the most pervasive problem uncovered by HFI investigations. The following are examples of recent HFI results.

Central District of California

Gabriel Pugliese, Noemi Pugliese, Monica D'Angelo, and Norma Simental pled guilty in federal district court to two counts each of conspiracy, mail fraud, and/or submitting false statements to HUD. A multi-year investigation by OIG and the FBI resulted in the charging of 20 individuals for their involvement in a single family loan origination fraud scheme based on documents fabricated by the Puglieses and D'Angelo, the owners and operators of April 8 Realty in **La Puente**. Simental, a loan officer with California First Funding, obtained forged employment and income documents from April 8 Realty and then caused the false documents to be submitted to HUD. The loans based on false information from the Puglieses and D'Angelo have a total value of approximately $160 million, and those identifiable with Simental total approximately $3.1 million.

April 8 Realty was a storefront business that made and sold thousands of fraudulent loan documents to real estate professionals in order to make ineligible borrowers appear qualified for FHA insured home loans. The investigation included an undercover sting operation in which real estate agents and investors were videotaped purchasing the fake documents. These documents included W-2 forms, pay statements, bank statements, and letters of credit which were used to secure over 1,200 federally insured loans. In addition, April 8 Realty routinely provided false employment verifications for loan applicants using fake companies and a network of individuals throughout the Los Angeles area. Active loans with an approximate value of $120 million contain fake documents generated by April 8 principals. To date, the loss to the government resulting from the fraud is approximately $11 million, with an additional $15 to $20 million of government insured loans in default. Seventeen of the individuals charged in this case have pled guilty.

The following 13 individuals also pled guilty in this case to various charges for attempting to make unqualified persons appear eligible for FHA insured mortgages. All 13 individuals knowingly obtained forged employment and income documents, and caused them to be submitted to HUD.

Cesar Villapudua, a former loan officer at American Charter Mortgage in **Los Angeles**, pled guilty in federal district court to one count of fraud against HUD. Adela Jaimes, owner and operator of California First Funding, and Anthony Quintero, a real estate agent with City Mortgage, pled guilty in federal district court to two counts each of making false statements to HUD.

Rose Pinkus and Rogelio Gonzalez, Sr., each pled guilty in federal district court to two counts of making false statements to HUD. Pinkus was a real estate broker with Re-Max Tri-City in **Pasadena**, and Gonzalez was a real estate agent with Dynamic Brokers in **Montebello.**

Jason Moreno and Juan Sandoval pled guilty in federal district court to two counts each of fraud against HUD. They were in the business of purchasing and reselling properties.

Xavier Lujan pled guilty in federal district court to two felony counts of conspiracy and making false statements to HUD. Lujan was a loan officer with Mortgage America in **Grand Terrace**.

Molly Villa, Salvador Alvarez, and Andrew Lujan pled guilty in federal district court to two counts each of fraud against HUD. All three were real estate professionals.

Emma Barrientes, a loan officer at Trimex Mortgage Corporation in **Los Angeles**, pled guilty to two counts of fraud against HUD.

Domingo Salazar pled guilty to two counts of fraud against HUD. Salazar was a real estate professional employed at Dynamic Mortgage in **Los Angeles**.

Also in this case, a loan officer at California First Funding located in **Riverside** was charged with participating in a single family loan origination fraud scheme. The loan officer allegedly obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. She then submitted the false documents in conjunction with at least 22 FHA insured loans with a total value of $3,195,359. The resulting loss to HUD exceeds $161,000. The loan officer was part of the investigation of April 8 Realty.

Following a 4-day jury trial, Mario Gonzalez, a mortgage broker and co-owner of Pacific Investment Capital in **Los Angeles**, was found guilty in federal district court of one count of conspiracy, five counts of mail fraud, and one count of money laundering. Rene Fagundo, a co-conspirator, pled guilty to two counts of mail fraud. The two were involved in a Title I and Title II loan origination fraud scheme that included $14,000,000 in FHA insured loans and over 46 properties for which HUD has paid $5,000,000 in claims. Their scheme entailed creating false verifications of employment, W-2's, and pay stubs, and using strawbuyers to obtain both the primary mortgage loans and the Title I home improvement loans. This case was initiated and conducted by the OIG with the assistance of the FBI.

In **Los Angeles**, Elizabeth Patricia Estrada was sentenced to 10 months in prison and 3 years probation, and ordered to pay $1.27 million in restitution and a $100 special assessment fee for her role in a scheme to defraud FHA. Estrada was a former loan processor for Friendly Hills Mortgage. She included false documents such as pay stubs, W-2's, and letters of credit in FHA loan applications to qualify ineligible borrowers for FHA insured single family mortgages. This was a joint investigation by OIG and the FBI.

Real estate agent/mortgage investor Benjamin Hernandez was sentenced to 8 months incarceration and 3 years supervised release, and was ordered to pay $253,739 in restitution to HUD. Ostes Hernandez, a real estate investor, was sentenced to 5 months at a halfway house, 5 months house arrest, and 3 years supervised release, and ordered to pay $576,053 in restitution and a $400 special assessment fee. From 1994 to January 1997, Benjamin and Ostes Hernandez participated in a scheme at Bankers First Realty in **South Gate** to defraud commercial lending institutions and HUD. Their real estate property flipping scheme involved the submission of false and fraudulent proofs of employment, pay stubs, credit letters, and bank cashiers' checks in support of FHA insured mortgages. The two caused forged documents to be placed in FHA loan applications to create the appearance that the borrowers qualified for the loans. They also provided the down payment money necessary to purchase the properties while concealing the actual source of funds as a gift. All of the properties went into foreclosure and were subsequently resold by HUD. Benjamin and Ostes Hernandez originated in excess of $1,000,000 in fraudulent loans. This investigation was conducted by the OIG.

Shirley Ann Jackson pled guilty in federal district court in **Los Angeles** to three counts of conspiracy, wire fraud, and identity fraud, and Calethia Bridgett McNair pled guilty to one count of conspiracy. The two conspired with and assisted at least five other co-conspirators to recruit "purchasers" for the fraudulent acquisition of single family properties at prices considerably above their fair market values. The properties, which had FHA insured mortgages, were valued at more than $1,000,000. This was a joint investigation by OIG and the FBI.

Following an investigation by the FBI and OIG, Lita Hernandez was sentenced for her involvement in a single family loan origination fraud scheme. She was sentenced to 1 year in prison and 3 years supervised release, and was ordered to pay $951,553 in restitution and a $200 special assessment fee. In December 1999, Hernandez pled guilty to two counts of conspiracy and submitting false statements about strawbuyers in order to obtain FHA insured mortgages.

As a result of the same investigation, Ismael Diaz, owner of D&D Funding, a **Los Angeles** area mortgage company, was charged by the U.S. Attorney with three counts of making and causing false statements to HUD in conjunction with the submission of applications for federally insured single family residential mortgages. On the same date, Diaz entered a guilty plea in federal district court admitting his involvement in a single family loan origination fraud scheme.

Following a joint FBI/OIG investigation, real estate investor Clifton Anderson Hinds pled guilty to 21 counts of mail fraud and false statements. Hinds owned and operated companies known as United Funding Group, H&H Investments, and Noetic Investments through which he recruited potential strawbuyers to help him obtain FHA insured mortgage loans and invest in properties. Through his companies, Hinds purchased distressed properties in the **Los Angeles** area and arranged for fictitious sales of the properties to the strawbuyers at inflated prices. He then used the information obtained from the strawbuyers to prepare loan applications, real estate purchase contracts, deeds of trust, and other loan documents to obtain mortgages in their names. Hinds used profits from the proceeds of the fraudulent real estate transactions to continue the scheme. He and his companies caused at least $10 million of loans to go into default at a loss to the government of between $600,000 and $1 million.

In the same case, Darryl Aaron Woods was sentenced to 34 months incarceration and 3 years probation, and was ordered to pay $187,754 in restitution and a $300 special assessment following his conviction on 2 counts of mail fraud and 1 count of aiding and abetting. Woods owned and operated real estate investment companies known as Westchester Investments and White Sands Incorporated through which he, like Hinds, directed a scheme to defraud commercial lending institutions and FHA. He purchased distressed properties using the identities and personal information of others to prepare loan applications, real estate purchase contracts, deeds of trust, and other documents. The lending institutions relied on the false information to extend loans that were subsequently insured by FHA. The profits from the proceeds of the fraudulent real estate transactions allowed the scheme to continue and flourish.

Palemon Sanchez, a real estate investor in **Los Angeles**, pled guilty to nine counts of conspiracy, wire fraud, false statements, and aiding and abetting in conjunction with a scheme involving the purchase and resale of single family properties with FHA insured mortgages. Salvador Silva also pled guilty to one count each of conspiracy and mail fraud. Silva was a real estate salesperson who conspired with Sanchez and others. Sanchez, Silva, and others purchased properties in their own names or in the names of friends or relatives, and then assisted buyers in obtaining FHA insured mortgages. When potential buyers could not qualify for the mortgages, the co-conspirators assisted them by finding strawbuyers to serve as co-signers for the loans. Sanchez, Silva, and others also caused fraudulent mortgage applications to be submitted; these applications included false employment documents, credit references, and letters concerning the purported relationships of the strawbuyers and the property buyers. The scheme encompassed 130 FHA loans with a loss to the government of $6.1 million. Silva is currently incarcerated, pending his sentencing in November 2001. The investigation was conducted jointly by the FBI and OIG.

Alfonso Cervantes pled guilty to multiple counts of conspiracy, mail fraud, false statements, money laundering, and tax evasion, while Lillian Figueroa and Terry Flores pled guilty to multiple counts relating to a scheme to defraud HUD's Single Family Insurance Program. Flores was subsequently sentenced to 3 years probation. In addition, Cesar Borego pled guilty to 1 count of mail fraud and was sentenced to 3 years probation, fined $100, and ordered to pay $104,107 in restitution, while notary public Xochitl Rivas was sentenced to 3 years probation, fined $200, and ordered to pay $170,969 in restitution. Rivas pled guilty in July 2001 to one count of mail fraud.

From 1997 through 1999, Cervantes and his co-conspirators used companies, including HQ Investments, AC Investments, A-Investments, First Home Realty, Top Realty, and A&B Property Management, to perpetrate a fraud scheme directed at commercial lending institutions and FHA. The defendants purchased distressed properties in the **Los Angeles** area and arranged for sales of those properties to strawbuyers at inflated prices ranging from $125,500 to $310,000. They recruited strawbuyers whom they paid for the use of their identities, which were then altered to reflect fictitious ages. Cervantes notarized false documents, paid document vendors to create or obtain false W-2 forms and pay stubs in the names of the strawbuyers, and submitted fraudulent applications and documents to lending institutions. Rivas also fraudulently notarized documents certifying that the strawbuyers signed documents in her presence when, in fact, they did not. The defendants then directed third parties to purchase cashiers' checks for use as down payments on behalf of the strawbuyers, and then represented that the strawbuyers or their relatives were the sources of the funds. In order to promote and continue the scheme, Cervantes, Figueroa, and Flores used the proceeds from the individual property sales to fund subsequent property flips to additional fictitious strawbuyers. The scheme caused at least $7 million in FHA insured single family loans to go into default at a loss to HUD of between $3.5 and $5 million. This was a joint FBI/OIG investigation.

Daniel Robert Perez pled no contest to one felony count of grand theft in superior court of the County of **Los Angeles**. Perez was ordered to pay $1,500 in restitution to the victim in this scam involving a single family residence assigned to HUD's inventory. Perez gained access to the property, placed a rental ad in a local newspaper, and accepted a monetary payment per a fraudulent rental agreement with the victim. The victim became aware of the fraudulent scheme prior to inhabiting the residence. This was a joint investigation by the Los Angeles County Sheriff's Department and OIG.

The manager and two individuals who had been on the payroll of the American Development Company (ADC) were indicted by a federal grand jury on August 23. The indictment was unsealed on September 10, following the arrests of the ADC manager in Las Vegas, NV, and his brother, one of the ADC "employees," in Twenty-Nine Palms, CA. The three individuals were charged with mail fraud, conspiracy, theft of funds from a government program, and aiding and abetting. The investigation, conducted jointly by OIG and the FBI, disclosed that the 3 individuals allegedly engaged in a scheme to improperly divert nearly $1 million from approximately 10 multifamily housing complexes in the greater **Los Angeles** area that were insured and/or subsidized by HUD. They did so by charging the projects for construction and/or security work that was either not performed or was performed at sites other than the HUD developments.

A 1999 vehicle belonging to the owners of a real estate company recently indicted was civilly seized. The vehicle, valued at $20,000 and registered to Continental Investments in **San Bernardino**, was seized based on a seizure warrant from a federal magistrate in the Central District of California. The president and vice president of Continental Investments were previously indicted on charges of false statements, wire fraud, and money laundering in an alleged scheme to defraud FHA. This investigation was conducted by OIG and the FBI.

District of Columbia

Lawrence Walker, a former District of Columbia Metropolitan Police Department vice detective, was sentenced to 6 months electronic monitoring and 5 years supervised probation, and was ordered to pay $25,000 in restitution to HUD and a $100 special assessment fee. Walker pled guilty in September 2000 to making a false statement. In 1997, he purchased a property under the Officer Next Door Program but never moved into the property. This was an OIG investigation.

Northern District of Illinois

As a result of their involvement in a 20-person property flipping scheme in **Chicago**, 1 person was sentenced, 16 pled guilty, and 2 were convicted following an investigation by OIG and the FBI.

Brian Parr, also known as Ahmad Martins, was sentenced in federal district court to 40 months incarceration and 3 years supervised release, and was ordered to pay $4.5 million in restitution to HUD and various private lending institutions. Parr's incarceration will be served concurrently with his sentence for similar crimes that he committed in Minnesota. Parr served as the flipper, or the individual who bought and sold properties on the same day with no money ever changing hands. In turn, he collected in excess of $1 million in proceeds that he either used personally or to pay off other individuals in the scheme. Parr also paid off appraisers for submitting fraudulent appraisals, typically $1,000 per appraisal.

Tamira Smyth, also known as Tamira Russo, a loan officer, pled guilty to mail fraud. Smyth admitted to her participation in a scheme involving 69 fraudulent FHA insured loans which resulted in a $5.8 million net loss to HUD and conventional lenders. Her involvement, along with Brian Parr, included direct knowledge of fraudulent appraisals; originating loans or assisting buyers in qualifying with no money down; knowledge of false financial information on loan applications; and, after closing, paying off other co-defendants whom she recruited as strawbuyers. Individually, Smyth also admitted purchasing a false identity through the Illinois Secretary of State and assisting others in this practice in order to qualify for loans.

Curtis Jackson, a mortgagor/recruiter, pled guilty to wire fraud. The loss attributed to him for his part in the scheme is estimated at $231,000. Loan officer Nancy Zimmerman pled guilty to mail fraud; the loss attributed to Zimmerman's actions is $664,000. Brenda Wince, a mortgagor, pled guilty to wire fraud; the loss to HUD is $269,000. Broker Edward Scott Ellis pled guilty to submitting false statements to HUD; the loss attributed to Ellis is $158,000.

Allison McGowan, Marlon Jackson, and Darryl Lattimore, real estate agents, Melva Crittenden-Wynn, an appraiser, Keith Sloan and Sandra Lesniewski, paralegals, Nicole Williams, a loan processor, and Jerry Williams, Andre Somerset, Albert Gray, and Valarae Washington, all mortgagors, also pled guilty to their involvement in the scheme.

Robert Voltl, an attorney, and Reginald Owens, an appraiser, were found guilty on all counts of wire fraud and mail fraud following a 2-week trial. Voltl falsified "commitment" documents to indicate the first sale of a flip transaction had taken place and to falsify buyers' down payments. Owens falsified a series of appraisals on the second sale of the flip transaction.

In **Chicago**, a former loan officer, who is under investigation for FHA loan fraud, was indicted along with two other individuals on state charges for trying to sell a property to which they did not have title. The loan officer, who was acting as the attorney, and the other defendants, who were acting as the seller's representative and as the strawbuyer, allegedly attempted to sell a property, which was free and clear of a mortgage, in order to make a profit of $533,000 in cash. The actual owner of the property was unaware of the attempted transaction. In total, the defendants were each charged with one count of aggravated financial identity theft and eight counts of forgery. Two of the defendants were also charged with an additional count of possessing and displaying a fraudulent driver's license. This investigation was conducted by OIG and the Chicago Police Department.

In 1995, Frank Clay was found guilty of HUD fraud and mail fraud and was sentenced in **Chicago** to 4 years incarceration plus probation. On May 16, 2001, Clay had his probation revoked and was sentenced to an additional 18 months incarceration. The revocation was handed down after a follow-up investigation by OIG and the Postal Inspection Service revealed the following violations: engaging in new criminal conduct; failing to disclose his prior convictions to employers and clients; opening new lines of credit without prior approval from his probation officer; and failing numerous drug tests. Clay allegedly reached out to distressed homeowners with either FHA or conventionally insured loans and illegally charged them $1,500 for his assistance in filing bankruptcy. In other cases, he allegedly had homeowners sign quit claim deeds, thus transferring the interest and equity in their properties over to Clay. Lastly, Clay allegedly provided false information on his own personal bankruptcy.

Mortgagor Eric Duncan, who was previously indicted and pled guilty, was sentenced to 18 months in prison and 5 years supervised release, and ordered to pay $36,077 in restitution. Duncan, along with his wife, was involved in a counterfeiting/phony identification scheme in **Chicago** which allowed him to cash fraudulent checks and obtain false identification in order to obtain credit cards and an FHA insured loan. The investigation was conducted by OIG and the Secret Service.

Following the December 2000 indictment of 11 individuals for their part in a tenant/landlord integrity investigation, 4 people pled guilty and were sentenced in **DuPage County**. Joyce Reeves was sentenced to 24 months probation, restitution of $5,875, and 180 hours of community service, while Tasha Hamblin was sentenced to 24 months probation, restitution of $26,746, and 120 hours of community service. Jeannie Benson pled guilty and was sentenced to 2 years probation and 100 hours of community service, and ordered to pay $19,935 in restitution to the DuPage County Housing Authority. Benson sub-leased her Section 8 unit to a family member so she could live in a different complex. Margo Benson pled guilty and was sentenced to 3 months incarceration and 2 years probation, and was ordered to pay $7,587 in restitution to the DuPage County Housing Authority. Benson failed to report both her and her husband's income to the Authority. Her sentencing brings the total restitution in this case to $87,000. Cases are still pending for five defendants. This investigation was conducted by OIG and the DuPage County State Attorney's Office.

In **Chicago**, Wilma Corks and Eugene Hardney pled guilty following their April 2001 indictment which alleged that they stole an identity, falsified employment and bank deposit information, and provided a counterfeit cashier's check in the amount of $25,425 at a closing. The two stole the identity and Social Security number of one of the individual's mothers, who was in a nursing home, in order to clean up their credit. In addition, they provided false employment and fraudulent bank account information, along with the counterfeit check, at closing on their purchase of an FHA insured home. Sentencing is scheduled for November 2001. This was an OIG/Secret Service investigation.

Seven individuals were charged in a 27-count indictment alleging that they participated in a scheme to obtain short-term rehabilitation balloon mortgages for properties in disrepair on **Chicago's** south side and refinance them with HUD Section 203(k) Rehabilitation Home Mortgage Insurance Program mortgages. The 203(k) mortgages allegedly contained fraudulent information, including the source of the buyers' down payments. In addition, investors were allegedly enticed into purchasing these 203(k) properties through the promise of receiving a cash payment from one of the persons indicted after the closings. Following the closings, false certifications and fraudulent lien waivers were then allegedly provided to obtain escrow checks for work on the properties that was never completed. The total exposure to HUD on the 50-60 203(k) loans was in excess of $5 million. This investigation was conducted by the FBI, OIG, and IRS Criminal Investigation Division.

The president of a real estate corporation in **Chicago** and 6 real estate agents from the same company were charged in a 14-count indictment with 1 or more counts each of mail fraud, submitting false statements to HUD, and misdemeanor false statements to HUD. The president and the employees allegedly purchased run down properties, completed partial rehabilitation, and then sold the properties to unqualified buyers by providing their down payments through a fraudulent gift letter scheme, making it appear that the buyers received the down payment funds from relatives. The scheme purportedly took place between 1990 and 1998 and encompassed 30 properties with $3.2 million in FHA insured mortgages. Total losses to HUD may exceed $600,000. OIG and the FBI conducted this investigation.

FBI and OIG Agents seized a vehicle and bank accounts worth in excess of $100,000 from a real estate investor simultaneous to the search of her **Chicago** residence. Subsequently, $107,000 was officially forfeited to the Department of Justice. In addition, $47,000 was officially forfeited from the investor following the sale of her property. Liens were also filed by the U.S. Attorney's Office on real estate owned by the investor to protect approximately $400,000 in equity in the properties. All of this property was allegedly obtained in a scheme during which the investor, doing business as Share Development, acquired approximately 100 homes in need of rehabilitation in 1996 and 1997. Some of the properties were allegedly acquired in violation of Departmental rules from a HUD approved nonprofit known as the Northeast Austin Organization (NAO), after NAO purchased the properties at a 30 percent discount under HUD's Direct Sales Program. Other properties were acquired from non-HUD sources. The investor then allegedly falsely sold these homes to buyers through the use of false employment information and fraudulent second mortgage "take backs." Following the closings on these properties, most of the loans went into default or had their foreclosure sales put on hold with what appear to be fraudulent bankruptcy filings.

Renee Pierce, Section 8 tenant and FHA insured single family mortgagor in **Zion**, pled guilty to one count of lying to HUD. Pierce admitted to illegally accepting Section 8 rental benefits for approximately 2 years when she in fact had purchased an FHA insured property and had occupied the single family residence during the same period. This was a joint OIG/FBI investigation.

Four tenants were each indicted on one count of state benefits fraud and one count of forgery for their statements made on Section 8 recertification forms in **Cook County**. The allegations against the four individuals include using a fictitious name and Social Security number to collect assistance under a different identity, using a fraudulent name and Social Security number to purchase a single family house while residing in Section 8 housing, recertifying in two Section 8 units simultaneously, and allowing Section 8 assistance to be paid on behalf of a unit that the individual had not occupied in over 5 years. This was an OIG investigation.

As a follow-up to the four indictments, a fifth individual, a Section 8 landlord, was indicted in **Chicago** on one felony count of state benefits fraud. The landlord allegedly rented to a market rate tenant while simultaneously collecting Section 8 benefits on behalf of his mother, who either lived with him or at another one of his rental properties instead of in the Section 8 residence. This was an OIG investigation.

In **Chicago**, a loan officer and his wife, a closing agent, were indicted on two counts of mail fraud and one count of wire fraud. The two allegedly applied for a refinance loan for a home they never actually owned. Specifically, they allegedly falsified deeds and verifications of income and employment in order to refinance a property to which they did not have title. This was an OIG/FBI investigation.

District of Maryland

In **Baltimore**, the U.S. Attorney's Office announced the unsealing of charges against 16 defendants for participating in a scheme to furnish false income, credit, and source of funds information to enable individuals to obtain at least 58 FHA insured mortgages for which they were not qualified. To date, 48 of the mortgages have gone into foreclosure, resulting in payments of $3.9 million in claims on the FHA insurance fund. One additional defendant was charged the following day.

The main player in the scheme is a local real estate agent/property speculator who allegedly obtained over $1.4 million in profits from homes that he either purchased or listed for sale and then sold to unqualified buyers or to strawbuyers, who were posing as mortgagors for investment properties that the agent/speculator would continue to manage and control after the sales.

As a result of these indictments, six strawpurchasers pled guilty in federal court. Defendant Mary Ann Kintop admitted purchasing 15 homes by using 8 different identities, including 2 of her minor children. Defendants Donna Hart, Chester Johnson, and Sandra Johnson each admitted purchasing three homes under false pretenses, and defendants Sharon Sirbaugh and Robert Eshelman admitted purchasing two homes each. The broker would furnish these individuals with false documents concerning employment and assets available to close, and in several cases paid them between $500 and $700 for the use of the false identities.

OIG Agents and U.S. Postal Inspectors also arrested a Baltimore City man for his involvement with the agent/speculator. The defendant had eluded arrest since being charged in federal court, along with the 15 others involved in the scheme.

This investigation was conducted by the OIG and the Postal Inspection Service with assistance from the Quality Assurance Division of the HUD Homeownership Center.

Andrew Michael Bogdan, a property speculator and Section 8 landlord, pled guilty in federal court to conspiracy to commit wire fraud and to make false statements in connection with a property flipping and mortgage fraud scheme that began in 1997 and centered on the Patterson Park area of **Baltimore City**. Bogdan sold properties to buyers at inflated prices with the aid of falsified documents and inflated appraisals. He also bought about 68 rental properties in his name and additional houses in his name and the names of others, and used falsified documents to obtain loans that exceeded the prices he paid for the houses. The loss to the government is over $1.6 million. The Assistant U.S. Attorney advised that she will be asking for additional prison time based on the harm done to the Baltimore community by Bogdan. This was an OIG/FBI investigation.

Mortgage broker Carl Schulz, a key figure in a multiple defendant property flipping scheme, was sentenced in federal court to 33 months incarceration and 5 years probation, and ordered to pay $1.5 million in restitution to mortgage lenders and investors who were defrauded through the resale of houses with falsely inflated mortgages. Marcia McNeil, a title company owner and a former employee of Schulz, was sentenced to 33 months in prison and ordered to pay $288,000 in restitution for her role in the scheme. Schulz and McNeil bought about 61 houses in low-income areas of **Baltimore** and flipped them at greatly inflated values to investors/purchasers for use as rental properties. They recruited investors to buy packages of houses at much higher prices, promising to sell the properties for little or no down payment and also paying the buyers' settlement expenses. Fraudulent documents, including appraisals, were given to the lenders in order to secure the mortgage loans. This was a joint OIG/FBI investigation.

Kwabena Manful, a property speculator and flipper in **Greenbelt**, was sentenced to 8 months incarceration and 1 year probation, and ordered to pay $18,000 in restitution for his role in submitting false statements in connection with FHA insured mortgages. From March 1998 through early 2000, Manful purchased and resold 14 properties to individuals who obtained FHA insured loans with his assistance. Manful purchased the properties, made minor improvements, and then sold the properties within a short time to third parties at a profit. Manful assisted third-party buyers by creating false documents to support the loans. With the assistance of others, he created false loan documentation, including verifications of employment, W-2's, and pay stubs, which were submitted to mortgage lenders in support of the loans. He also created false gift letters, purporting to show a sum of money designated as gifts to the buyers from relatives, when in fact the money was supplied by Manful. Loss to the government as a result of this fraud was approximately $250,000.

In the same case, speculator Richard Boetang pled guilty in federal court to making false statements in connection with approximately 17 property transactions involving FHA insured mortgages. Boetang admitted that he created or helped to create false employment information and gift letters on behalf of numerous mortgagors to qualify them for FHA mortgages to purchase homes in which Boetang had an interest. The loss to the FHA insurance fund from foreclosures on these mortgages is approximately $1.5 million. This was a joint investigation by OIG and the FBI.

In **Greenbelt**, David D. Nuyen, the owner of 15 rental properties in the District of Columbia and Maryland, pled guilty to 1 count of obstruction of justice and 4 counts of submitting false documents to HUD in order to conceal his failure to notify tenants of the presence and hazards associated with lead-based paint. This was the first criminal prosecution in the nation relating to lead hazard warnings required under the Lead Hazard Reduction Act of 1992. Nuyen sought to obstruct HUD's investigation and to conceal his failure to properly notify tenants of the presence of any lead-based paint hazards by giving HUD lead paint disclosure forms for his tenants that were false and misleading. Nuyen directed resident building managers to have tenants sign and backdate the lead disclosure forms. He also backdated his own signature and tenants' signatures representing that all available lead paint information had been provided to the tenants. Nuyen presented lead hazard notification forms to HUD representing that he had notified tenants that he had no specific information regarding certain apartments, when he had actually been issued housing deficiency notices. As part of his plea agreement, Nuyen also pled guilty to one count of violating the Toxic Substance Control Act. He failed to provide the required lead hazard pamphlet and lead paint disclosure form even after learning of and obstructing HUD's investigation. Sentencing has been scheduled for November 2001. This investigation was conducted by the OIG, FBI, and EPA Criminal Investigations Division.

In a related case, on the same day Nuyen, as a real estate broker and mortgage lender, pled guilty to one count of submitting false documents to HUD in order to conceal the fact that he was under investigation. Nuyen was charged with making materially false statements to HUD as part of his effort to become a loan originator. He knew and deliberately failed to disclose material information on his application that HUD was conducting an investigation regarding his compliance with the Lead Hazard Reduction Act and that the Department of Justice planned to file a civil lawsuit against him. This was an OIG/FBI investigation.

In **Greenbelt**, Jean Alond Jean-Pierre and his wife, Norma Diaz, were sentenced for their role in using HUD real estate owned (REO) properties in order to defraud mortgage lenders. Jean-Pierre was sentenced to 27 months incarceration and 3 years probation, and ordered to pay $449,838 in restitution. Diaz was sentenced to 6 months home detention to be followed by 5 years probation. A joint investigation by OIG and the FBI found that Jean-Pierre and Diaz purchased nine REO properties, and then falsified documents related to the purchase of the properties. Most of these documents were appraisals and deeds. The two used the false documentation to fraudulently secure residential mortgage refinance loans totaling $700,000. The loans are currently in default.

In **Greenbelt**, Daren Ware was sentenced in federal court to 8 months in prison and 3 years supervised probation for his involvement in a mortgage fraud scheme that resulted in a $140,000 loss to HUD. Ware and his wife falsified documents to obtain a $130,000 FHA insured loan to purchase a home. The home was purchased in the name of their 13-year-old son. Ware and his wife falsified documents to portray their son as the wife's 24-year-old brother. The fictitious documents included a power of attorney that authorized them to purchase the home on the "brother's" behalf while he was allegedly conducting business out of the country. The home subsequently went into foreclosure and HUD had to pay the insurance claim. This investigation was conducted by OIG, the Postal Inspection Service, and the FBI.

A real estate agent in **Greenbelt** was charged in federal court with making false statements in connection with the sale of her personal residence to a strawbuyer. An investigation by OIG and the Postal Inspection Service disclosed that the defendant's mortgage was going into foreclosure, so she solicited a strawbuyer and created false income statements and gift letters which enabled the strawbuyer to qualify for an FHA mortgage. Loss to the FHA insurance fund on the mortgage that subsequently defaulted is $138,000.

Walter Duersch, a man described as one of the early property flippers in **Baltimore**, was sentenced to 3 years probation due to poor health. Duersch admitted from his wheelchair that through corporations and aided by appraisers, settlement attorneys, and mortgage brokers, he bought low-cost houses, made modest cosmetic repairs, and then sold the homes for contract prices that were substantially in excess of the actual value. On some occasions, the prices for which Duersch sold the homes were as much as two to three times the true value of the properties. Duersch also admitted that he used falsified documents and inflated appraisals, often flipping houses to buyers with modest incomes and flawed credit who ended up defaulting on their loans. Duersch was a collaborator and partner with Robert Beeman, who flipped more than 100 Baltimore properties. Beeman pled guilty last year and is currently serving a 3-year sentence. This was a Postal Inspection Service investigation with assistance from the OIG.

Stacey Oneal Sims, a former Prince Georges County Police Officer, was sentenced to 5 years probation and ordered to pay $39,234 in restitution for making a false statement to HUD in connection with his participation in the Officer Next Door (OND) Program. This program encourages law enforcement officers to live in economically distressed communities. In January 1999, Sims purchased a **Forrestville** property for 50 percent of its value. The OND Program stipulates that the Police Officer must reside in the property for at least 3 years. However, Sims leased the property to a third party approximately 8 months after purchasing it. In December 1999, Sims returned a letter to HUD falsely certifying that he resided in the property when in fact he did not. Sims resigned from the Police Department following his indictment. This was an OIG investigation.

Contractor Raymond Koutz was sentenced to 1 year incarceration and 3 years probation, and ordered to pay $418,411 in restitution for his role in submitting false monthly operating reports with the United States Trustees Office for the District of Maryland. Koutz received payments from the Housing Authority of **Baltimore City** totaling over $400,000 for construction work. These funds were not deposited with the court but in a separate bank account which Koutz used for cash withdrawals and to pay his second mortgage. Koutz filed false operating reports declaring that the court account was his only bank account when in fact he had another open account. This was a joint OIG/FBI investigation.

Anthony Deal, a former tax return preparer and sales associate with Deal Real Estate, Inc., in **Baltimore**, pled guilty to eight counts of conspiracy to commit bank fraud and failure to file tax returns. Deal admitted that he failed to file his personal income tax returns for the years 1995 through 1997 and prepared false income tax returns for his clients for the years 1994 through 1998. He was also involved in about $5 million worth of sales of FHA insured properties, of which at least 36 transactions were supported by false W-2's, pay stubs, gift letters, and verifications of employment. By the time of Deal's November 2001 sentencing, it is estimated that the loss to the government from these transactions will exceed $1 million. This investigation was conducted by OIG and the IRS Criminal Investigation Division.

George A. Schiaffino and William Dennis White, both property speculators in **Baltimore**, pled guilty in federal court to submitting false statements. The two were involved in a scheme to obtain government insured mortgages for buyers of flipped houses. Schiaffino also pled guilty for Kayhouse Realty, Inc., a real estate company that he owns, which traded under the name of Century 21 Kayhouse Realty until its assets were sold last year. Schiaffino and White submitted false information including credit reports, rental history, pay stubs, gift letters, employment documentation, and W-2's to qualify otherwise unqualified individuals on at least 88 FHA transactions. The loss to the government is approximately $700,000. This was a joint OIG/FBI investigation.

College Park real estate agent Rose Wright pled guilty in federal court to two counts of making false statements, forging documents, and passing false documents in order to influence HUD. Wright, whose home was going into foreclosure, solicited a strawbuyer to purchase the home on her behalf and save it from foreclosure. She created false employment information, including W-2's, wage and tax statements, pay stubs, and gift letters, purporting that the homebuyer was employed and had received gift monies from relatives to purchase the home. The fraudulent documents were submitted to a lending institution in order to obtain a $138,855 FHA insured mortgage. Once again, Wright defaulted on the mortgage payments, and was in the process of soliciting another strawbuyer when OIG Agents discovered the scheme. The home subsequently went into foreclosure, resulting in a $144,000 insurance claim paid by HUD. OIG, the Postal Inspection Service, and the FBI conducted this investigation.

Scott B. Dower, a former vice president of Adler Services Group, pled guilty, and businessman Harvey Adler was convicted for their roles in submitting false and inflated bills to the Housing Authority of **Baltimore City** for maintenance and repair work on several public housing properties. Dower caused the company to submit invoices for repair and maintenance work on gas and oil fired furnaces that was never performed and inflated the cost of the parts. He also directed technicians to install parts that were not needed and to inflate the number of hours they worked by two or more times. Adler routinely overbilled for government contract work that his heating and air conditioning repair business performed at City housing properties. This was a joint investigation by OIG and the FBI.

Donald P. Harman, a property speculator in **Greenbelt** who provided homebuyers with fictitious documents to obtain approximately 20 FHA insured mortgages, pled guilty in federal court to conspiracy for his role in a property flipping and mortgage fraud scheme. Harman and two other individuals were previously indicted on nine counts of false statements relating to HUD loans and conspiracy. Harman was the owner and operator of Morningside Associates, Inc., and Kensington Associates, Inc., which purchased FHA distressed properties that were then sold at inflated prices. He provided buyers with fictitious W-2's, wage and tax statements, verification of employment forms, and gift funds. The loss to the government because of this fraudulent activity totaled $600,000. This investigation was conducted by the OIG, the FBI, and the Postal Inspection Service.

Ruby F. Frye, an employee of Special Properties Incorporated (SPI), pled guilty to one count of submitting false transactions to HUD. In November 1996, HUD entered into a Real Estate Asset Manager contract with SPI. SPI was responsible for maintaining HUD defaulted properties in **Montgomery County**, while Frye was responsible for preparing and submitting invoices to the HUD Office in Washington, D.C., for work performed by SPI's subcontractors on the HUD properties. Frye submitted the false invoices in order for SPI to obtain additional profits from the contract. The invoices included Frye's certification that work completed for all properties listed was done in a satisfactory manner and in accordance with the terms of the contract. The approximate loss to the government was $176,000. This investigation was conducted by the OIG District of Maryland and District of Columbia Housing Fraud Initiative Offices and the FBI.

Two officers at a local construction company were charged in federal court with bankruptcy fraud. A joint investigation by the OIG, FBI, and the U.S. Trustee's Office found that the officers allegedly filed false reports with the bankruptcy court in an attempt to conceal over $200,000 in revenues obtained through contract work with the Housing Authority of **Baltimore City**.

A property speculator, who started in the real estate business as a Section 8 landlord, was charged with mail fraud in connection with an alleged property flipping scheme that targeted investors and defrauded lenders. Over a 3-1/2 year period, the speculator, operating B&S Management Inc., allegedly conducted a scheme to buy low-cost properties in **Baltimore** and quickly sell them to investors. The contract sales prices were substantially in excess of the actual value of the properties, often two to three times their value. Buyers were told that they would have to put up little or no cash and would get cash back at settlement. The speculator used inflated appraisals and other false information to obtain mortgages for the buyers that exceeded the value of the houses. The mortgages were overvalued by $2.5 million. The loss to lenders is estimated at $5 million. This was a joint OIG/FBI investigation.

Two Section 8 recipients at the Housing Authority of **Baltimore City** (HABC) were arrested and charged in state court with theft by deception. Based on information initially provided by the HABC Police, an OIG investigation found that the defendants allegedly created fraudulent HABC Section 8 vouchers and related documentation through the use of copy machines and whiteout, and then sold the false documents to unsuspecting victims for between $500 and $750. The defendants allegedly represented to their victims that they were HABC employees who would expedite the processing of Section 8 applications for a fee. Many of the victims used the false documents to obtain rental housing from unsuspecting landlords, only to learn later that they were not qualified for assistance. It is estimated that the defendants obtained at least $16,000 through their scheme over an 18-month period.

In **Baltimore**, a $93,000 settlement agreement was reached in a civil suit involving a loan officer and a home seller for their role in providing fraudulent documents to qualify a homebuyer for an FHA insured mortgage. The home seller had one of his employees purchase his property for $135,900 with an FHA mortgage. An agreement was reached between the home seller and employee that the employee would provide inflated income information to qualify for the mortgage and the home seller would provide the employee with $10,000 for use as a down payment. No disclosures were made by the loan officer, the seller, or the employee about the inflated income or the $10,000. The mortgage went into default, resulting in the payment of a $150,846 claim. The property eventually sold for $97,600, resulting in a loss to HUD of $53,246. This was an OIG investigation.

Over the last several months, a proactive initiative by the OIG, local police, and officials of the **Baltimore County** Section 8 Office has resulted in the pending or actual eviction of over 70 subsidized tenant households who are violating pertinent leasehold, housing quality standards, and other provisions at the HUD assisted Kingsley Park Apartments. Kingsley Park is a 309-unit Section 8 project spread over a 3-block area that is notorious for violent crime and drug trafficking. Officers and Agents used surveillance, tenant interviews, surprise inspections, and reviews of police incident reports to develop evidence of illegal tenancies, improper disclosure of household income and family composition, tenancy by violent convicted felons, and related leasehold and housing quality standards violations. The operation found that a large percentage of the crime in or around

Kingsley Park was being committed by non-reported household members. The information was processed by the County Section 8 Office; eviction proceedings have begun where deemed appropriate.

Eastern District of New York

John Stolarenko, former president of Eastwood Mortgage Bankers in **East Meadow, NY**, was sentenced to 10 months incarceration and 3 years probation, and ordered to pay $1,000,000 in forfeiture and $5,968,283 in restitution to HUD. Stolarenko previously pled guilty to bank fraud for his involvement in a conspiracy to defraud two banks and HUD.

Stolarenko and his co-conspirators engaged in a property flipping scheme during which they purchased properties at distressed prices, flipped them to paid strawbuyers at highly inflated prices, and then collected the proceeds from the second sale. The majority of the flips happened on the same day the properties were initially purchased. Carlos Sanchez, a licensed mortgage broker and one of Stolarenko's co-conspirators, was responsible for the origination of at least 87 flipped fraudulent properties that were insured by FHA in 1995 and 1996. Of those, only one mortgage is current and only three mortgages have had their insurance terminated. To date, 3 loans are in default, 22 loans are in foreclosure, and 58 loans have already had claims paid by HUD totaling over $10.72 million. Of the 58 properties conveyed to HUD after claims were paid, HUD has resold 42 properties for a net loss of $4,383,844. Based on these numbers, we project an estimated net loss on all properties (excluding active and terminated loans) of over $8,536,424. Sanchez was sentenced in March 2001 to 46 months incarceration and 5 years probation. A money judgment for $700,000 was ordered as forfeiture and $4,234,655 was ordered as restitution. This was a joint OIG/FBI investigation.

Following a joint investigation by OIG and the New York City Department of Investigation, Rabbi Efroim Stein and Rabbi Jacob Bronner were sentenced pursuant to their February 2001 guilty plea to one count of conspiracy to defraud HUD. Both rabbis received 33 months incarceration and 2 years probation, and were ordered to pay a total of $325,000 in restitution, which was paid in full prior to their sentencing. The rabbis owned and operated a nonprofit company called Project Social Care in **New York, NY**. The company received a $2.5 million Special Purpose Grant in 1995 to create a counseling program "tailored to meet the needs of elderly Holocaust survivors," helping them "deal directly with the Holocaust experience." The pair paid monies to organizations and then had monies kicked back to themselves. In addition, the rabbis paid for nonexistent goods and services from companies that also kicked the money back to them.

The OIG, U.S. Attorney's Office, Eastern District of New York, and the Manhattan District Attorney's Office conducted a lengthy investigation of fraud associated with HUD'S Section 203(k) Rehabilitation Home Mortgage Insurance Program that involved lenders, attorneys, appraisers, loan officers, and numerous nonprofit organizations, primarily on **Long Island**. Several indictments, convictions, and sentencings have resulted from the investigation, including the following.

Walter Engelhardt, an air traffic controller with the Federal Aviation Administration, pled guilty in Supreme Court of the State of New York to criminal facilitation in the fourth degree. In addition to the state plea, Engelhardt paid

$27,000 to the U.S. Attorney's Office, Eastern District of New York, which was derived from proceeds traceable to loan and credit application fraud. In 1998, Engelhardt acted as the signatory on 35 Section 203(k) loans obtained by Family Preservation Center, a nonprofit organization. Engelhardt, who had no connection or affiliation with Family Preservation Center, received $27,000 for being the signatory on the loans.

The director of St. Stephens Baptist Church, based in Las Vegas, NV, surrendered to the OIG at U.S. District Court, Eastern District of New York. The director was charged with making false statements to HUD.

Long Island real estate investor John Fetkovich pled guilty to charges of conspiring to defraud HUD in connection with a $1.2 million Section 203(k) Rehabilitation Home Mortgage Insurance Program fraud scheme. Fetkovich used intermediaries to acquire and flip properties to his wife at falsely inflated prices. In addition, he falsified his wife's income and asset information, and provided 203(k) completion certifications to HUD for work that was not done. All 11 properties involved in the scheme have either been foreclosed or are currently in foreclosure. HUD losses are expected to exceed $1 million. This was an OIG investigation.

Nathaniel Ham, former commissioner and chairman of the **Huntington** Housing Authority, repaid the Authority's Mortgage BanKing Corporation $72,530. The funds were taken by Ham, with the assistance of another commissioner, as an alleged loan from the Mortgage BanKing Corporation, without Authority approval. The funds were then used to pay Ham's personal expenses, including real estate property taxes and college tuition for his son. This was a joint investigation by the OIG, U.S. Attorney's Office, and the New York State Attorney General's Office.

Following an investigation by OIG and the FBI into public corruption and fraud in the **Newburgh** Housing Authority, two former employees, two contractors, and the Authority's executive director were arrested in conjunction with charges filed in the Southern District of New York. Another former employee also named in the felony complaints surrendered to OIG and FBI Agents. The complaints alleged that the executive director engaged in a kickback scheme involving a contract, worth $7,100, for work to be performed at the Authority. The executive director allegedly received a $3,500 kickback on the contract. Other complaints filed with the Southern District alleged that two of the former Authority employees and one of the contractors also conspired and engaged in a scheme to defraud and embezzle government funds. Also filed in the Southern District was a complaint which alleged that the former assistant to the executive director conspired with a former landlord who participated in the Section 8 Program. The assistant, who at the time resided with the landlord, provided the landlord with Section 8 funds to which he was not entitled.

Northern District of Texas

Following an investigation by OIG and the FBI, Cathy Massingill, a former **Lancaster** Housing Authority employee, was sentenced to 6 months home confinement and 5 years supervised release, and ordered to pay $92,490 in restitution to HUD. In April 2001, Massingill and Sharon Morris, the former executive director of the Authority, each pled guilty to theft. From 1992 to 1999, Massingill and Morris stole over $300,000 in HUD Section 8 funds from the Authority. In order to conceal their scheme, they altered tenant income forms to lower tenants' reported income and show that their rents were 100 percent subsidized by the Authority; had these tenants pay rent to them and then paid the landlord with checks written from the HUD funded account; provided the tenants with rent receipts and threatened to evict tenants for non-payment; and split the tenant rents 50/50 after cashing tenant checks or depositing the checks in their personal bank accounts. The stolen money was spent on personal expenses, including numerous credit card balances.

Under the Officer Next Door Program (ONDP), HUD sells homes in designated revitalization areas to law enforcement Officers at a 50 percent discount. The Officers are required to reside in the home as their principal residence for 3 years from the date of closing in exchange for this discount. During this reporting period, two individuals were sentenced and one was indicted for violating the provisions of the program.

Jorge A. Ramirez, a former **Dallas** Area Rapid Transit Police Officer, was sentenced on one count of submitting false statements. Ramirez was ordered to serve 18 months in prison and to pay $45,016 in restitution. The sentencing was the result of a joint OIG/FBI investigation which disclosed that in March 2000, Ramirez purchased a property through the ONDP and instead of living in the property, rented the residence to relatives while living in a rent-free apartment as a "Courtesy Officer" at a local apartment complex.

Christopher Jenks, a former **Dallas** Independent School District Police Officer, was sentenced to 180 days home confinement and 5 years supervised release, and ordered to pay $35,990 in restitution for submitting false statements to HUD. Jenks purchased a HUD property through the ONDP. He never lived in the property, but rented it out while he lived as a "Courtesy Officer" in a rent-free apartment at a local apartment complex.

A federal grand jury in **Fort Worth** returned a three-count indictment against a reserve Police Officer who also was an equipment coordinator for the Fort Worth Police Department. The indictment charged the individual with two counts of submitting false statements to HUD and one count of submitting a false statement to a financial institution. The individual allegedly received a $37,000 discount to purchase a home under the ONDP. Instead of residing in the property for 3 years, the individual allegedly continued to reside in his original, more expensive residence. The Officer moved in to the ONDP property almost 2 years after the purchase when advised he was under investigation. All of these investigations were conducted jointly by the OIG and the FBI.

Borrower Teresa Carter was sentenced for submitting false statements on an application to purchase an FHA insured home. Carter submitted numerous false statements, including false employment information and a statement representing that she was her minor daughter, on a loan application in an effort to conceal past credit problems which would have otherwise precluded her from obtaining the loan. She was placed on 3 years supervised release and ordered to perform 100 hours of community service.

Earl Williams, Jr., and Gayla Williams pled guilty to conspiracy to defraud HUD on the origination of an FHA insured mortgage. Earl and Gayla Williams, who had already lost one home through foreclosure, applied for an FHA insured mortgage using the name and Social Security number of their 12-year old daughter. Their mortgage application contained false employment information as well as a phony gift letter. The mortgage on the home is being foreclosed.

A federal grand jury returned a two-count indictment against a former loan processor charging wire fraud. The individual was allegedly responsible for processing false documents to originate FHA loans.

These pleas and the indictment are the result of an OIG/FBI investigation into the activities of Infinity National Mortgage of **Dallas**. To date, the investigation has determined that Infinity took advantage of its direct endorsement status and approved over $11 million in now defaulted and/or foreclosed FHA mortgages in which numerous false statements were made.

In **Dallas**, Rodney Dale Waggoner, Jr., the owner of Texas Real-Tax, Inc., pled guilty to one count of submitting false statements. Waggoner participated in a scheme to defraud HUD through the use of inflated values on tax certificates. An investigation by OIG and the FBI disclosed that Waggoner conspired with three HUD closing attorneys to falsify thousands of tax certificates. As part of the scheme, Waggoner sold tax certificates to the HUD closing attorneys at approximately $20 per certificate, but reflected that the certificates were sold for $43. The attorneys would then submit false certificates to HUD and were reimbursed the full amount of $43. One of the attorneys is currently serving 2 years in a federal correctional facility for defrauding HUD out of $561,000.

Renita Raynes, the former executive director of the **Knox City** Housing Authority, pled guilty to third degree felony charges of forgery, theft by a public servant, and tampering with government records. Raynes was sentenced to 5 years probation, ordered to perform 500 hours of community service, and ordered to pay $11,148 in restitution and a $309 court fine. The plea and sentencing were the result of a joint investigation by the OIG, the Knox City Police Department, the Knox County District Attorney's Office, and Texas Rangers which disclosed that Raynes used her position to steal funds from the Authority. She prepared payroll checks, forged signatures, and cashed the checks; stole training funds; falsified rent receipts; and provided false monthly reports to the Authority's board members to cover up the thefts.

The owner of Equity Mortgage Assistance (EMA) in **Dallas** was indicted by a federal grand jury on one count of conspiracy to commit mail fraud and five counts of money laundering. On the same day, another individual was indicted on one count of harboring a fugitive. This individual allegedly harbored the owner of EMA from law enforcement although he knew there was an arrest warrant for the owner.

These indictments stemmed from an OIG investigation which disclosed that, from about July 1997 until March 2000, the two individuals used the U.S. mail to defraud distressed single family homeowners by persuading them to contact EMA to prevent foreclosure on their homes. EMA had obtained monthly foreclosure lists and mailed advertisements to these distressed homeowners representing that for $300, EMA could stop foreclosure on their homes without the homeowners filing for bankruptcy. When the homeowners contacted EMA, EMA requested that they provide to EMA the equivalent of two mortgage payments representing "good faith." For $300, EMA led the homeowners to believe that EMA would negotiate with the various mortgage companies to have late payments and other fees rolled to the end of the mortgages. EMA instructed homeowners to make future mortgage payments to EMA in the form of cash, a cashier's check, or money order only. Since EMA failed to make any payments to the mortgage companies, the properties were foreclosed, some of which had FHA insured loans. The loss is approximately $550,000, $220,000 of which relates to FHA loans. Other allegations included a scheme to conceal ownership and source of funds involving the purchase of a 1999 vehicle. One of the perpetrators wrote a check from the EMA account for over $20,000, which was deposited in another of the perpetrator's personal bank accounts, after which a check was written to a local automobile dealer for the purchase of the vehicle.

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Chapter 3

Audits

In addition to evaluating HUD's management and reform challenges, conducting audit work in support of the Housing Fraud Initiative, and commenting on regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 9 reports and 7 audit-related memoranda on internal HUD operations, and 23 reports and 24 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports and memoranda issued.) Collections amounted to $6.2 million, with another $51 million in management decisions on audits with questioned costs. Investigative recoveries (out of courts settlements, court ordered fines, penalties, and restitution) totaled $1.3 million.

Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we conducted nationwide audits of the Single Family Insurance and Property Disposition Programs including the Affordable Housing Program, and reviewed various loan origination activities.

Single Family Insurance Program

As part of our effort to look at FHA Single Family Insurance Program activities, the OIG conducted the following audits:

Property Disposition

An OIG nationwide audit of HUD's Officer Next Door and Teacher Next Door (OND/TND) Property Disposition Programs disclosed that the programs are at high risk of abuse by homebuyers, and that HUD had not established adequate management controls over the programs. The audit identified that: (1) 23 of 108 homebuyers in our sample abused the OND Program by not fulfilling occupancy requirements and thus received unearned discounts of nearly $735,000; (2) achievement of OND and TND Program goals and objectives was not assessed; (3) homes were sold outside of revitalization areas and therefore were improperly discounted by about $1.2 million; (4) a tracking and referral process for suspected program violators is needed; and (5) key records related to program activity were not preserved and properly archived.

The most significant recommendations include the following:

- Establish a monitoring plan to detect and deter program abuse and ensure that participants reside in their OND/TND homes for the required 3-year occupancy term. For participants who purchase their homes on or after August 2, 1999, they should not acquire additional residential real property.

- Modify directives to redefine the 3-year residency period as beginning on the date the program participant moves into the house.

- Assess whether OND/TND Program achievements justify the higher costs associated with OND/TND Program sales.

- To ensure appropriate boundaries and consistency among the Homeownership Centers (HOCs), establish minimum standards for evaluating and documenting designated revitalization areas. For example, HOCs should physically observe revitalization areas and determine appropriate boundary lines.

- Review existing revitalization areas to ensure they are adequately supported and qualify under present directives for establishment as revitalization areas.

- Establish a centralized tracking system or logging procedure to ensure that suspected violations are documented, actions are taken to confirm, clear, or refer the suspected violations, and cases are referred to the OIG Office of Investigation when appropriate.

HUD officials' response to the final audit report highlighted corrective actions they are planning or have initiated. (Report No. 2001-AT-0001)

The OIG reviewed the **Philadelphia, PA** HOC and found that it needs to strengthen its Management and Marketing (M&M) contractor monitoring and follow-up procedures to ensure that significant and recurring performance deficiencies identified in prior audits and by third party contract monitors are reported and more closely monitored and tracked. Voucher processing and file maintenance controls also need improvement to minimize the processing of duplicative pass-through and incorrectly computed fixed-fee payments. Weak voucher processing controls resulted in potentially duplicative pass-through payments totaling over $937,000. Further, automated system limitations resulted in incorrect payments for fixed-fee vacant lot transactions and inappropriate manual fee adjustments when properties were listed and closed within the same month.

Our review also showed that better use and analyses of relevant Single Family Acquired Asset Management System (SAMS) data would likely improve the HOC's M&M contractor oversight capability. Application of these techniques should improve the HOC's ability to detect non-performance of key contract requirements, quantify the effect, and identify and measure performance trends so that vulnerabilities can be better assessed, and limited monitoring resources more appropriately directed. Our analyses of the data, comparisons of appraisal values and sales prices, and limited testing of owner/occupant sales, indicated that HUD should be concerned about the quality of single family real estate owned appraisals and the high potential for special sales program abuse.

Our internal work followed three external M&M contractor audit reports issued to the HOC. Because our review included analyses of nationwide SAMS data, some of the single family disposition trends we identified appear to have universal applicability throughout the country. Accordingly, although our recommendations are addressed only to the Philadelphia HOC, they may improve single family disposition activities at the Santa Ana, Denver, and Atlanta HOCs. As such, HUD Headquarters should consider implementing the recommendations at all HOCs. The audit made several recommendations including:

- Completing a detailed risk assessment of problem areas identified as a result of implementing M&M contractor monitoring procedures and using the results as a guide.

- Providing training to staff assigned M&M contractor monitoring.

- Improving voucher review and approval procedures to minimize the payment of duplicate line items.

- Reviewing the list of 671 potentially duplicative pass-through line items valued at $937,280, performing detailed eligibility validations of the charges, and seeking reimbursement from the applicable contractor. (Report No. 2001-PH-0803)

Affordable Housing Program

In purchasing real estate owned properties, The Rain Foundation in **Titusville, FL**, did not properly control and manage its Affordable Housing Program. The Foundation was not independent and did not pass on benefits of discounts it received from HUD. The Foundation allowed a consultant and venture partners to influence and control most of the properties purchased from HUD. This arrangement created a conflict of interest and defeated HUD's objective of increasing opportunities for affordable homeownership to low- and moderate-income persons. The Foundation and/or the venture partners received excessive profits from the resale of the properties. For the 6 properties we reviewed, the Foundation received discounts of nearly $46,000 from HUD. However, it discounted the properties a total of about $7,800 below fair market value, while turning a profit for itself and its partners of $65,000. Also, the Foundation sold two properties to ineligible buyers, was unable to properly account for property repairs, and submitted inaccurate information to HUD during its recertification process.

During our audit, HUD issued a 1-year removal action against the Foundation. HUD found similar problems including use of joint venture agreements, conflicts of interest, and failure to pass on discounts to homeowners. Since HUD has removed the Foundation from the Single Family Insurance Program, we made no further recommendations for corrective action. (Report No. 2001-AT-1806)

Autographed Book Give-Away for Inner-City Youths, Inc., (ABG) in **Orlando, FL**, did not properly control and manage its Affordable Housing Program. ABG allowed venture partners to influence and control most of the properties purchased from HUD. This arrangement created a conflict of interest and defeated HUD's objective of increasing opportunities for affordable homeownership to low- and moderate-income persons. ABG sold homes to ineligible purchasers, sold homes at excessive prices, allowed properties to be sold at predatory loan rates, failed to maintain adequate accounting records, and needed to improve the quality of its renovation work. In addition to its failure to meet HUD's program objectives, we question ABG's charitable intent. The executive director used the nonprofit to pay over $97,000 in personal expenses. Use of a nonprofit for personal benefit violates HUD's eligibility criteria for participation in its programs.

The audit recommended that HUD require ABG to reimburse HUD about $23,000 for the discounts it received on 3 properties it sold to unqualified buyers, and pay down the mortgages for the 30 percent discounted properties sold in excess of 110 percent of net development cost. ABG should also assist homebuyers with mortgage rates over 17 percent to obtain refinancing at reasonable prevailing rates, and correct or pay for the rehabilitation deficiencies identified by the audit. (Report No. 2001-AT-1808)

In **Denver, CO**, Brothers Redevelopment, a nonprofit organization approved by HUD to participate in the Single Family Insurance Programs, did not administer or carry out its Affordable Housing Program as approved by HUD or in conformity with HUD requirements. In addition, intended savings realized from the discount purchase of properties from HUD were not passed on to low- and moderate-income homebuyers. Specifically, Brothers Redevelopment allowed an independent contract developer to administer and control all aspects of its Affordable Housing Program. The contract developer operated the program under a verbal agreement with Brothers Redevelopment. The contract developer had a vested interest in the program in that it received 40 percent of the profits realized from the sale of the properties. In addition, the contract developer secured financing for the acquisition and rehabilitation of the properties from an identity of interest lender who also realized 20 percent of the profits from the property sales. Furthermore, Brothers Redevelopment received 40 percent of the net profits from the resale of the properties. In actual practice, the contract developer used Brothers Redevelopment as a strawbuyer for a fee and functioned as an investor of HUD acquired properties.

The audit recommended that the Denver Homeownership Center suspend Brothers Redevelopment from further participation in FHA Single Family Insurance Programs, and determine what the actual net development cost is for each 30 percent property purchased and rehabilitated by Brothers Redevelopment. Based on the actual net development cost, the Homeownership Center should then calculate the excess profits and compensate homebuyers. (Report No. 2001-DE-1002)

An OIG audit of the **Denver, CO** Homeownership Center's (HOC) review, approval, and monitoring processes of nonprofit organizations' participation in FHA Single Family Insurance Programs found that improvements are needed in the HOC's procedures and controls in three areas:

- Previously approved nonprofit agencies were granted approval to participate in the Single Family Programs when their recertification packages did not fully comply with HUD requirements.

- New nonprofit agencies were granted approval to participate in HUD's programs when their certification packages did not fully comply with HUD requirements.

- The required annual reports from the nonprofit agencies that had purchased 30 percent discounted properties during the preceding year did not include data on all acquired properties or were not being received.

In February 2000, responsibility for reviewing, approving, and monitoring nonprofit organizations in HUD's Single Family Insurance Programs was transferred from the Real Estate Owned Division to the Program Support Division within the Denver HOC. HUD then required all previously approved nonprofit organizations, as well as any new nonprofit organizations, to submit within 45 days new certification packages to HUD for review and approval for the HUD program. HUD had to complete the review of about 160 certification packages in a 90-day period. According to HOC officials, this situation resulted in a very heavy workload that had to be conducted in a very limited timeframe. As a result, some areas of the certification package reviews may have been deficient. However, considering both the limited timeframes and guidance, HOC staff did a good job of reviewing the certification packages. Our audit made several recommendations to improve the Denver HOC review process. (Report No. 2001-DE-0801)

In **Irving, TX**, the OIG audited Community Housing Fund's purchase of real estate owned properties. Community Housing Fund (CHF) was formed in 1992 to work with low-income families to help them purchase their own homes. Our audit concluded CHF did not meet HUD's Affordable Housing Program's objectives, and received excess profits from the resale of properties obtained under the program. Specifically, CHF amassed a real estate portfolio of over 400 properties; did not maintain a program to move tenants to homeownership; sold property to investors and an employee; received profits in excess of 110 percent of its net development costs; calculated net development costs incorrectly; could not support its net development costs; and maintained a conflict-of-interest relationship with its repair/rehabilitation contractor. In addition, CHF could not provide support for information it reported to HUD in its annual report for its net development costs, and maintained no invoices of services or rehabilitation provided.

The audit recommended that the Director, Denver Homeownership Center, remove CHF from participating in the nonprofit Affordable Housing Program for noncompliance with affordable housing objectives. We also made a series of recommendations intended to require CHF to support its net development costs; and require CHF to pay down the mortgages for properties sold in excess of 110 percent of development costs that it cannot support. (Report No. 2001-FW-1807)

Family Home Providers, Inc., (FHP) in **Cumming, GA**, did not comply with HUD's Single Family Property Disposition Program requirements. For the 5 properties we reviewed, FHP passed along about $28,000 of the $65,000 in discounts it received from HUD, thus depriving low- and moderate-income homebuyers of the program's intended benefits. We also identified at least $147,000 in sales commissions FHP's president paid to his own realty firm from September 1997 through November 2000 on 20 properties FHP purchased from HUD, and $20,000 in profits he paid to a business in which he and his wife were once officers. These transactions violated conflict of interest prohibitions. We also observed poor quality workmanship on four houses sold by FHP. In addition to its failure to meet HUD's program objectives, we question FHP's charitable intent. From 1998-2000, FHP's president obtained personal benefit (aside from salary and realty commissions) from the nonprofit's operations. Those acts violated HUD's eligibility criteria for participation in its programs.

The audit recommended that the Director of the Atlanta Homeownership Center require FHP to pay down the mortgages for the 30 percent discounted properties it sold for prices that exceeded 110 percent of the net development cost, and correct the rehabilitation deficiencies identified in the audit at no cost to the purchaser or current occupant of the homes. (Report No. 2001-AT-1807)

In response to a complaint, the OIG reviewed Golden Home Mortgage in **Concord, CA.** Our review disclosed that neither Golden Home Mortgage nor its sponsors, SCME Mortgage Bankers and Western Sunrise Mortgage, doing business as Crossland Mortgage, prevented nonprofit mortgagors from exceeding HUD's limitation on resale prices for properties purchased from HUD at a 30 percent discount. HUD's purpose for giving the discounts was that the nonprofits that purchased the properties pass the discounts on to low- and moderate-income homebuyers. The homebuyers, however, paid an average of $10,500 more for their homes than HUD intended. This also increased HUD's mortgage insurance risk and the homebuyers' liability an average of $10,800. The price and mortgage increases also resulted in higher fees for Golden Home and its associates. The audit recommended that HUD take appropriate action on the issues presented in the audit. (Report No. 2001-SF-1806)

Loan Origination Activities

An OIG review of the **Buffalo, NY** Branch Office of National City Mortgage Company concluded that for 7 of the 33 loans reviewed, National did not adhere to prudent lending practices during the underwriting process. Each of the seven loans had at least one significant processing deficiency and four were in default. The specific processing deficiencies were earnest money was not verified; minimum investments were not provided; income was overstated; sources of gift funds were not verified; loan ratios exceeded HUD/FHA standards; and funds from an unsecured loan were used as an earnest money deposit. As a result, mortgages were approved for unqualified borrowers, causing FHA to assume an unnecessary insurance risk. The audit included recommendations that HUD require National to indemnify HUD/FHA against future losses on five of the seven loans. (Report No. 2001-NY-1004)

Because of its high default rate experienced in **St. Louis, MO**, the OIG audited First Community Resources, Inc., a loan correspondent since August 1995. First Community improperly originated four of the five FHA insured loans we reviewed. The four loans were originated under HUD's Section 203(b) Program. First Community did not ensure a gift letter was included in a loan file, verify a co-borrower's employment history, verify that borrowers had sufficient funds to close their loans, or adequately disclose the source of a down payment. In addition, First Community does not have an adequate quality control plan. Because HUD relied on First Community's loan origination process, HUD assumed abnormally high risks when it insured the 4 loans for $293,000. One of the loans went into foreclosure with a loss to HUD of nearly $24,000. The audit recommended that the Director of the Denver Homeownership Center take appropriate action based on the audit results. (Report No. 2001-KC-1005)

Public and Indian Housing Programs

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

During this reporting period, we reviewed various HUD activities including the Creative Wellness Program, troubled agency recovery centers, tenant-based rent reasonableness controls, and the Native American Housing Assistance and Self-Determination Act. We also reviewed the general administration of some HAs, as well as activity under the HOPE VI, Vacancy Reduction, Low-Income and Section 8 Programs.

HUD Activities

Creative Wellness Program

In **Washington, DC**, the Office of Public and Indian Housing (PIH) did not adequately justify its decision to award, without competition, over $1.1 million in Public Housing Drug Elimination Program discretionary funds to the National Institute for Medical Options (NIMO) for a wellness program. An OIG audit of the Creative Wellness Program, funded through an interagency agreement with the Department of Health and Human Services (HHS) and a cooperative agreement with HUD, found that the program did not adequately address issues pertaining to substance abuse, domestic violence, or violent crime as required by the interagency and cooperative agreements. These conditions occurred because the Deputy Assistant Secretary (DAS) for Public and Assisted Housing Delivery did not act with impartiality and misused her position in awarding funds for wellness activities. Specifically, the DAS personally arranged for NIMO to be the recipient of an interagency agreement with HHS and a subsequent follow-on cooperative agreement with PIH. As a result, drug elimination funds totaling over $1.1 million were used to fund activities that did not have a measurable effect on substance abuse prevention or intervention, or the associated side effects, such as crime, plaguing public housing.

The audit also found that NIMO commingled personal funds with cooperative agreement funds, submitted vouchers in excess of actual costs, and procured consultant services and equipment without following proper procurement procedures. PIH did not properly establish funding in HUD's Line of Credit Control System, and did not provide the monitoring and oversight one would expect for a first time recipient of federal funds. As a result, NIMO expended over $98,000 on ineligible and unsupported items.

The audit recommended that the Deputy Secretary take appropriate administrative and disciplinary actions against the DAS for her apparent misuse of her position and loss of impartiality in making awards to NIMO. The audit also made a series of recommendations to the Acting General Deputy Assistant Secretary for Public and Indian Housing for improving internal controls over interagency and cooperative agreements, the procurement process, and the recovery of unsupported costs. (Report No. 2001-AO-0003)

Troubled Agency Recovery Centers

An OIG audit of the **Memphis, TN** Troubled Agency Recovery Center (TARC) found the TARC's operations were generally inefficient and ineffective. A 1999 OIG survey of the Memphis and Cleveland TARCs found similar deficiencies. The TARC did not provide adequate oversight to PHAs, and did not take aggressive actions against PHAs that failed to show adequate improvement or to comply with requirements. TARC management did not establish operating policies and procedures needed for an adequate management control system. We found it particularly troubling that the TARC did not have any success in improving the historically troubled Memphis Housing Authority (MHA). In fact, the MHA's performance declined after being assigned to the TARC. Also, despite 2 years of TARC oversight, the Housing Authority of St. James Parish, LA, also failed to show improvement. Neither Authority was referred to HUD's Enforcement Center for further action.

The TARC was also unable to fully and effectively utilize its staff. HUD expected the TARC's workload to be greater as a result of referrals through the new Public Housing Assessment System (PHAS). The Congress, however, placed a moratorium on implementation of PHAS. As a result, the anticipated inventory did not materialize. The location of out-stationed staff also hampered the TARC'S ability to efficiently service its inventory and did not permit adequate supervision. Thus, the TARC did not make significant progress toward accomplishing its mission. In fact, as of November 30, 2000, it had recovered and returned to its respective Hub/PC (Program Center) offices only eight troubled PHAs.

A recent management change at the TARC has improved operations. Under the leadership of the new TARC Director, not only has the TARC increased productivity, it has taken several measures to improve operations. Also, the Office of Trouble Agency Recovery, which oversees the TARC, recently contracted with Andersen Consulting to develop a processing system to improve the TARC's operations.

In addition to the measures already being taken, the audit recommended that the TARC begin taking swift and aggressive action against noncompliant PHAs, including the MHA; perform an analysis to determine the number of staff needed to manage the existing workload and formally detail or reassign remaining staff to local HUD offices; discontinue hiring staff at out-stationed locations; and implement supervisory controls over remaining out-stationed staff. (Report No. 2001-AT-0002)

Tenant-based Section 8 Rent Reasonableness

The OIG conducted a nationwide audit of HUD's controls regarding the determination of rent reasonableness for housing units assisted by the tenant-based Section 8 Program. The audit disclosed that HUD's rent reasonableness regulations require more than the federal statute requires, and do not appear to provide a significant benefit. As a result, PHAs are expending valuable administrative resources on rent reasonableness which could be used to improve controls for the calculation of tenant rents.

Our review of tenant files at four PHAs found that none of these PHAs made rent reasonableness determinations that were in full conformance with HUD's requirements. PHAs did not always include required items such as unit type, quality, age, housing services, maintenance, and utilities. Instead, the PHAs relied on the professional knowledge and skills of their staffs and used less cumbersome alternative methods, including negotiations with landlords, to establish reasonable rents for Section 8 assisted units. Although the PHAs did not completely follow HUD's requirements, Section 8 rents were generally reasonable for 140 of 141 units tested.

The audit recommended that HUD's Office of Public Housing: (1) simplify and standardize the rent reasonableness requirements; (2) evaluate proposed revisions to the requirements; and (3) provide detailed guidance on the minimum amount of documentation required to support the rent reasonableness determination. (Report No. 2001-SE-103-0802)

Native American Housing Assistance and Self-Determination Act

The OIG conducted a nationwide audit of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) to determine if NAHASDA recipient performance is consistent with the Indian Housing Plan (IHP) and if Tribal Organizations effectively and efficiently provide affordable housing. We performed on-site visits at 17 Tribal Organizations within 4 of the 6 Office of Native American Programs (ONAP) regions and found that NAHASDA grant recipients have generally implemented their IHPs. However, the audit disclosed significant concerns that HUD needs to address, including:

- Ensuring an accurate allocation of NAHASDA Indian Housing Block Grant funds.
- Resolving incompatible federal admission requirements.
- Determining if umbrella member Tribes should benefit equally from their NAHASDA Indian Housing Block Grant.
- Assisting Tribal Organizations in becoming familiar with new requirements under NAHASDA.
- Ensuring that Tribal Organizations obtain timely Single Audit Act reports and implement uniform accounting standards.

The report included a series of recommendations to address the reported problems. (Report No. 2001-SE-107-0002)

General Administration

The OIG reviewed HUD's actions regarding the takeover of the **Beaumont, TX** Housing Authority. A complainant alleged that the Authority was being singled out for political reasons. We were unable to substantiate this complaint. HUD assumed control of the Authority in late 2000 after finding it in substantial default of its Annual Contributions Contract. Since the takeover occurred, HUD contracted with Price Waterhouse Coopers (PWC) to conduct a comprehensive review. PWC confirmed that substantial problems existed in the Authority's Homeownership and Section 8 Programs. These two issues alone support HUD's finding of substantial default. However, HUD's lack of monitoring at the Authority contributed to or exacerbated some of the existing problems. In HUD's defense, however, the Authority's high Public Housing Management Assessment Program scores placed the Authority low on HUD's monitoring schedule. Further, once HUD became aware of problems at the Authority, HUD took action that ultimately resulted in HUD's declaring the Authority in substantial default. (Report No. 2001-FW-1808)

In **West Chester, PA**, the OIG reviewed the Office of Public Housing, Pennsylvania State Office, and Troubled Agency Recovery Center assessments of operations at the Housing Authority of the County of Chester (HACC). We also reviewed KPMG Consulting's draft assessment of HACC's private development problems. We found that HACC is in substantial default of its Consolidated Annual Contribution Contracts (ACC). Specifically, HACC pledged assets covered under its ACC as collateral for loans for its private developments. HACC defaulted on a $500,000 loan, and a local bank seized a $400,000 certificate of deposit. It appears other collateralized loans may be in jeopardy. Also, HACC used Section 8 funds to pay interest and principal on a $4 million bond issue in June 2001. Furthermore, under its present structure, it appears that HACC no longer has the financial resources to meet its immediate and long-term debt obligations.

HUD became aware of the financial problems of HACC when the Office of Public Housing, Pennsylvania State Office, met with representatives of HACC in October 2000. HACC requested the meeting to discuss its declining Public Housing and Section 8 reserves and a shortfall in HOPE VI funds. A HUD technical review was performed in October 2000 and the results were discussed with the HACC in November 2000. At that time, HACC was advised to immediately stop funding the private development company with Public Housing and Section 8 funds.

Based on our review, we recommended that the Director, Office of Public Housing, Pennsylvania State Office, take immediate action in declaring the HACC in substantial default of its contracts, and take necessary actions to cure the substantial default. (Report No. 2001-PH-1803)

The OIG audited the Housing Authority of **New Orleans, LA** (HANO) to ascertain the current status of HANO's management structure. For the past 5 years, HANO has operated under a 2-year Cooperative Endeavor Agreement to correct long-standing problems, particularly with respect to the poor condition of its housing stock. During this time, the Congress enacted the Quality Housing and Work Responsibility Act of 1998 (also known as the Public Housing Reform Act) that required HUD to create an Advisory Council which would help determine HANO's future.

HUD has continued the Cooperative Endeavor Agreement beyond its planned and contractual life because HANO continues to have major problems in carrying out its primary mission. Because of the poor condition of its housing stock, the most recent Cooperative Recovery Plan stated that HANO was "potentially troubled." HANO continues to have problems completing a modernization program at its 10 large conventional developments, and does not have the capacity to: (1) stabilize and renovate its viable developments; (2) demolish and dispose of units not meeting Section 202 requirements; (3) relocate residents during modernizations; and (4) construct suitable permanent housing. HANO's long-term success depends on having an effective Section 8 department, which HUD staff stated has been substandard for the past 3 years.

HUD procrastinated in establishing the required Advisory Council, and, as a result, effectively delayed the Advisory Council's findings and recommendations. Six years ago, the OIG urged the Secretary to take over HANO and contract out the management of its properties to as many as 12 companies. We have amended our primary recommendation made 6 years ago, and are now urging the Secretary to take over HANO and divide the Authority into smaller housing authorities. This would allow the smaller housing authorities to focus on the problems affecting specific sites.

The audit also made a series of recommendations to address the long-standing problems at HANO. (Report No. 2001-FW-0001)

An OIG audit of the Housing Authority of the City of **Pittsburgh, PA**, found that the Authority is not properly procuring goods and services according to federal procurement requirements or its own procurement policy. We identified procurement deficiencies in all 15 procurement contracts, valued at $8.4 million, that we reviewed. Specifically, contract files did not detail the history of procurements as required; contracts were awarded without independent cost estimates and without evidence of competition; and a number of contracts had change order modifications with significant cost increases and additional work items not within the original contract. Further, we found the Authority's procurement policies in place during our review did not have any procedures regarding the use of change orders or the award of single source procurements. As a result, the Authority spent $4.5 million on contracts that, based on the documentation provided, could not be supported as eligible.

The Authority could not adequately support Line of Credit Control System (LOCCS) draws made under its Comprehensive Grant Program, as required. We judgmentally selected 6 LOCCS draws totaling over $13 million and requested that the Authority provide us with documentation that fully supported each draw. We generally found the Authority's book and records were unauditable. Neither the Authority's financial management system nor its personnel were able to provide adequate documentation that fully supported each draw in a timely manner to permit a complete review of the records. For records that were provided, the Authority could not provide adequate supporting documentation for over $3 million.

The Authority's Finance Department did not have controls in place that were effective in controlling cash disbursements. We found that a number of disbursements were not processed consistently with normal business practices. These deficiencies occurred because the Authority did not develop and implement a comprehensive policies and procedures manual for the Finance Department as was repeatedly recommended by the Authority's Independent Public Accountant. As a result of these deficiencies, the Authority is placing HUD funds at unnecessary risk, as there is no assurance that funds have been used as intended, including nearly $400,000 of unsupported expenditures we found relating to these internal control weaknesses.

We recommended the Authority repay, from non-federal funds, the ineligible and unsupported costs cited unless the Authority provides supporting documentation. We also made a series of recommendations designed to improve Authority operations. (Report No. 2001-PH-1005)

The OIG reviewed six procurements made by the **Jefferson Parish, LA** Housing Authority between 1996 and 2000. For all six contracts reviewed, we found that the Authority violated its procurement policies and federal requirements. Of the six contracts, the Authority could not provide evidence of competition for five contracts. In addition:

- In one instance, it appears that the Authority overpaid for services.
- Due to poor procurement practices and the involvement of the board of commissioners, the Authority may have paid for services not performed. The poor procurement practices included a lack of competition and cost analysis.
- The Authority may not have received a benefit from the contracted services.
- The Authority violated it procurement policy when the board chairman executed contracts without board approval.
- The board chairman used his position and support on the board to: (1) sole-source contracts; and (2) bypass the Authority, the board, and HUD for approval.

The audit recommended that HUD require the Authority to take various actions to improve its procurement practices. In addition, HUD should take administrative sanctions against the chairman for his actions on these contracts and protect the Authority from similar future decisions of the chairman, and determine if other board members' actions and involvement in these contracts warrant administrative sanctions. (Report No. 2001-FW-1809)

In **Fairbanks, AK**, the OIG conducted a limited review of the Interior Regional Housing Authority's (IRHA) management of a rehabilitation project at the Native Village of Fort Yukon. We found that IRHA did not have adequate management systems to administer a housing rehabilitation project assisted with NAHASDA funds in accordance with federal regulations. Specifically, IRHA had weak management controls and did not: (1) have a formal process by which all parties would approve changes to the original work; (2) adequately supervise foremen at the project; and (3) have an accounting system that assigned costs to individual houses. Consequently, the project had nearly $386,000 in cost overruns. In addition, IRHA did not know the extent of the work being done in Fort Yukon or have up-to-date information about how much this work cost.

The audit recommended that HUD's Alaska Office of Native American Programs determine the disposition of the $386,000 in cost overruns. (Report No. 2001-SE-107-1801)

Public Housing Programs

HOPE VI Program

An OIG audit of the **Detroit, MI** Housing Commission found that the Commission's former and current executive directors failed to follow federal requirements, State of Michigan law, and the Commission's own requirements regarding the administration of the HOPE VI Program. The Commission used or approved for payment over $18 million in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) to pay for construction work that was improperly performed or not provided; construction and professional services that were not supported with detailed work specifications; sewer construction work that the City of Detroit should have provided at no cost to the Commission; and unreasonable and unnecessary expenses, or expenses without documentation to support that they benefited two of the Commission's HOPE VI projects. Specifically, the Commission:

- Did not follow the Annual Contributions Contract, HUD's regulations, and the HOPE VI grant agreement to ensure units at the Villages at Parkside II and IV were decent, safe, and sanitary after revitalization. The Commission used nearly $700,000 of HUD funds to pay for revitalization work that was improperly performed or that was not provided.

- Did not follow the Annual Contributions Contract, HUD's regulations, and its own Revitalization Plan to ensure units at the Jeffries Homes project were decent, safe, and sanitary after modernization. The Commission used nearly $62,000 of funds to pay for modernization work that was improperly performed or was not provided.

- Did not maintain an effective system of controls over its contracting process. The Commission improperly used HUD funds or inappropriately approved for payment over $13 million for construction or professional services. The Commission also failed to obtain HUD's prior approval, as required by the HOPE VI grant agreement, for 20 change orders, and lacked documentation to support that HOPE VI construction or professional services contracts were awarded through full and open competition or in an efficient and effective manner.

- Did not maintain sufficient control over HUD funds for the Villages at Parkside HOPE VI project. The Commission lacked documentation to show that nearly $2.3 million of HUD funds benefited this project or were reasonable and necessary expenses.

- Did not follow the HOPE VI grant agreements, HUD regulations, Office of Management and Budget Circular A-87, and State of Michigan law regarding the use of funds for the Jeffries Homes project. The Commission lacked documentation to show that over $2 million of HOPE VI funds paid benefited the project or were reasonable and necessary expenses.

The audit recommended that HUD: (1) declare the Housing Commission in default and take action to place the administration of the Commission's HOPE VI Program under a third party; or (2) petition for the appointment of a receiver for the HOPE VI Program. (Report No. 2001-CH-1007)

Vacancy Reduction Program

In response to a citizen's complaint, the OIG reviewed the administration of the Vacancy Reduction Program (VRP). The VRP focuses on the rehabilitation of vacant units, and the identification and correction of site and management deficiencies to achieve and sustain occupancy at PHAs. To be eligible to participate in the VRP, PHAs have to meet one of the following requirements: (1) must have a vacancy rate that exceeds 15.9 percent as of March 30, 1993; (2) must be designated as a troubled agency; or (3) must have been placed under receivership.

The complainant alleged that the Director of the Community Safety and Conservation Division (CSCD) used Drug Elimination Program funds to pay Aspen Systems Corporation (Aspen) for VRP activities. Aspen was under HUD contract to provide services authorized under legislation through a Public Housing Drug Elimination Program Support Center.

We found that the Director inappropriately used program funds to pay for VRP activities that Aspen performed. This occurred because neither the Director of

CSCD nor the government technical representative ensured that Aspen's contract was properly funded. As a result, $1,187 of program funds were inappropriately used and a potential contract funding violation may have occurred. We also determined that HUD's Office of Public and Indian Housing (PIH) did not provide adequate oversight of the VRP.

We extended our review to address the adequacy of PIH's oversight procedures for the administration of the VRP to ensure compliance with program and statutory requirements, and found that PIH did not conduct periodic budgetary reviews to ensure that VRP funds were effectively used. Specifically, PIH did not reconcile the nearly $203,000,000 set-aside for VRP with the amounts awarded under the Notice of Funding Availability to ensure that the full authorized amount was awarded to PHAs and other modernization programs. In addition: (1) PIH did not ensure that the status of VRP funds was timely updated in the Line of Credit Control System; (2) although HUD established March 30, 2000, as the timeframe by which all FY 1997 and prior fiscal years' VRP funds had to be obligated, HUD's Puerto Rico Public Housing staff allowed the Virgin Islands Housing Authority to obligate and expend funds over 4 months after the established deadline; (3) although progress reviews were required by law, PIH did not conduct progress reviews of PHAs in accordance with the program's authorizing statute; and (4) PIH did not ensure adequate oversight of the administration of the VRP because the management roles and responsibilities were not clearly defined.

The audit recommended a series of actions for the Deputy Assistant Secretary for Public and Assisted Housing Delivery to ascertain that procurement actions are properly funded before services are performed and that the appropriate funding source is used. (Report No. 2001-AO-0803)

Low-Income and Section 8 Programs

An OIG audit found that, in administering its Low-Income Public Housing and Section 8 Programs, the **Weymouth, MA** Housing Authority has not developed an equitable method of allocating costs between federal and state programs. In addition, the Authority allocated costs to a vacant federal project in 1999. The improper allocation resulted in federal programs being overcharged by about $78,000. The Authority also needs to strengthen its Section 8 procedures for determining rent reasonableness, documenting the third party verification process, and conducting annual reexaminations in a timely manner.

We recommended that the Authority establish and implement an equitable cost allocation plan and reimburse the appropriate federal programs for any amounts determined to be improperly allocated; provide evidence that it is determining rent reasonableness, performing third party verifications and conducting annual recertifications; and reimburse the federal programs for ineligible payments. (Report No. 2001-BO-1004)

Financial Management Center

During a review of HUD Section 8 payments, we determined that there was a significant backlog of unprocessed settlements for contract administrators on the 270 **Massachusetts** projects managed by the Financial Management Center (FMC). Our review of unprocessed settlements disclosed that they are not being reviewed in a timely manner. As of December 31, 2000, there was a backlog of 289 unprocessed settlements for 122 projects covering the years 1998-2000. Most of these settlements have been outstanding for several years. Consequently, HUD has not collected approximately $3 million that was due HUD for net over-ad vances. The cost of money or interest incurred by HUD on the receivables is approximately $239,000.

The Department of the Treasury borrowed funds to cover the HUD uncollected over-advances. The government has absorbed the interest to date, because FMC did not require interest reimbursements from the projects. The interest expenses relate only to the unprocessed settlements as of December 31, 2000. HUD also incurred interest expenses on the backlog of unprocessed settlements for the 148 projects that were reviewed and approved by FMC during 1999 and 2000, which we did not review.

The audit recommended that FMC immediately implement corrective action, while completing in-depth reviews of unprocessed settlements to reimburse HUD for interest earned on any over-advances. (Report No. 2001-BO-0801)

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means towards this end is the development of partnerships among all levels of government and the private sector. CPD seeks to encourage empowerment of local residents by helping to give them a voice in the future of their neighborhoods; stimulate the creation of community based organizations; and enhance the management skills of existing organizations so they can achieve greater production capacity. During this reporting period, the OIG reviewed grantees' administration of the Community Development Block Grant (CDBG), HOME, and Section 108 Programs; the Continuum of Care and the Supportive Housing Programs; and subrecipient selection, monitoring, and reporting at a city's Department of Housing and Community Development.

The CDBG Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The purpose of the HOME Program is to expand the supply of decent, safe, sanitary, and affordable housing, primarily rental housing for low- and very low-income families, through eligible forms of assistance, such as loans, loan guarantees, equity investments, interest subsidies, and other assistance approved by HUD. Section 108 Loan Guarantees finance the acquisition or rehabilitation of real property owned by an eligible public entity, finance housing rehabilitation, and provide for economic development. The Continuum of Care Program is designed to fight against homelessness by linking key housing services and expediting movement toward housing for the homeless. The Supportive Housing Program provides grants to develop supportive housing and services that will enable homeless people to live as independently as possible.

CDBG, HOME, and Section 108 Programs

The OIG audited the City of **San Antonio, TX's** CDBG Section 108 Loan Program to determine whether the City and its subrecipient, the Greater Kelly Development Authority, expended loan funds for eligible activities. We found that the City spent over $17 million of the approved $38.7 million in program funds without ensuring compliance with the Housing and Community Development Act of 1974, as amended, or HUD CDBG regulations. Although required by regulations, City staff did not obtain a commitment from an assisted business, Boeing Company, to provide jobs to low- and moderate-income persons, did not adequately monitor program activities, and cannot show that the Section 108 Program benefits assisted predominantly low- and moderate-income persons. Available job creation reports are unreliable and show the latest low- and moderate-income job creation levels to be only about 26 percent, instead of the required 51 percent. In addition, the City did not formally review and evaluate the Authority's procurement procedures before authorizing the payment of contract costs totaling nearly $300,000.

We believe City staff may have ignored, or did not become familiar with, CDBG requirements because top administration officials "guaranteed" the award of Section 108 funds to San Antonio for the redevelopment of Kelly Air Force Base. City staff told us they had not performed comprehensive reviews to determine compliance with job creation and procurement requirements. In November 1997, the former Vice President visited San Antonio and announced that HUD was going to provide over $35 million in loans to the City to attract new business to soften the blow of closing Kelly Air Force Base. The former Vice President and former HUD Secretary announced the Section 108 loan award on April 14, 1998. We believe the low- and moderate-income and procurement requirements apply regardless of the interest of high level officials.

The audit made a series of recommendations to ensure that Section 108 Loan Program funding results in the employment of the required level of low- and moderate-income persons, and that the Boeing agreement is sufficient to ensure compliance with job creation requirements. Recommendations were also made to address the procurement deficiencies. (Report No. 2001-FW-1004)

An OIG audit of the City of **Philadelphia, PA's** CDBG and Section 108 funding of the Urban Education Development Research and Retreat Center (UEDRARC) rehabilitation project, administered through its delegate agency, the Philadelphia Industrial Development Corporation (PIDC), found that although the UEDRARC project did meet a national objective consistent with HUD's CDBG criteria, the project was never financially viable. PIDC disregarded its own loan policies and procedures, as well as HUD requirements, in funding this high risk project. In addition, the City of Philadelphia and PIDC neither provided the necessary oversight to ensure performance goals were achieved, nor monitored UEDRARC's use of funds for compliance with loan requirements.

Since UEDRARC began operations in 1993, it has not been able to generate sufficient rental income to cover its long-term debt and operating expenses. In fact, all loans PIDC provided to UEDRARC, totaling $5.4 million, quickly became delinquent and 2 of the loans were used to repay several delinquent loans. At the end of our review, UEDRARC's 3 outstanding loans, totaling $4.65 million, were either delinquent or defaulted. Under its present financial structure, it is doubtful UEDRARC will be able to repay these loans and sustain its operations for the long term. Further, PIDC: (1) did not apply approximately $1.5 million in credits to the CDBG Program for state reimbursements of contractor invoices, originally paid with HUD funds; and (2) used an $800,000 Section 108 loan for ineligible purposes. Finally, we found UEDRARC used over $600,000 of its funds to pay for questionable expenses.

The audit recommended: (1) implementation of written up-to-date policies and procedures for the approval, award, and administration of loans; (2) determination of the eligibility of $600,000 in questionable expenses; (3) calculation of the amount of state funds that should have been treated as CDBG credits, and returning that amount, from non-federal funds, to the line of credit; and (4) repayment of the $800,000, used to repay a delinquent CDBG loan, to the Section 108 account. (Report No. 2001-PH-1006)

In response to a citizen complaint, the OIG audited the City of **Hattiesburg, MS's** Community Planning and Development Programs and found that the City did not: (1) ensure funded activities met CDBG national objectives; (2) properly administer its rehabilitation program; (3) follow proper procurement and contracting procedures; (4) follow proper payroll administration procedures; and (5) establish and maintain basic operating systems for proper management of its CDBG and HOME Programs.

Specifically, the City spent over $240,000 of CDBG funds on activities that did not address a national objective, including a road improvement project and 5 grants to improve downtown commercial buildings. The City also failed to ensure that the rehabilitated houses in its program complied with HUD and local health, safety, and building standards, and selected one house that was not feasible for its housing programs. For the 20 houses inspected, we identified 54 work items that the contractors did not complete and 71 work items that the contractors completed in an unacceptable manner. We also identified 84 code or HUD housing quality standards violations.

The City improperly procured over $2.9 million of goods and services without adequately documenting the procurements. The contract deficiencies included improperly soliciting and awarding contracts, awarding sole source procurements, not performing independent cost estimates or cost and price analyses, and repeatedly selecting the same contractor.

The audit recommended that HUD require the City to reimburse the CDBG Program for all ineligible and unsupported costs, and develop and implement controls and procedures to ensure proper administration of its programs. Also, the City should correct all deficiencies and housing quality standards violations and submit a corrective action plan to correct the deficiencies identified by HUD during its reviews. (Report No. 2001-AT-1006)

In response to a citizen complaint, the OIG reviewed the Indian Community Development Block Grant and Indian Housing Block Grant funded housing activities of the Los Coyotes Band of Mission Indians (Tribe) in **Warner Springs, CA**. We found that the Tribe did not effectively manage its procurement and contract administration process. Contractors were obtained without competition, procurement actions were not adequately planned, and effective payment controls were not adopted, resulting in overbilling and cost overruns.

The audit recommended that HUD require the Tribe to implement appropriate policies and procedures which will provide for proper procurement management and which set out responsibility for accounting and recordkeeping, including appropriate internal controls, and refund the ineligible costs charged to the program. (Report No. 2001-SF-1805)

We reviewed the **State of Connecticut's** HOME Investment Partnerships Program (HOME Program), administered by the Department of Economic and Community Development (DECD). Our review disclosed concerns with the rental housing monitoring requirements that ensure funds are used in compliance with program requirements, including written agreements, rent affordability, tenant income eligibility, utility allowances, and property inspection standards.

HUD previously identified these monitoring issues in a report dated September 2, 1999. The report disclosed that on-site inspections were not being performed and state recipients had not submitted annual performance reports as required. In a response to the HUD report, DECD advised that on-site inspections would be performed and state recipients would be notified and required to submit yearly status reports. In a monitoring report dated June 28, 2001, the Connecticut State Office again issued a finding regarding untimely on-site inspections and a concern with yearly monitoring of state block grant grantees.

We recommended that HUD require DECD to: (1) identify all HOME projects in which annual performance monitoring and on-site inspection is outstanding; (2) develop and implement a plan to complete outstanding monitoring reviews, including estimated dates for completion on each project; and (3) develop written procedures to ensure annual performance monitoring and on-site inspections are conducted in accordance with HUD regulations. (Report No. 2001-BO-1006)

Continuum of Care/ Supportive Housing Programs

The OIG is conducting a nationwide review of HUD's Continuum of Care Program. The Continuum of Care approach is a community based process of identifying the needs of the homeless and building a comprehensive and coordinated housing and service delivery system to address those needs. The Continuum is an organization of local governments, not-for-profit, and for-profit organizations that assist in the compilation of a consolidated application for grant funds. The Continuum of Care includes three programs that are competitively funded: the Supportive Housing Program, the Shelter Plus Care Program, and the Section 8 Moderate Rehabilitation Program. As part of our review, we selected a sampling of grantees in order to evaluate the Continuum of Care. The results of eight of our audits are reported below. Our work is continuing.

The OIG audited the 1998 Supportive Housing Program (SHP) grant awarded to the **County of Orange, CA**, Housing and Community Development Department (Orange County). All grant activities were carried out by the Mercy House Coalition (Coalition) as a subgrantee of Orange County. Orange County and the Coalition did not operate some aspects of the SHP in accordance with the approved application and other federal requirements. Specifically, we identified instances where the Coalition admitted ineligible participants and participants whose eligibility was not adequately documented, did not accomplish some program goals or did not maintain adequate evidence of goal accomplishment, and failed to comply with HUD requirements pertaining to client tracking, habitability inspections, and rent reasonableness determinations. Also, both Orange County and the Coalition charged unsupported and ineligible salary costs to the grant. Orange County and the Coalition spent nearly $300,000 of HUD funds on costs that did not benefit or may not have benefited the intended program participants.

The audit recommended, among other things, that HUD require Orange County to provide support and justification for all unsupported costs, reimburse

HUD for all ineligible charges to the grant, and ensure that the Coalition maintains adequate documentation of habitability inspections, rent reasonableness determinations, and client tracking in the future. (Report No. 2001-SF-1804)

An audit of a 1996 Shelter Plus Care grant awarded to the City of **Philadelphia, PA**, and its sponsor, the Tenants' Rental Assistance Corporation (TRAC), found that, due to a lack of adequate guidance and oversight, the City did not ensure TRAC implemented the grant according to its grant agreement and applicable federal regulations. Specifically, the City did not ensure that TRAC: (1) actually provided or documented that matching supportive services had been provided to program participants; (2) only provided assistance to eligible participants; (3) accurately reported the results of its grant activities; and (4) maintained full or near full capacity in funding 25 units that were available under the grant agreement. Due to this lack of oversight, the effectiveness of the grant in providing rental assistance and supportive services for hard-to-serve homeless persons with disabilities and their families was dramatically diminished under the grant period. As of June 25, 2001, 4-1/4 years into its 5-year grant period, TRAC had drawn down only $330,000 of its $900,000 grant; $33,000 of these expenditures were being used to provide rental assistance to 2 participants that we determined to be ineligible.

We also noted that the management controls used by both the City and TRAC may not adequately protect grant funds from fraud, waste, or abuse. Specifically, we found that: (1) funds were mistakenly drawn from this Shelter Plus Care grant to pay expenses incurred under a different Shelter Plus Care grant; (2) the administrative cost rate for the housing counselor was not supported and time sheets were improperly completed; and (3) key duties at TRAC were not properly segregated.

We recommended that HUD suspend payments under this Shelter Plus Care grant until such time as the City is able to demonstrate it has taken appropriate corrective actions to more effectively administer its program and better protect grant funds from potential fraud, waste, or abuse. Further, we recommended that the City repay the $331,000 it drew down as of June 25, 2001, unless it provides adequate documentation to support its claimed level of supportive services match. (Report No. 2001-PH-1802)

In **Philadelphia, PA**, an audit of two Resources for Human Development (RHD) 1997 Supportive Housing renewal grants found that, contrary to federal regulations and requirements, RHD exceeded HUD approved budgets for supportive service and administrative costs by over $216,000, and incorrectly posted the excess supportive service and administrative costs to program operations. In addition, RHD incurred over $124,000 of ineligible costs. The audit also found that RHD made drawdowns from the grant without determining the cash requirements of the program and filed inaccurate information in its Annual Progress Reports.

The audit recommended repayment of over $340,000 in ineligible expenditures. In addition, HUD should provide RHD with required technical assistance. (Report No. 2001-PH-1004)

We audited two Supportive Housing Program grants awarded to the City of **Seattle, WA**, as part of the Seattle-King County Continuum of Care Strategy and found that the City had management control deficiencies and did not always comply with HUD requirements. Specifically, the City:

- Did not adequately monitor subgrantees. Consequently, project sponsors and providers charged the grants $97,000 in ineligible costs that were not related to administering and providing supportive services, and $70,000 in other unsupported costs.

- Assisted 33 (out of 129 reviewed) ineligible individuals.

- Charged questionable administrative funds of over $72,000 to pay for questionable indirect costs that were not directly related to program activities.

- Did not provide adequate evidence of measurable results. The City did not provide information on all its performance measures, and did not have support for some of the data reported to HUD.

The audit recommended, among other things: (1) reimbursing Supportive Housing Program grants for the ineligible amounts; (2) providing supporting documentation or reimbursing the appropriate grants for the unsupported amounts; (3) implementing appropriate controls; and (4) implementing a financial monitoring plan. (Report No. 2001-SE-251-1001)

The OIG audited the 1997 Supportive Housing Grant awarded to **Harris County, TX**. The County implemented its grant activities through its subgrantee, the University of Texas, Houston Recovery Campus (Campus). The audit found that the Campus could not support information contained in its Annual Progress Report. For example, the Campus reported a 79 percent successful graduation rate even though its files indicated a 26 percent rate. Further, the Campus did not capture necessary housing data, and did not provide its participants with decent, safe, and sanitary housing. In addition, the Campus charged HUD unreasonable rents. When a HUD contractor expressed concerns about rent reasonableness, the County responded with unrealistic comparable units. The Campus also charged participants a flat rental rate of $85 per month without regard to participants' monthly income. Further, the County did not draw down its funds timely due to reconciliation and documentation problems.

The audit made a series of recommendations to improve support for reported results. (Report No. 2001-FW-1805)

An audit of the **Dallas, TX** Homeless Consortium found that the Continuum of Care applications filed by the Consortium contain inaccurate information and overstate its achievements. Contrary to what the Consortium stated it would do, it did not establish a tracking system that would monitor participants, nor did it distribute monthly reports, highlighting individual client referrals and progress, to its members. The peer review process, used to determine the priority order of the projects contained in the consolidated application, was ineffective and may have allowed unsuccessful programs to receive higher priority than was appropriate. We also have concerns that in its role as lead agency of the Consortium, the City of Dallas did not provide the organization with the leadership and guidance necessary for the Consortium to become successful.

The audit recommended, among other things, that HUD work closely with the Consortium to ensure that the strategy accurately represents the efforts and plans of the Consortium. (Report No. 2001-FW-1006)

The OIG audited the 1998 Supportive Housing Program of Harmony House, Inc., in **Harrison, AR**. We found that the executive director of Harmony House used $114,000 of program funds and other Harmony House funds for ineligible vehicle purchases, ineligible consulting/contract fees and other costs, and unsupported transfers from program funds. The audit also found that of the 1,738 days that Harmony House and the Housing Council paid rent on scattered site housing, the units were only occupied 1,049 days, or 60 percent.

The audit recommended repayment of all ineligible costs and documentation or repayment from non-federal funds of all unsupported costs. HUD should also reevaluate the demand for transitional housing in the area served by Harmony House, and require Harmony House to provide documentation to support housing data in future annual reports. (Report No. 2001-FW-1005)

The OIG audited the Supportive Housing Program grant awarded to Travelers and Immigrants Aid/Chicago Connections (Travelers) in **Chicago, IL,** and found that Travelers charged HUD over $20,000 in unallowable expenses. The grant agreement allowed Travelers to charge 25 percent of the former program director's salary to the HUD funded program. Instead, Travelers charged 75 percent of his salary to the program, and was unable to provide any documentation to support the allocation. Travelers also incorrectly charged HUD for vacation pay of an employee not assigned to the program, and for telephone charges and meals not related to the program.

The audit recommended that the Director, CPD, Illinois State Office, assure that Travelers furnishes HUD with documentation to support the unsupported expenses or repays HUD for the unsupported amount. In addition, Travelers should strengthen controls over its monitoring of financial data contained in both the accounting and payroll systems to ensure the accuracy of payroll and other expenses charged to HUD. (Report No. 2001-CH-1008)

Review of Subrecipient Selection, Monitoring and Reporting

The OIG audited the Department of Housing and Community Development of the City of **Kansas City, MO**. The audit was a joint effort between the local OIG Office and the City Auditor's Office. The audit found that the City does not have a formal process for selecting subrecipients, does not adequately monitor subrecipients, and does not provide adequate information to the City Council. Because the City does not have a formal selection process, HUD, the Mayor, the City Council, and the public lack assurance that federal grants are awarded according to applicable regulations and guidelines. Moreover, the City's selection process lacks accountability and does not offer the City any defense against occurrences or allegations of favoritism or improper influence. This process can lead to a public perception that awards are arbitrary or unjust.

The City awarded more than $85 million in HUD funds from 1998 through 2001, and yet City housing officials do not have a formal process to evaluate applications for HUD funds. Specifically, City housing officials do not document their evaluation process, reasons for selecting or rejecting applicants, or justification for the amounts recommended for award to the selected subrecipients. City housing officials did not adequately monitor the subrecipients that received HUD funds. Officials do not have policies and procedures to ensure adequate monitoring of subrecipients and proper action by City officials if performance standards are not met. HUD has continually expressed similar concerns to City housing officials since early 1997. Although these officials have taken action in recent years aimed at oversight improvements, the efforts were limited and oversight is still not adequate.

The audit recommended a formal selection process for awarding federal grants to subrecipients, written policies and procedures for oversight of subrecipients, adequate, standardized information packages for the City Council and City Administrators, and standardized periodic reporting to the City Council to keep Council members updated on subrecipient progress throughout the contract year. (Report No. 2001-KC-1004)

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to efforts to address equity skimming during this period, the OIG reviewed HUD's procedures for notifying the IRS of foreclosures, multifamily project owner and management agent operations, and a hospital's administration of three Special Purpose Grants.

Equity Skimming

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

The Department of Justice, District of New Jersey, and HUD's Enforcement Center reached a settlement agreement with the owner of Northgate 1, a HUD subsidized project in **Camden, NJ**. The owner agreed to make approximately $1 million of repairs to the project, including replacement of windows and appliances and repair of the elevators, by mid-2002. The settlement stemmed from a 1998 OIG review of the project's books and records which disclosed that, from 1988 through 1996, the owner improperly withdrew over $1 million of project funds. In addition, inspections conducted as part of the review found a need to replace windows at a cost of $600,000.

In 1998, the owner paid off its HUD insured first mortgage and refinanced the project's mortgage with conventional financing. However, HUD continued to subsidize 310 project units through a Section 8 housing assistance payment contract. In 1998, HUD's Real Estate Assessment Center conducted an inspection of the project and concluded that it did not meet housing quality standards, and therefore, gave it a failing grade.

HUD and the U.S. Attorney's Office for the Southern District of Ohio executed a settlement agreement with former officials of Apex Management Company, **Dayton, OH**, effective June 21, 2001. Under the terms of the settlement, Apex Management's former president and manager, without any admission of wrongdoing, agreed to pay HUD $50,000. Also as part of the settlement, Apex's former president and manager agreed not to participate in any HUD funded program for 8 years and agreed not to participate as a contractor in any Federal Government contract or in any federally sponsored program for 3 years.

These actions resulted from an OIG audit which found that Apex Management, the former management agent of the Crescent Square and Grand Apartments multifamily projects, improperly disbursed over $224,000 of project funds for ineligible or unsupported costs and ineligible distributions over 4 years, in violation of the Regulatory Agreement. In addition, the audit disclosed that Apex submitted false 1993 and 1994 certified financial reports to HUD for the projects; did not maintain the projects in decent, safe, and sanitary condition; and failed to maintain sufficient funds to cover the projects' security deposits owed to tenants. As a result, maintenance was deferred, allowing the projects to deteriorate, and the projects defaulted on their HUD insured mortgages.

The OIG reviewed the use of project funds at Oak Tree Park Apartments in **Overland, MO**, and found that the project owners, G&K Properties, violated the Regulatory Agreement by not depositing tenant rental payments and disbursing project funds for ineligible expenses relating to construction of the project. The audit recommended that HUD officials take appropriate steps to recover nearly $165,000 in project funds that were used for ineligible expenses and take appropriate administrative actions against G&K Properties for their mismanagement of Oak Tree Park funds. (Report No. 2001-KC-1803)

HUD's Procedures for Notifying the IRS of Foreclosures

An OIG review of HUD's procedures for notifying the Internal Revenue Service (IRS) of multifamily mortgage foreclosures disclosed that HUD needs to improve the guidance and oversight of the contractor performing this function. The foreclosure of a defaulted loan by HUD represents the forgiveness of debt, a taxable event that should be reported to the IRS with the filing of Forms 1099-A, Acquisition or Abandonment of Secured Property, and 1099-C, Cancellation of Debt. In addition to the balance of the mortgage, HUD may report other funds advanced by HUD on behalf of the owner, including costs such as payments for interest, taxes, and repairs. HUD awarded a contract to DP Services, Inc., to provide mortgage loan and property management services for HUD held multifamily mortgages, including filing Forms 1099 with the IRS.

The audit made a series of recommendations, including providing specific guidance to the contractor for the proper filing of Forms 1099-A and 1099-C; ensuring that complete and accurate documentation is maintained in the property files; requiring the contractor to request a correct taxpayer identification number from each debtor; and providing oversight of the contractor. (Report No. 2001-HQ-1801)

Owner and Management Agent Operations

At the request of the Director of the HUD Office of Multifamily Housing in Kansas City, the OIG audited One McKnight Place, a multifamily project in **St. Louis, MO**, and found that the project prematurely distributed nearly $909,000 in surplus cash to its owners. One McKnight Place generated sufficient surplus cash to cover the amount of the premature distribution. However, surplus cash cannot be distributed until it has been substantiated by a surplus cash calculation. Since all cash had been distributed per the most recent surplus cash calculation, the excess distribution was in violation of the Regulatory Agreement.

One McKnight Place used nearly $32,000 from its reserve for replacement account for items that were routine maintenance costs of the project, rather than capital expenses; for items that were also charged to tenants; and for items that were not expenses of the project. HUD directives state that reserve for replacement funds are not intended to cover routine maintenance costs.

One McKnight Place received a management fee that exceeded the amount allowed by its management agreement. The owners of One McKnight Place also paid project funds for other than reasonable and necessary operating and maintenance expenses of the project.

The audit recommended ensuring that One McKnight Place makes future distributions out of surplus cash only, establishes and implements procedures to ensure future requests for use of reserve funds are properly prepared, repays the reserve funds for excessive withdrawals, executes a management agreement stating the duties to be performed and the appropriate fees to be paid, and accounts for its funds in such a way that it can be shown that all non-project expenses are paid from surplus cash. (Report No. 2001-KC-1002)

At the request of the Director, New York Multifamily Hub, the OIG audited the books and records of Belmax Management Corporation (agent) in **Brooklyn, NY**, and found that the agent did not always comply with HUD regulations and requirements pertaining to the use of project funds. For example, the agent used project funds to pay for various services and items that we consider ineligible and/or questionable, including preparation of the partnership's tax returns; general consulting services; additional garbage and trash removal; preparation of 10-day rent delinquency notices; and miscellaneous work by employees. The costs associated with these services and items totaled $189,000.

The agent did not always follow HUD regulations when obtaining services and awarding repair contracts to contractors. The agent: (1) entered into a questionable exterminating service arrangement without first soliciting bids and/or obtaining written cost estimates; (2) awarded a contract to a contractor who was not the lowest bidder; and (3) did not provide evidence to substantiate that competitive bids were solicited prior to awarding a contract. As a result, the agent could not ensure that all transactions were at arms length and that the services obtained were at the most reasonable and economical prices. In addition, we found that the agent incorrectly computed its management fee, resulting in the collection of nearly $46,000 in excessive management fees.

The audit recommended that the agent/owners reimburse the projects for those items considered to be ineligible and submit supporting documentation for those disbursements considered to be unsupported and/or questionable. All disbursed amounts that are determined to be ineligible should be repaid to the applicable projects with non-project funds. (Report No. 2001-NY-1002)

Foster and Associates (Foster), a management agent in **Kalispell, MT**, has not administered two multifamily projects, Clark Fork Manor and Whitefish Manor, in full compliance with the Regulatory Agreements and HUD requirements. An OIG audit found that Foster has not properly executed the required management agreements; ensured that the required accounting records were properly established and used in the operations of the projects; or taken sufficient actions to ensure the annual financial audits were properly performed for the projects.

Although Foster has been collecting management agent fees for the two projects, these fees have been paid without the proper execution of the required written management agreements. Foster officials have also been serving as full time employees of the projects and receiving salaries. For Clark Fork Manor, Foster received nearly $154,000 in management agent fees for the 30-month period ending June 30, 2001. During this same period, a Foster official, as the project administrator, received nearly $142,000 in salaries. For Whitefish Manor, Foster received over $11,000 in management fees for the 21-month period ending January 31, 2001. A Foster official, as project manager, also received over $51,000 in salaries for this same period. Receiving both management agent fees and full time salaries violates HUD requirements.

In addition to Foster not fulfilling its responsibilities, the boards of directors for the two projects did not take adequate actions to meet their overall responsibilities to ensure that the projects were operated in conformity with HUD requirements. This included ensuring that the management agent was providing the required services to the projects.

The audit recommended that the boards of directors determine the type of management organization required to properly administer each project, either an independent fee agent or project administrator, but not both at the same time. (Report No. 2001-DE-1003)

Special Purpose Grants

In response to a request from HUD's Director of the Cleveland Multifamily Program Center, the OIG audited three Special Purpose Grants totaling $3.25 million awarded to the Alliance Community Hospital in **Alliance, OH**. We found that the Hospital generally administered two of the three grants correctly, but did not use funds from the third grant efficiently and effectively and failed to comply with the grant agreement. Specifically, the Hospital improperly used nearly $88,000 in grant funds to pay the salary and fringe benefits expenses of the hospital's vice president of strategic management when these expenses were not permitted by the grant agreement; used $6,000 in grant funds to pay part of two employees' salaries and fringe benefits for time they spent working on non-grant activities; and used $5,500 in grant funds to pay an employee's salary and fringe benefits without supporting documentation.

We also found that the hospital received $21,000 in program income from businesses participating in its Corporate Health Alliance activity funded by one of the grants when the income was not used to support the grant; failed to use sound management principles when it did not charge itself nearly $11,000 in grant services provided to its employees; and used over $8,900 in grant funds for public relations items that did not specifically promote its grant activities, and training and travel expenses for individuals who were not employed by the hospital. The audit recommended reimbursement of the Special Purpose Grant for the questioned disbursements and program income, and assurance that the hospital implements procedures and controls to correct the weaknesses cited in the report. (Report No. 2001-CH-1006)

Other Significant Audits

Use of Contractors by the Deputy Chief Financial Officer

In response to an anonymous complaint, we completed a limited review of the Deputy Chief Financial Officer's (CFO) use of contractors. Contractors were performing both inherently governmental functions and personal services that consisted of drafting Congressional testimony and correspondence, and responding to OIG and General Accounting Office audit reports. We found that contractor employees were performing functions that had been performed by HUD staff before downsizing, retirements, and other personnel changes.

We also found that PricewaterhouseCoopers (PWC) prepared statements of work (SOWs) at the request of the then Deputy CFO. Neither the Deputy CFO nor PWC disclosed PWC's participation in preparing the SOWs or the resulting organizational conflict of interest.

We recommended that the Deputy Secretary take appropriate administrative and disciplinary actions against the Deputy CFO for her role in requesting PWC to violate the Federal Acquisition Regulations, and review whether the Chief Procurement Officer (CPO) acted appropriately in deciding to allow PWC to recompete for the Funds Control contract. We also recommended that the CPO develop additional procedures for contracting staff, exclude PWC from recompetition, and require Government Technical Representatives and Government Technical Monitors to report inappropriate contracting actions. (Report No. 2001-AO-0002)

Government Performance and Results Act

The OIG performed a nationwide audit to evaluate HUD's compliance with the Government Performance and Results Act of 1993 (GPRA) and found that HUD has made significant improvements in its GPRA planning since its first attempt. Both the National Academy of Public Administration (NAPA) and the General Accounting Office (GAO) stated that HUD's 2000 Annual Performance Plan was an improvement over HUD's previous plan. Further, GAO stated that HUD continued to refine its performance goals and measures in its 2001 Annual Performance Plan.

We found that additional improvements are needed to comply with the requirements of GPRA. Specifically:

- HUD's Strategic and Annual Performance Plans presented an incomplete view of the agency.

- HUD did not use its Strategic and Annual Performance Plans as strategic tools to manage its program growth and staffing reductions.

- HUD's expanding international program activities were not fully reported or measured in its GPRA plans and reports.

- Because HUD did not establish baselines, it could not measure or report on results for 30 percent of the indicators in its Annual Performance Plan.

- HUD's strategic planning process lacked substantive, ongoing, and documented consultations.

We made a series of recommendations to assist HUD in refocusing its strategic planning. (Report No. 2001-FW-0002)

HUD's Information Security Program and Practices

In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected. As a result, the absence of an effective entity-wide security program, proactive leadership from the Office of the Chief Information Officer (OCIO), and adequate management, operational, and technical controls may lead to insufficient protection of sensitive or critical resources and compromise the integrity, confidentiality, reliability, and availability of information maintained in HUD's systems.

HUD has a long history of weak security practices, going back to a 1994 GAO review. In October 2000, OIG issued an audit report which disclosed that many of the security weaknesses reported by GAO remained uncorrected. Subsequent to the issuance of our October 2000 report, the Secretary transferred responsibility and accountability for information security from the Office of Administration to the OCIO. The OCIO has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during FY 2001, the OCIO initiated the planning and program development for an entity-wide security awareness and training program.

Despite these improvements, the Department has still not placed adequate emphasis on information security. As a result, we recommended that the Chief Information Officer: (1) provide adequate resources and authority to the Critical Infrastructure Assurance Officer to enable successful implementation of the entity-wide security program plan as outlined; (2) provide guidance, direction, and oversight to program area senior security managers on the performance of security assessments and establish procedures to review the results for completeness and accuracy that include specific tests designed to evaluate the effectiveness of security controls; and (3) proactively monitor and oversee the Department's security program and ensure that security weaknesses noted during independent and internal reviews of program specific systems are effectively corrected. (Report No. 2001-DP-0802)

HUD's System Development Efforts for the Real Estate Assessment Center

An OIG audit of HUD's system development efforts for the Real Estate Assessment Center (REAC) found that both efficiency and effectiveness of the system development process have to be improved. The procedures for procuring contractual services for system development do not ensure that the best value is being obtained. A potential of $1.06 million in maximum savings was possible if the best qualified and lower cost contractor had been fully utilized. REAC's project management of the system development efforts also needs improvement. Some systems did not meet users' needs and additional requests for project funding were necessary. Controls over security, including physical access to the REAC offices, personnel and contractor background investigations, and software access and integrity controls also need to be increased.

We found that the procurement problems were caused by HUD's over-reliance on the General Services Administration list of approved contractors and its belief that detailed contractor price and rate comparisons and verifications were not necessary. Project management problems were caused by late and inadequate reviews of contractor planning documents, especially the systems' functional requirements, and by inadequate use of project management software tools to monitor and question contractor progress and costs. Potential problems with physical and software security over existing REAC systems can be prevented by better enforcement of security policies and procedures.

The audit made recommendations to the REAC Director, the Chief Procurement Officer, and the Chief Information Officer to improve system development operations at REAC. (Report No. 2001-DP-0004)

Real Estate Management System

The Real Estate Management System (REMS) was designed to address weaknesses in disparate and decentralized systems used to manage and value HUD's vast multifamily housing portfolio. In the past, Multifamily Housing (MFH) servicing sites and HUBs relied on a collection of local databases and the Field Office Multifamily National System to track their individual property portfolios. However, these systems were not integrated and the data available were unreliable. Information in REMS is a critical asset and necessary for supporting MFH's overall program mission. Developed and implemented in FY 1998, REMS reportedly enabled the Department to successfully value and manage its vast multifamily housing portfolio using one system for the first time.

An OIG audit of REMS determined that although REMS is a significant improvement over past MFH system development efforts, application controls need strengthening. We found that MFH has not established adequate controls over the REMS application. Specifically, MFH has not: (1) implemented data input controls or performed data entry reviews in a timely manner; (2) documented operational procedures or provided end users with adequate training; or (3) formalized its change control procedures. As a result, REMS data are incomplete and/or erroneous, users are unable to utilize the system consistently or to its fullest potential, and users have had to reenter data after system modifications.

After completion of our audit field work, MFH implemented its Data Quality Information System (DQIS), an application that tracks REMS data quality. HUD Headquarters, HUBs, and servicing site staff wishing to view reports on REMS data quality will use DQIS. Based on our limited review of the DQIS plans and stated objectives, MFH is clearly taking a proactive approach to addressing its known data quality problems. We made a series of recommendations to the Deputy Assistant Secretary for MFH to prevent recurrence of the problems found during the audit. (Report No. 2001-DP-0003)

Chapter 4

Investigations

In addition to Housing Fraud Initiative responsibilities, the Office of Investigation investigates all types of potential wrongdoing in HUD's programs and activities. This Chapter presents results from: (1) white collar investigations relating to HUD's Multifamily, Public and Indian Housing, Single Family, and Community Planning and Development Programs; (2) other significant white collar investigations; and (3) investigations relating to violent crime and drug trafficking in HUD's Public and Assisted Housing Programs.

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations disclosed criminal equity skimming under Operation Safe Home, as well as false statements, criminal contempt, and accepting bribes.

Equity Skimming

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

Nemat Maleksalehi, also known as Matt Madison, the owner of three multifamily projects located in Pittsburgh, CA, Gillette, WY, and Lafayette, LA, along with Housing Network, the management agent for the three projects, pled guilty in **San Jose, CA**, to money laundering, mail fraud, conspiracy to defraud the United States, making a false statement to HUD, and aiding and abetting. Maleksalehi was initially indicted in February 2000 on charges relating to the diversion of funds from a multifamily project insured and subsidized by HUD. He was subsequently charged in related investigations in the Western District of Louisiana on May 9, 2001, and in the District of Wyoming on June 26, 2001. Maleksalehi submitted false invoices, tenant records, financial records, and other documents at all three projects, causing HUD to send him monthly housing subsidies and to release reserve funds which were to be used for major maintenance on the projects. He then converted the funds to his own personal benefit. As part of a global plea agreement, Maleksalehi paid $1,406,255 in restitution. He also paid a $400 special assessment fee to the Northern District of California.

This investigation was conducted by OIG Agents in Oakland, CA, Fort Worth, TX, and Denver, CO, and the IRS Criminal Investigation Division in San Jose.

Other Significant Investigations

Spoleta Construction and Development Corporation in **Rochester, NY**, was sentenced to 3 years probation and ordered to pay $116,000 in restitution to North Park Nursing Home, Inc., a $425,000 fine, and a $200 court assessment fee. In August 1999, Spoleta pled guilty to one count of filing a false statement with HUD. Spoleta submitted to HUD a fraudulent contractor's certificate of actual cost in connection with the construction of the Edna Tina Wilson Living Center, a federally insured nursing home. This was a joint investigation by the OIG, FBI, Department of Labor, and the U.S. Attorney's Office.

The U.S. Attorney for the Northern District of California filed a one-count information against an insurance broker for criminal contempt. The broker owned and operated an insurance services firm in **Santa Rosa, CA**, and insured approximately 50 multifamily HUD insured or subsidized properties for the Eugene Burger Management Company (EBMC). In addition, the insurance broker provided workers' compensation coverage for approximately 50 HUD related properties. On January 22, 2001, during a trial relating to EMBC and its owner, the presiding federal judge ordered the insurance broker not to speak with a particular government witness. On February 27, 2001, the charges against the EBMC owner were dismissed with prejudice after it was learned that the insurance broker spoke with the witness in an attempt to conceal his own scheme to divert money from the HUD insured and/or subsidized properties for which he handled the insurance. This investigation was conducted by the FBI, IRS Criminal Investigation Division, and the OIG Offices of Investigation and Audit.

Margaret Walters, a former asset manager in the HUD **Jacksonville, FL** Office, pled guilty to receiving items of value such as jewelry, dinners, a ceiling fan, a computer monitor, show tickets, and a wireless telephone from a management agent that she was responsible for monitoring. This was an OIG investigation.

Public and Indian Housing Programs

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

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

Fraud in Public Housing Administration

Audley Evans, the former executive director of the **Tampa, FL** Housing Authority (THA), and Clyde Chapman, a contractor doing business with the Authority, were sentenced in federal court. Evans was sentenced to 41 months in prison and 2 years supervised probation, and ordered to pay $209,294 in restitution to the THA. Chapman was sentenced to 18 months in prison and 1 year supervised probation, and fined $5,000. Evans and Chapman were previously convicted of conspiracy, bribery, accepting gratuities, and false statements. A jury found Chapman guilty of paying Evans over $200,000 in gratuities and bribes in exchange for over $21 million in contracts with the THA. Evans was also convicted on six counts of making false statements to HUD. Two other contractors who previously pled guilty to paying bribes to Evans are awaiting sentencing.

Bill Williams, Jr., a contractor who was previously convicted of paying bribes to get contracts with the THA, was sentenced to 41 months incarceration and 2 years supervised release, and ordered to pay $9,000 in restitution to the THAand a $50 court assessment. Williams testified that he paid Audley Evans over $100,000 in return for $3.2 million in contracts.

Angelo DePaul, former deputy director of planning and development at THA, who worked under Evans, was sentenced to 2 years probation, fined $2,000, and ordered to pay a $100 assessment fee. DePaul previously waived indictment and pled guilty to one count of misprision of a felony and one count making false statements concerning illegal activities at the THA. This investigation, which followed a 1998 OIG audit, was conducted by the FBI, IRS Criminal Investigation Division, Department of Justice, U.S. Attorney's Office, and the OIG Offices of Audit and Investigation.

In the same case, as a result of an investigation by OIG and the Hillsborough County Sheriff's Department, five individuals were arrested and charged under Florida Statute with organized fraud for their involvement in the theft of several THA Section 8 checks, which were forged and then cashed. Carolyn Griffin, Cornelia Smith, Amos Dexter, Jr., and Jason Grooms pled guilty and the remaining defendant is scheduled for trial.

Edward Farrow, the former financial director of the **Wilmington, DE** Housing Authority, and three personal friends, Douglas Robinson, Zachary Rollins, and April Battle-Lathem, were sentenced in U.S. District Court for their participation in a scheme to steal over $50,000 in federal funds from the Authority. In previous guilty pleas, the four admitted that Farrow issued his three friends Authority checks for contracting work that was never performed. Robinson, Rollins, and Battle-Lathem negotiated the checks, retaining a portion of the proceeds for themselves and returning most of the money to Farrow, which he used to pay personal expenses. Farrow was sentenced to 18 months in prison and ordered to repay $53,905 to the Authority's bonding company. Robinson and Rollins, who were not Authority employees, each received 8 months incarceration and were ordered to pay an aggregate of $53,905 in restitution. Battle-Lathem was sentenced to 3 years probation and ordered to pay $9,500 in restitution. This was a joint OIG/FBI investigation.

In **McRae, GA,** Mark Joiner, the former regional administrator of the Georgia Housing and Finance Authority (GHFA), and Craig Selph, a Section 8 landlord, were sentenced in federal district court for making false statements to HUD. Joiner was sentenced to 12 months imprisonment and 1 year supervised release, and fined $5,800. Selph was sentenced to 36 months supervised release, fined $10,000, and ordered to pay $85,854 in restitution. A federal grand jury previously returned a 29-count indictment against the two charging Joiner and Selph with conspiracy, mail fraud, false statements, HUD fraud, and submitting false claims to HUD. The indictment reflected that Joiner knowingly approved false Section 8 applications submitted by Selph. Selph received $425,000 in Section 8 benefits to which he was not entitled. The investigation was conducted by the FBI and OIG.

Lonnie Smith, the former executive director of the **Tuskegee, AL** Housing Authority, was sentenced in federal court to 33 months in prison and 3 years supervised release, and ordered to pay $1,059,000 in restitution. Smith was previously indicted by a federal grand jury on 8 counts of embezzling $1,059,000 from the Authority for personal use. He was also charged with one count of money laundering. Smith used the embezzled funds to finance personal businesses, vehicles, trips, and gifts to girlfriends. This was an OIG investigation.

Kerry L. Sims, former executive director of the Housing Authority of the Town of **Homer, LA**, was sentenced to 1 year and 1 day in prison and 3 years supervised release, and ordered to pay $86,488 in restitution and a $100 special assessment fee. Sims pled guilty to one count of theft or bribery. The sentencing was the result of a joint investigation by OIG and the FBI which disclosed that Sims diverted $86,488 in Authority funds he was not authorized to receive. James S. Williams, a former maintenance supervisor, has already been sentenced for accepting payment for work which was never performed at the Authority. Williams gave Sims a portion of the money he received for the work he never performed.

In **Little Rock, AR,** Tina Jones, an employee of the Helena Housing Authority, was sentenced for theft of property in an amount greater than $2,500. Jones received a 3-year suspended jail term, was placed on 1 year supervised probation, and was ordered to pay $42,310 in restitution to the Authority and perform 50 hours of community service. The sentencing followed a joint investigation by OIG and the Arkansas State Police Criminal Investigation Division. Jones admitted taking rent monies from residents, providing handwritten instead of computer generated receipts, and posting credit memos in computer records to offset rental amounts.

Alan Brown, former deputy director of the **Philadelphia, PA** Housing Development Corporation (PHDC), a HUD funded quasi City agency, was sentenced to 5 years probation and ordered to pay $23,000 in restitution to the PHDC. Brown was charged with theft of services, theft by deception, theft by failure, forgery, and criminal solicitation of public records. Brown used his position for personal gain by paying for renovations to his personal residence with PHDC funds, and using PHDC employees to perform personal work while they were on official time. He also admitted to filing fraudulent documentation with HUD in order to obtain reimbursement for construction projects where work was never performed. Lastly, he admitted to accepting material from City vendors and contractors for use on his personal residence. Brown admitted that during his 4-year tenure, he defrauded PHDC of more than $20,000 by rigging the contract bid process to ensure that his friends were awarded PHDC contracts. The sentencing stems from a 2-year joint investigation by the HUD and City of Philadelphia OIGs and the Philadelphia Police Department Internal Investigations Unit.

In **Kansas City, MO,** Nancy Foster was sentenced on charges of theft from an agency receiving federal funds. She was sentenced to 6 months home detention and 48 months probation, and ordered to pay $8,815 in restitution. She had voluntarily repaid the Fulton Housing Authority $21,429 prior to sentencing. Foster, the Authority's former resident initiative coordinator, stole $30,244 from the Authority by collecting rent from tenants and keeping the money for herself. She attempted to conceal the theft by recording the tenant receipts in the Authority's books and records, but she failed to record non-tenant receipts in the same amounts. This was an OIG investigation.

In **Charleston, WV,** Jeffrey A. Brickett, former executive director of the City of Williamson Housing Authority, was sentenced to 10 months in a halfway house and an additional 31 months supervised release for falsifying and concealing Authority records from an audit. Brickett was indicted and pled guilty to obstruction of a federal audit. Between 1997 and 1999, Brickett used his position to channel $25,699 from Public Housing Drug Elimination Grant Program funds for memberships to the Dynabody Health and Fitness Club. Brickett failed to disclose his ownership interest in the gym to HUD, and inflated the number of actual Authority residents using the facility. Brickett has already repaid the grant funds. OIG and the FBI conducted this investigation.

In **San Juan, PR,** Arturo Paz-Guzman, Richard Castillas, and José Cobian pled guilty to extortion, aiding and abetting, unlawfully obstructing, delaying and attempting to obstruct, and delaying and affecting commerce and the movement of articles and commodities in commerce by extortion. Andres Barbeito-Cambiella and Robert S. Prann-Laborda pled guilty to extortion. These five individuals included three former employees of the Department of Liquidation for CRUV (OLACRUV), the predecessor of the Puerto Rico Public Housing Authority (PRPHA), and two contractors. The individuals conspired to pay more than $500,000 in kickbacks in exchange for OLACRUV contracts. The OLACRUV employees used their influence to award contracts for the renovation and construction of housing units at the OLACRUV. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

Mark Fulmer, a rehabilitation specialist with the **Rochester, NY** Housing Authority, pled guilty to one count of bribery concerning programs receiving federal funds. Between 1993 and 1999, Fulmer solicited and received approximately $90,000 in kickbacks from contractors. This was a joint FBI and OIG investigation.

Joni Lynn Estrada-Pena pled guilty to one count of theft of federal program funds. While employed at the **Littleton** and **Aurora, CO** Housing Authorities, Estrada-Pena stole $78,559 in Authority funds. This was an OIG investigation.

Erricka Humphrey, an account assistant who worked in the finance department of the **St. Louis, MO** County Housing Authority, pled guilty to three counts of embezzlement. Humphrey set up a vendor account in the name of a friend and wrote checks payable to her friend. The friend cashed the checks and split the proceeds with Humphrey. The checks were drawn on the Authority's Section 8 account. This was an OIG investigation.

In **Pine Ridge, SD,** three individuals from the Oglala Sioux Tribe were indicted on one count of conspiracy and four counts of theft. The three embezzled housing funds from the Tribe by providing no-cost housing for family members and altering income statements in order to provide assistance to those who would not normally be entitled. This investigation was conducted by the HUD and Department of Veterans Affairs OIGs and the FBI.

The former president and the former vice president of the Waimanalo Housing Resident Association (WHRA) in **Honolulu, HI,** were indicted on two counts each of theft of federal program funds. An investigation by OIG disclosed that the two embezzled WHRA funds from a Tenant Opportunity Program (TOP) grant. The TOP was established to allow HUD to provide financial assistance to the resident associations of public housing projects. The ultimate goal was to promote self-help initiatives to enable the residents to create a positive living environment and increase resident satisfaction in public housing communities. From September 1995 through September 2000, the former officers allegedly embezzled a total of $48,750.

The owner of a local roofing contractor was charged in federal court with paying at least $106,000 in kickbacks to LuAnn Wade, the former property manager of Stuart Gardens Apartments, a HUD assisted complex in **Newport News, VA**. An investigation by OIG and the FBI found that the contractor and Wade conspired to steal federal funds by significantly inflating the cost of ceiling repairs to be performed at Stuart Gardens from 1997 to 1999, and then subcontracted the actual work to another firm, splitting about $250,000 in inflated profits. The defendant and Wade attempted to hide the kickbacks by laundering them through several bank accounts. Wade was previously convicted and sentenced.

The former executive director of the **Ferriday, LA** Housing Authority was indicted on four counts of theft or bribery concerning programs receiving federal funds. The indictment is the result of a joint investigation by OIG and the Louisiana Office of the Legislative Auditor which determined that while he served as the executive director, the individual established a private nonprofit organization through which Housing Authority funds were diverted for personal use. The individual was also found to have misappropriated additional Authority funds. The approximate loss is $160,000.

The former project manager for the **Ft. Pierce, FL** Housing Authority was indicted by a Florida State grand jury for embezzling $23,000 in rent receipts from the Authority. This was a Ft. Pierce Police and OIG investigation.

A former **San Antonio, TX** Housing Authority management aide was indicted by the Bexar County District Attorney's Office for the misapplication of fiduciary property. The indictment is result of an OIG investigation which found that the aide allegedly stole $6,658 from the residents of the Villa Veramendi Apartments by accepting rental deposits and then failing to turn over the funds to the complex. No further proceedings have been scheduled at this time.

Other Investigations

As a result of a 2-year investigation in **Newark, NJ**, by the West African Task Force (WATF), Ralph Dhlamini, Abosede Adekanmbi, Kehinde Abass, Chris Agho, Tunde Shittu, Osawaru Ekomwen, Ato Evans, Cornelius Okungbowa, Ebe Agho, Abiodum O. Thompson, Ifeolu Olasogba, Chris Onokoya, and Mary Adjei-Robinson, also known as Mary Adeji, were sentenced to a total of 42 years probation and nearly 4-1/2 years home confinement. In addition, the defendants were ordered to pay a total of $198,446 in restitution to HUD. All of the defendants were arrested in 1999 and charged with theft of government funds.

Kehinde Ayinde, also known as Kenny Ayres, was convicted of conspiracy to commit mail fraud in connection with federally subsidized housing, identity document fraud, mail fraud in connection with credit cards, transfer of false identity documents, and possession with intent to transfer five or more identity documents. Ayinde worked at a storefront business known as P&C Printing and Convenience Center, later known as Power Electronics of **Irvington, NJ**. This business specialized in producing false documents for almost every type of fraudulent activity until it was shut down by members of the West African Task Force (WATF) in February 1999. The WATF is a multi-agency entity including the OIG, FBI, INS, IRS Criminal Investigation Division, the U.S. Attorney's Office, Postal Inspection Service, and the Secret Service, tasked by the Department of the Treasury to investigate instances of widespread fraud. Ayinde was remanded to the custody of the U.S. Marshals after the jury rendered its verdict.

Evelina Jones, an eligibility specialist with the Westchester County Department of Social Services in **White Plains, NY**, was sentenced to 6 months home detention and 3 years supervised release, and was ordered to pay $25,840 in restitution to HUD and a $100 special assessment. In addition, Jones was ordered to forfeit a $5,400 savings account to HUD as the start of her restitution payment plan. Jones was arrested by OIG Agents at her place of employment on charges that she concealed her employment and true household income from 1989 through 1999 in order to obtain nearly $30,000 in Section 8 rental assistance payments for which she was ineligible. She also falsely reported that she was unemployed in 1999, and that from 1990 through 1998 she was employed as a part-time salesperson. As a Westchester County civil servant, her annual income is over $46,000. Part of her duties include determining and approving the eligibility of persons to receive public assistance, food stamps, and Section 8 rental assistance. Jones pled guilty to one count of submitting false statements.

In **Dallas, TX,** Armenter R. Johnson was sentenced on one count of submitting false statements and was ordered to serve 180 days home confinement, placed on 5 years supervised release, and ordered to pay $23,967 in restitution. The sentencing is the result of an investigation by the FBI and OIG which found that from March 1995 until March 1998, Johnson provided false information to HUD and the Arlington Housing Authority regarding her family income. In addition, she provided false employment verification documents to the Grand Prairie Housing Authority.

Mitchell Bell was sentenced in federal court to 5 months home detention and 5 years probation, and ordered to pay $21,612 in restitution to HUD. Bell and co-defendant Leanne Moore were indicted for making false statements, which resulted in their being paid more than $21,000 each in rental assistance from the **Lakewood, CO** Housing Authority. Moore was sentenced to 6 months home detention and 5 years probation, and ordered to pay $21,612 in restitution to HUD. This was an OIG investigation.

Sharon Bohannon pled guilty to making false statements to HUD. In her position as manager of Atchley Apartments, a HUD subsidized apartment complex in **Knoxville, TN**, Bohannon falsely reported tenant rent payments to HUD. She collected higher rent payments than she reported, and kept the extra money for herself. Bohannon was sentenced to 6 months home detention and 5 years probation, and ordered to pay $20,200 in restitution. This was a joint investigation by OIG and the FBI.

Minneapolis, MN Section 8 landlord James H. Robinson was sentenced to 1 year supervised release and ordered to pay $19,400 in restitution. Robinson previously pled guilty to occupying the same unit as his Section 8 tenant. He gave the local housing authority a fictitious address to which housing assistance payments were sent, thereby hiding the fact that he resided with the tenant. This was an OIG investigation.

In **Brooklyn, NY,** Elizabeth Lorenzo, a former New York City Police Department (NYPD) Officer, was sentenced to 6 months home confinement, 5 years probation, $11,000 in restitution to HUD, and a special court assessment fee of $325. She was convicted on four counts of submitting false claims to the government. Lorenzo was a co-defendant in this case, along with her husband, Louis Lorenzo, a New York City Housing Authority caretaker, who pled guilty to one count of submitting false claims to the government. Louis Lorenzo was sentenced to 6 months home confinement, 5 years probation, and $11,550 in restitution to HUD. The two defendants conspired to conceal Elizabeth Lorenzo's income as a Police Officer by submitting false documents in order to benefit from subsidy payments. Neither of the Lorenzos would have been eligible for assistance payments if they had truthfully disclosed Elizabeth Lorenzo's salary.

This investigation was initiated after a complaint was filed with the NYPD's Internal Affairs Bureau. The investigation was conducted by OIG, the New York City Housing Authority OIG and NYPD's Brooklyn South Investigation Unit.

Patricia Raynes, the former resident manager of a Section 8 assisted apartment complex in **Everett, WA**, was sentenced to 15 days imprisonment, 105 days of home detention with electronic monitoring, 3 years supervised release, $10,721 in restitution, and a $100 special assessment fee. Raynes, who was convicted on charges of felony theft of public funds, embezzled tenant rent receipts and utility subsidy payments. This was an OIG investigation.

In Colorado State Court, Sylvester Licano pled guilty to one count of false statements and was sentenced to 48 months supervised probation, 90 days work release, and 60 hours of community service, and was ordered to pay $9,606 in restitution. Licano submitted false statements in order to receive more than $7,500 in rental assistance to which he was not entitled from the **Lamar, CO** Housing Authority. This was an OIG investigation.

Elaine Sanders, a resident of the Housing Authority of **Port Arthur, TX**, was sentenced for submitting false statements. She was placed on 5 years supervised release, ordered to pay $8,998 in restitution and a $50 special assessment fee, and ordered to perform 200 hours of community service. The sentencing is the result of an OIG investigation which found that Sanders made false statements to the Authority in order to receive a reduced rent on her public housing unit.

Melissa Rae Perry, a former Section 8 rental assistance recipient in **Sacramento, CA,** was sentenced to 36 months probation and 20 hours of community service, and ordered to pay $8,142 in restitution and a $25 special assessment. Perry pled guilty to one count of making false statements to obtain housing assistance. In 1995, Perry qualified for Section 8 assistance, but in the years 1996, 1997, and 1998, her income was such that she no longer qualified for full assistance. Perry, who worked as a flight attendant, falsified her annual income verification forms and forged the signatures of her supervisors in order to continue to receive assistance. This was an OIG investigation.

Demetrio Perez, a Section 8 landlord who was also a prominent public official in the **Miami, FL** area, pled guilty to five counts including conspiracy to commit mail fraud, mail fraud, and making false statements. Perez agreed to pay $210,000 in restitution. An investigation by the OIG, FBI, and the Miami-Dade Police Department disclosed that Perez had overcharged Section 8 tenants living in his properties.

In **San Juan, PR**, Juan Irizarry Valentin, a supervisory public housing specialist in the HUD Caribbean Office, pled guilty to bribery, theft of government funds, and extortion, and shall forfeit to the government all property, including a 306-acre farm and a motor vehicle, derived from or traceable to proceeds related to the charges. Juan Valentin arranged to have the management company hire his brother Samuel for $15,000 per month. Samuel Valentin then gave over $226,000 to Juan, which he used to purchase the farm. Samuel Valentin Toro, a former employee of a management company, previously pled guilty to conspiracy and theft of HUD funds and agreed to pay $180,386 in restitution. The owner of the management company was indicted by a federal grand jury on charges of conspiracy to defraud, embezzlement, bribery, and money laundering. The management company had been awarded a $30 million contract to manage several Puerto Rico Public Housing Authority (PRPHA) developments. Juan Valentin was responsible for monitoring PRPHA privatization contracts. He received over $195,000 in kickbacks, through Valentin Toro, from the management company between April 1999 and January 2001. Juan Valentin purchased the farm and a four track vehicle with the kickback money. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

In a separate investigation in **San Juan, PR**, a former management agent was indicted by a federal grand jury and charged with conspiracy to interfere with commerce by extortion induced by economic fear, and knowingly and willfully conducting and attempting to conduct financial transactions affecting interstate and foreign commerce. The management agent allegedly conspired with Freddy Valentin, a former Senator of the Commonwealth of Puerto Rico, to obtain management contracts with the PRPHA. The indictment reflects that the defendant paid Valentin $129,000 in exchange for Valentin's assistance in obtaining the management agent contract with the PRPHA.

John Pallis, also known as Ioannis Pallis of **Queens, NY**, pled guilty to defrauding HUD and/or the Social Security Administration (SSA). Pallis, a mechanical engineer employed at John F. Kennedy International Airport, was arrested on March 21, 2001, by HUD and SSA Special Agents at his place of employment. While employed from 1992 through 1999 at one company, Pallis concealed his income and employment from SSA by using a Social Security number issued to him under his Greek name. He collected SSA disability payments under his American name and a different Social Security number. Pallis resided in a HUD subsidized assisted housing development, concealing his income and employment from the management agent and HUD from 1994 through 1999 by using one of the Social Security numbers and his Greek name. Pallis, who actually earns over $50,000 per year, obtained a total of $69,397 in SSA disability payments and $45,375 in HUD Section 8 rent subsidy assistance by not only using false Social Security numbers and submitting false statements, but also by submitting false claims to the United States regarding the extent of his injuries allegedly suffered in 1991. Loss to the government is estimated at $114,772.

In **Oakland, CA,** Jimmy E. White, a Section 8 resident who lived at the HUD subsidized multifamily housing complex known as Apollo Housing, pled guilty in federal court on one count of making false statements to HUD. White underreported his annual income on his initial and subsequent Section 8 recertifications to HUD and to Apollo Housing's management by failing to disclose his receipt of federal worker's compensation benefits. White had received more than $140,000 in worker's compensation benefits since 1991. Since 1992, HUD has paid more than $48,000 in Section 8 subsidies on behalf of White. The investigation was conducted by HUD OIG based on a referral from the Department of Labor OIG.

Norman J. Gallant pled guilty to two counts of mail fraud, one count of Social Security fraud, and one count of tax evasion. Gallant, a Section 8 recipient in **Springfield, MA**, used a trust to conceal his ownership of the condominium in which he resided as well as other assets. He also received Medicaid payments for a fictitious personal care attendant, fraudulently obtained Social Security disability benefits, and evaded payment of federal income taxes on the proceeds of his criminal activity. This was a joint investigation by the HUD, Social Security Administration, and Department of Health and Human Services OIGs and the IRS Criminal Investigation Division.

A one-count amended bill of information was filed against a property owner doing business as Housing Network, Inc., owner of the Acadian Manor Apartments, a 140-unit Section 8 assisted property in **Lafayette, LA**. The owner is charged with conspiracy. The information was filed as the result of a joint investigation by OIG and the FBI which disclosed that the property owner devised a scheme to obtain Section 8 benefits from HUD to which he was not entitled, and to control and discriminate by race and age against potential Section 8 residents of Acadian Manor. The loss to the government is $220,658.

The Alameda County District Attorney's Office filed a felony complaint in Alameda Superior Court charging a Section 8 resident with welfare, disability, food stamp, and housing fraud. The resident was charged with 7 counts of perjury, theft of property in excess of $400, and providing false statements to the Social Security Administration, the Alameda County Human Services Agency, and the **Oakland, CA** Housing Authority concerning her disability and income. The individual, who claimed to be disabled and unemployed, was working and earning income from 1998 to 2000. In 2001, she applied for and received worker's compensation benefits. However, she failed to disclose her employment earnings or her worker's compensation benefits to the appropriate federal and local agencies. She received more than $61,000 in benefits to which she was not entitled. The HUD and Social Security Administration OIGs and the Alameda County District Attorney's Office conducted this investigation.

A federal grand jury indicted two sisters on three counts each of submitting false statements by failing to report their actual income to the **Columbia, MO** Housing Authority, and one count each of conspiracy for falsifying a letter to the Authority. In addition, one sister was charged with one count, and the other with two counts, of student aid fraud for falsifying certifications to the Department of Education. The loss to the government as a result of these alleged frauds is approximately $36,500. This investigation was conducted by the HUD and Department of Education OIGs.

In **Beverly, MA,** a criminal complaint was filed in state district court charging a Section 8 tenant with 5 counts of larceny by deception involving over $2,000. The complaint resulted from an OIG investigation which found that the tenant allegedly received more than $34,000 in Section 8 rental subsidies to which she was not entitled by failing to report her husband's income and that fact that he was part of her household. The husband's income, if reported, would have excluded the tenant from receiving any rental subsidy.

A **Baltimore County, MD** grand jury charged a rental assistance recipient with falsifying official documents to obtain approximately $12,000 in excess assistance. An investigation by OIG and the Baltimore County Police disclosed that the defendant failed to report income from unemployment compensation. The investigation was initiated after newspaper articles related how the recipient, who was reporting minimal income, had been detained by airport authorities after returning from an overseas trip.

In **Martinez, CA,** two Section 8 residents were charged with 1 count of welfare fraud, 12 counts of perjury, and 1 count of grand theft. An investigation by

OIG and the Contra Costa County District Attorney's Office found that the residents allegedly failed to report income from a gardening service business they began in 1990 from which they earned between $6,000 and $9,000 per month, while at the same time receiving welfare and housing benefits. From April 1996 until April 2001, over $58,000 in housing assistance payments were paid on their behalf.

In **Brooklyn, NY**, a New York City Human Resource Administration (HRA) caseworker was indicted by the Supreme Court of the State of New York on 13 counts of grand larceny, welfare fraud, offering a false instrument for filing, and issuing a false financial statement. The caseworker allegedly received $29,550 in public assistance and rent subsidies to which she was not entitled while working full time with the HRA and as a private sector association counselor. The caseworker failed to disclose her employment and actual income on three tenant certifications filed with HUD. As a result, she illegally obtained $7,246 in HUD rent subsidies. The caseworker voluntarily surrendered for arrest.

This was a joint investigation by the New York City Department of Investigation, Office of the Inspector General, and OIG. The investigation stemmed from an anonymous complaint.

In **St. Louis, MO,** a Section 8 tenant was indicted on 2 counts of stealing over $750, second degree burglary, and failure to return property. The tenant sublet her Section 8 unit to another individual while she rented a separate non-Section 8 apartment. The day after the subject's tenant cooperated with the Housing Authority and informed them of the arrangement, the subject rented a truck, burglarized the Section 8 residence, and then abandoned the truck after emptying its contents. This was an OIG investigation.

A Section 8 landlord, who was also a prominent public official in the **Miami, FL** area, was indicted by federal grand jury on 10 counts of mail fraud, 10 counts of making false statements to HUD, and 1 count of conspiracy. The charges were the result of an investigation by OIG, the FBI, and the Miami-Dade Police Department which disclosed that the landlord allegedly overcharged Section 8 residents living in his properties.

An individual was indicted by a federal grand jury on 10 counts of making false statements in order to obtain Section 8 rent subsidies, unemployment compensation, and food stamps. The indictment charges that from September 1997 to August 2000, the individual submitted false personal declaration forms and zero income certification forms to HUD through the Northeast Community Action Corporation and the **St. Louis, MO** Housing Authority, which administer Section 8 rental subsidy programs. This was an OIG investigation.

A former employee of the **Louisville, KY** Housing Authority was charged with one count of knowingly transmitting a death threat to another Authority employee. The individual previously confessed that he had sent two threatening e-mails to the Authority's executive director after the individual was terminated from employment at the Authority. The individual is scheduled to appear in federal district court to enter a guilty plea. This was an OIG investigation.

In **Lac Du Flambeau, WI,** Miron Construction reached a settlement agreement with the Department of Justice, Civil Division, for the Western District of Wisconsin and agreed to pay the Chippewa Housing Authority $208,000 in addition to completing $67,000 worth of repairs on Authority property. In total, $275,000 will be paid out by Miron Construction. The original allegation stated that Miron provided false invoices to the Housing Authority while performing work for them. This investigation was conducted by the OIG Offices of Investigation and Audit.

Property owner Floyd Patterson entered into a stipulated agreement to reimburse HUD $14,736. Patterson, along with accomplice Delores Robinson, a Section 8 recipient, violated the False Claims Act by submitting three documents to HUD purporting that Robinson was eligible to receive housing assistance under the Section 8 Voucher Program. The agreement was the result of an OIG investigation which disclosed that Patterson and Robinson prepared, signed, and submitted to HUD, through the Lafourche Parish Housing Authority in **New Orleans, LA**, a request for lease approval. They also submitted a housing assistance payments contract to the Authority, providing for assistance for one or more of Robinson's family members. Robinson herself was not listed as a family member, but lived in the home in question, received mail at the home, listed the home's address on tax returns, and received Section 8 checks at the home. In total, Robinson received $14,736 in benefits to which she was not entitled. Because of the stipulated agreement, no criminal proceedings or civil complaint will be filed.

An investigation by OIG and the **Jacksonville, FL** Police Department resulted in the arrest of an individual for making false statements to obtain public housing. Between January 1996 and August 2000, the defendant allegedly failed to disclose a material fact in certifying and recertifying to receive rental assistance benefits. The defendant allegedly received $25,787 in assistance to which he was not entitled.

OIG Agents and **St. Joseph, MO** Police Department Officers arrested an individual on a state warrant for stealing by deceit. The arrestee, a former Section 8 recipient, failed to report her employment income to the St. Joseph Housing Authority and received approximately $12,000 in Section 8 overpayments.

Single Family Housing Programs

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

Mark Rosenberg, a **Ft. Lauderdale, FL** multi-millionaire investor and leader/organizer of a property flipping scheme, was sentenced to 84 months in prison and 3 years supervised release, and ordered to pay $3.1 million in restitution to the victims of the scheme, including HUD. He previously pled guilty to conspiracy to commit bank fraud and making false statements on FHA insured mortgage applications.

Mimi Lawrence, a real estate broker and tax preparer, was sentenced to 12 months and 1 day in prison and 3 years supervised release, and ordered to pay $881,504 in restitution to HUD. Lawrence previously pled guilty to conspiracy to commit bank fraud and making false statements on FHA insured mortgage applications.

Rosenberg and Lawrence were charged, along with six other individuals, with participating in a scheme from 1993 to 1996 to fraudulently purchase HUD owned properties by paying strawbuyers to pose as owner/occupants. The properties were then refinanced with FHA and conventional mortgages and sold to unqualified buyers at inflated prices with the help of fraudulent employment and income information. FHA and conventional loans totaled over $15,000,000. The investigation was conducted by the OIG, IRS, and FBI.

William and Charles King were sentenced for their part in a single family housing fraud scheme. Both previously pled guilty to one count of false statements. Both William and Charles King were sentenced to 6 months home detention and 3 years probation, and were ordered to pay $273,717 in restitution to HUD. At the time of sentencing, on the King's behalf, their attorney gave a check to the clerk of the court for $50,000 as partial payment of the restitution.

In 1996 and 1997, William and Charles King purchased several homes in the **Buffalo, NY** area at minimal prices. They then made superficial repairs to the properties and sold them to unsophisticated first time homebuyers at extremely inflated prices. Because the homebuyers did not have the financial resources to purchase these homes, the Kings provided the homebuyers with the down payment in the form of gift donor funds. They then instructed the homebuyers to have a relative or friend fraudulently sign the gift donor letters provided to the bank stating they provided the homebuyers with the funds. This was an OIG/FBI investigation.

Minneapolis, MN real estate agent Burnie Battle was sentenced to 1 year incarceration and 3 years supervised release, and was ordered to pay $183,419 in restitution to 6 victims. Battle orchestrated a property flipping scheme involving FHA and conventional loans. As part of the scheme, he bought properties at low prices and sold them for much higher prices, on or about the same day. This investigation was conducted by the FBI and OIG.

Stanley Rabner, president of Fredmont Builders, a now defunct general contracting firm in **Pittsburgh, PA**, was sentenced to 20 months incarceration and 36 months probation, and was ordered to pay $218,145 in restitution to HUD. The sentencing stemmed from his April 2001 guilty plea to defrauding poor and elderly homeowners by falsifying their income, income sources, and credit worthiness in order to secure approval for HUD insured Title I loans for which they did not qualify. A 3-year joint investigation by the OIG Offices of Investigation and Audit and the IRS found that Rabner generated as many as 70 fraudulent Title I loans worth approximately $1 million. The investigation focused on 15 fraudulent loans totaling $218,145 for which HUD paid claims and disclosed that more loans would have resulted in claims if many homeowners had not taken extraordinary measures to avoid default.

In **Tampa, FL**, Robert Norman, an individual who rehabilitated homes, arranged for fictitious mortgage down payments, and sold shoddy homes to low-income residents, was sentenced to 15 months incarceration and 2 years supervised release, and ordered to pay $77,147 in restitution to HUD and a $100 special assessment. Norman began buying and selling dilapidated houses in St. Petersburg in 1995, making minor repairs and then doubling or tripling the price that he charged low-income homebuyers to purchase the homes. Over a 3-year period, he bought and sold more than 220 homes, and at one time owned more homes than anyone in St. Petersburg. He violated HUD rules by making down payments for the homeowners by giving the money to relatives of the homebuyers, who falsely claimed that the money was a gift. After the sale, the homeowners discovered that the homes needed costly repairs; they could not afford to sell out because they paid too much for the homes in the first place. More than 100 properties have gone into foreclosure. This investigation was conducted by the OIG and the FBI.

In **St. Louis, MO**, Bennet Kennell, also known as Denney Kennell, was sentenced to 14 months in prison and ordered to pay $47,796 in restitution following his guilty plea to 1 felony count of making false statements to HUD. In June 1996, Kennell applied for and received an FHA insured loan by using a fraudulent Social Security number and false employment and wage information. The loan was a first payment default, resulting in a loss to HUD of $47,796. Kennell was indicted in December 1999, and was a fugitive for a year. He was arrested in Atlanta, GA, in December 2000. His bond was revoked for violations of his pretrial conditions, and he has remained in federal custody. This was an OIG investigation.

Minneapolis, MN real estate agent Larry Darnell Maxwell, who pled guilty in February 2001, was sentenced to 180 days home confinement and 5 years supervised release, and ordered to pay $37,592 in restitution to HUD. An investigation by OIG and the IRS Criminal Investigation Division disclosed that Maxwell submitted fraudulent applications for FHA insured mortgages on behalf of nine clients.

Ali Hufani and Faduma Hufani were sentenced to 6 months home monitoring and 5 years probation, and ordered to pay a total of $6,020 in restitution. These sentencings resulted from initiatives by the SnoFraud Multi-Agency Task Force, which was created in **Everett, WA**, to focus on widespread mail, housing, food stamp, social security, and welfare fraud. Approximately 300 potential suspects have been developed. The Task Force includes the HUD, Social Security Administration, and Department of Agriculture OIGs, the FBI, INS, Postal Inspection Service, and the Washington Department of Health and Human Services.

As a result of a joint investigation by the OIG, FBI, and IRS Criminal Investigation Division — designated "Operation Straw House" — multiple subjects have pled guilty and been sentenced for their involvement in a money laundering scheme wherein they used the U.S. mail to submit false information to fraudulently obtain over $1 million in home improvement loans (about 50 Title I loans) insured by HUD. The overall scheme may involve 3 criminal organizations and an estimated $74 million in fraudulent loans obtained by approximately 75 individuals.

Real estate investors Gary Cross and John Pounds pled guilty to wire fraud and mail fraud, respectively, for their roles in the scheme. Real estate agent Michael Waggett was sentenced to bank fraud. He obtained more than $2 million of mortgage loans in his name based on false statements. Waggett was sentenced to 18 months in prison and 60 months supervised release, and ordered to pay a $100 special assessment and $95,472 in restitution to the Bank of Yorba Linda, CA.

Frank D. Mei, Sr., pled guilty to one felony count. As part of the scheme, he provided false information on applications for conventional and FHA insured single family mortgage loans as well as home improvement loans in the **Houston, TX** area.

Three investors pled guilty to money laundering. Frank Domenic Mei, Kevin Mei, and Daniel Mei, doing business as Mei Enterprises, BCM Builders, Zeno Properties, T&E Investments, Inc., Foresite Mortgage, Innovative Residential Funding, Venture Southwest Realty, and Bernard Management, among others, admitted to engaging in a scheme in which they defrauded commercial lenders and federally insured banks out of single family mortgage proceeds. They conspired with each other and with real estate appraisers, loan officers, and others to carry out the scheme and defraud commercial lenders out of more than $30 million in loan proceeds. The Mei's located houses listed for sale in the Houston area, obtained fraudulent appraisals inflating the value of the houses by approximately $100,000, and applied for mortgage loans in the names of strawbuyers. Based on the false statements regarding the true value of the houses and the identities of the borrowers, banks and other lenders provided more than $30 million in loans beginning in April 1996 and continuing into 2000.

Two investors pled guilty to one count each of money laundering related to over $1 million in fraudulently obtained HUD Title I insured home improvement loan proceeds. John Francis McGrath and Alex Francis McGrath, doing business as AA Quality Construction, admitted submitting numerous false documents, including W-2s, bank statements, and employment information, to lenders in order to obtain HUD insured home improvement loans for borrowers. They also admitted to conspiring with BCM Builders and others to defraud HUD and commercial lenders.

Phillip Durban, a construction manager for BCM Builders, pled guilty to one count of wire fraud in connection with the scheme. BCM is a HUD Title I home improvement contractor. Durban obtained 2 HUD insured Title I loans for a total of $50,000 and 4 fraudulent single family mortgage loans totaling in excess of $800,000 by submitting false information to commercial lenders. The false information included employment history, income level, and intended use of the loans. A former escrow officer with Citizens Title Company was charged with mail fraud for assisting BCM Builders in obtaining single family mortgage loans based on false statements. The owner of Beacon Realty was also charged with mail fraud.

William Kyle Triplett, a former construction manager for American Eagle Construction, an FHA Title I home improvement contractor, was sentenced to 10 months home confinement and 36 months supervised release, and ordered to pay a $100 special assessment. Triplett previously pled guilty to one count of bank fraud.

John Garcia, a real estate investor, was sentenced for his role in the scheme. Garcia previously pled guilty to one count of bank fraud. He was sentenced to 1 day in jail, 10 months home confinement, and 3 years supervised release, and ordered to pay a $100 special assessment. Restitution is to be ordered by the court at a later date.

Following a 3-week trial, FHA approved real estate appraiser and broker Joe Bob Moncrief was convicted on 18 counts of a federal indictment which included bank fraud, wire fraud, conspiracy, money laundering, and monetary transactions with criminally derived proceeds in excess of $10,000.

Maria McDonald, the owner/operator of Maria's Real Estate in **Houston, TX**, was charged with submitting false statements, pled guilty, and agreed to immediately repay HUD $99,000. These actions are the result of an investigation which determined that McDonald engaged in a scheme using strawbuyers to misrepresent their intention to be owner/occupants in the purchase of HUD owned properties. In reality, McDonald acquired the properties and resold them at a profit to legitimate homebuyers. McDonald exploited a predominately Spanish speaking clientele to whom she sold the homes at inflated prices. She provided the strawbuyers with earnest money and paid some of them a fee of $500. In accordance with the plea, McDonald has repaid HUD $92,803. This investigation was conducted by the OIG Offices of Investigation and Audit.

Ft. Lauderdale, FL closing attorney Dennis Stewart pled guilty in federal district court to one count of making false statements to obtain FHA insured mortgages. Stewart participated in a scheme to fraudulently originate Section 203(k) mortgages by not paying the required down payments. The scheme involved over 80 properties with mortgages totaling over $3.2 million. The investigation was conducted by the OIG Offices of Investigation, Audit, and Counsel.

Marcus Andre Stancil, Wendy Andrea Dilbeck, and Regina McLean of **Atlanta, GA,** pled guilty in federal court to conspiracy to defraud HUD. Stancil, Dilbeck and another individual were indicted by a federal grand jury on 64 counts of conspiracy, wire fraud, mail fraud, money laundering, using false Social Security numbers, and HUD mortgage fraud. The properties involved mortgages totaling over $2.4 million. The indictment also contained a forfeiture provision for all assets obtained through their criminal activity. The defendants used false identification to obtain mortgages and had strawbuyers assume the identities of other individuals in order to purchase the properties. The defendants then lived in the properties or rented them without making any mortgage payments. They delayed foreclosure proceedings by filing false bankruptcy petitions in the names of the purported owners of the properties. This investigation was conducted by the FBI, IRS Criminal Investigation Division, and the HUD and Social Security Administration OIGs.

In **Miami, FL,** investor Mark Cohen pled guilty in federal court to conspiracy to commit wire fraud, HUD fraud, mail fraud, and money laundering. Cohen was earlier indicted along with a closing attorney and an employee of a real estate investment company. The individuals were 3 of the 7 members of an organization who were previously indicted on 11 counts of conspiracy and 10 counts of HUD loan fraud and bank fraud. From 1996 to 1999, the defendants allegedly conspired to fraudulently originate over 120 FHA insured loans, through 7 banks and 9 mortgage companies, by creating false gift letters and income information for individuals who could not qualify for the loans. The loans totaled over $11 million. In addition, the loan amounts were inflated as a result of flip sales from the original sellers to the defendants, who then sold the properties at inflated prices to the unqualified buyers on the same day, financing the purchases with the FHA loans. The properties were inflated an average of over $15,000 each. The average loss on the properties is over $30,000 and the total loss to HUD is expected to be over $1.7 million. The defendants included closing attorneys, real estate brokers, mortgage brokers, loan officers, loan processors, title company employees, and the owner of a printing company, who created the false documentation. The investigation was conducted jointly by the FBI and the OIG Offices of Investigation and Audit.

In **Norfolk, VA**, real estate developer Matthew Davis pled guilty to loan origination fraud involving 15 FHA insured property transactions. Davis admitted that he purchased numerous HUD owned properties, made minor repairs, and then resold the properties at substantially higher prices. He also admitted providing prospective buyers, who otherwise would not have qualified for the mortgages, with funds for down payments and to pay off personal debts. He secured these funds with second mortgages that were never disclosed. The potential loss in this case exceeds $1 million. This investigation was conducted jointly by OIG and the FBI.

Ralph Pena, a former loan officer for Main Street Mortgage Services in **Saddlebrook, NJ**, pled guilty in federal court to submitting false statements to the government. Pena agreed that his actions caused damages to the FHA Single Family Mortgage Insurance Program ranging from $500,000 to $800,000. This was an OIG/FBI investigation.

Alexander Ajemian, controller at MCA Financial Corporation in **Detroit, MI**, pled guilty to one count of mail fraud and one count of false statements. MCA Financial, which operated through two subsidiaries, Mortgage Corporation of America and MCA Mortgage Corporation, a HUD direct endorsement lender, also owned an identity of interest HUD approved nonprofit, known as Detroit Revitalization, Inc. Ajemian participated in a scheme by lying to investors, the Securities and Exchange Commission, and HUD by misrepresenting the mortgage company's financial position and preparing fraudulent financial statements. The State of Michigan has also filed state criminal charges against Ajemian and the chief financial officer, the president, and the chairman of MCA Financial for securities fraud. This was an OIG investigation.

In **Atlanta, GA**, Lupita McCarthy pled guilty in federal district court to one count of conspiracy to defraud HUD. McCarthy was previously charged for her role as a money launderer in a property flipping scheme. She set up a corporation named Sea Breeze Design that submitted invoices to a closing attorney that detailed repairs and renovations that had allegedly been done on the flipped properties. To disguise the flips, most of the fraudulently obtained loan proceeds were paid to Sea Breeze Design so that huge amounts of money would not be shown as cash to the sellers. In reality, Sea Breeze Design was just a shell corporation used to launder the loan funds and disburse the flip proceeds to all of the co-conspirators. No actual construction or design work was ever done to flipped properties by Sea Breeze. The investigation was conducted by the FBI and OIG.

Five former loan officers of Mortgage Capital Resource Corporation in **Las Vegas, NV,** were indicted by a federal grand jury on a total of 20 counts of conspiracy, false statements, and false use of a Social Security number in a scheme to defraud HUD in the origination of FHA loans. The loan officers allegedly created false pay stubs, W-2 forms, credit reports, and verifications of employment, along with false employers, income, and assets. An investigation by OIG and the FBI disclosed 25 fraudulent loans originated by the 5 loan officers valued at $2,661,263 with a loss, to date, of $1,175,845.

A grand jury returned a third superseding 51-count indictment against 4 individuals for their part in a property flipping scheme. The first individual would allegedly acquire properties in the **Denver, CO** Metro area, using his mother, who was one of the four indicted, as the real estate agent. Together they would obtain strawbuyers to purchase the properties, providing false information so that the strawbuyers would qualify for the loans. The other two individuals, one of whom provided false income tax returns, income information, and W-2's for strawbuyers, also allegedly acted as a strawbuyer in a number of the purchases. Once the strawbuyers purchased the properties, the first individual's mother would receive a large real estate commission. This first individual would then file false releases of deeds indicating that his mortgages were paid off and that he owned the properties free and clear. He would then obtain another loan from a different mortgage company via another strawbuyer and begin the process all over again.

Charges against the four individuals included conspiracy to commit offenses, mail fraud, wire fraud, making false statements in order to obtain HUD insured loans, use of an unauthorized access device, conspiracy to launder money and engage in monetary transactions in property derived from specified unlawful activity, and fraudulent use of a Social Security number. This investigation was conducted by the OIG, FBI, and IRS.

Two **Rochester, NY** individuals were indicted by a federal grand jury on conspiracy to defraud the government and providing false statements. These charges stem from a 2-year investigation conducted by the FBI and the OIG Offices of Investigation and Audit into fraud in the HUD Section 203(k) Rehabilitation Home Mortgage Insurance Program. The first individual purchased 74 homes in the Rochester area and received 203(k) rehabilitation funds to finance their purchase and rehabilitation. She and others conspired to steal the rehabilitation funds by either not completing the specified work on the houses or doing shoddy work with inexpensive materials. The second individual, who was the property inspector, signed off on the fund drawdowns, certifying that the work was completed in an acceptable manner. To date, 71 out of the 74 homes are in default. Of those 71, HUD has paid claims on 67 with an estimated loss of $3.6 million.

A **Cleveland, OH** general contractor for Faith Housing, a HUD approved nonprofit, and a Section 203(k) consultant were charged in an eight-count indictment with conspiracy and making false statements to HUD. While the consultant purportedly falsified certifications for repairs on 203(k) escrow draws, the general contractor may have been responsible for arranging for subcontractors to actually perform the work for 40-50 percent less than what was obligated in the 203(k) rehabilitation escrow. The general contractor then allegedly ensured that Faith Housing would receive the escrowed figure by submitting fraudulent draw requests for the entire amount. Faith Housing defaulted on 14 properties in the Northern District of Ohio, with losses to HUD estimated at $500,000. This was an OIG investigation.

In **Carlsbad, CA,** the founder and director of PinnFund, USA, a HUD approved direct endorsement lender, was indicted on 20 counts of interstate transportation of stolen property, aiding and abetting, and false entries, reports, and transactions. In 19 of the counts, the director is charged with unlawfully transferring approximately $17.3 million from PinnFund, USA, to Barbados for the eventual benefit of his girlfriend. In one count, he is charged with causing a false financial statement to be filed with HUD. The director allegedly falsely reported to HUD that the funds used to support PinnFund, USA's direct endorsement application were personal funds. In fact, in 1998 Grafton Partners lent the funds to PinnFund, USA.

The director is simultaneously facing civil fraud charges filed by the Securities and Exchange Commission for allegedly defrauding investors of approximately $330 million. This civil case is considered one of the largest securities fraud cases in San Diego County history, and involves issues that are related to the criminal case. This was a joint investigation by the FBI, IRS Criminal Investigations Division, and OIG.

A **Philadelphia, PA** developer was indicted on seven felony counts of fraud and false statements to HUD with regard to the origination of two FHA insured mortgages. This joint investigation by the OIG Offices of Investigation and Audit and the FBI developed evidence that the developer provided funds to two prospective FHA insured homebuyers, enabling them to obtain mortgages for which they did not qualify. The developer concealed his financial assistance in these FHA transactions by providing false gift letters purportedly from the prospective buyers' relatives, when in fact the gifts came from him. Neither buyer would have had sufficient funds to close on these mortgages without the gifts. In one transaction, the developer also influenced FHA loan approval by causing a false residential lease to be submitted showing $900 per month in rental income. The face value of the two transactions is $232,000 plus default costs and fees. The investigation further disclosed that the developer sold more than 50 prefabricated homes insured by FHA. Approximately 50 percent of these loans are currently in default and/or some stage of foreclosure.

A New Jersey real estate speculator was arrested and later extradited to **New York** following a sting operation by OIG Special Agents and Investigators from the State of New York, Office of the Attorney General, and the U.S. Probation Office. The speculator waived extradition and answered to a 23-count indictment by a grand jury of the County of New York. The grand jury accused the speculator of grand larceny in the second degree and real estate fraud. The speculator allegedly defrauded 9 investors out of more than $1 million in a real estate scam that used advertisements in the *New York Times* and other publications promising guaranteed rates of return of 30 to 70 percent. Beginning in 1997, the speculator duped investors by claiming that he could purchase homes from HUD and others, make cosmetic repairs, and then sell the homes at greatly inflated prices. He continued with the scam by claiming that he had a special relationship (broker) with HUD and already had buyers for the repaired homes lined up and approved. The investors were told that the money they invested was being used to rehabilitate the homes and that the closings on the properties were imminent. Investors who complained and demanded their money back were given worthless promissory notes or checks that bounced. The speculator further perpetrated the ruse by filing documents with the State of New York for a company named HUD, enabling him to cash checks that investors had made payable to HUD. This investigation began with a complaint made to the State of New York, Office of Attorney General.

A **Long Island, NY** real estate broker was indicted on charges of conspiring to defraud HUD in connection with a $1.2 million 203(k) mortgage fraud scheme. The broker acted as a middle man and flipped properties to a real estate investor. The properties were sold at falsely inflated prices, with the investor providing false income and asset information to HUD. Eleven properties have either been foreclosed or are in foreclosure. HUD losses are expected to reach $1 million.

Community Planning and Development Programs

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

Nicholas Tontodonati, a former housing inspector with the City of **Paterson, NJ**, pled guilty to executing a scheme to defraud the City of HOME (Rental Rehabilitation) Program funds and causing wire fraud. Tontodonati used his position as a housing inspector to allow family members to be part of a Rental Rehabilitation Program run by the City. Not all the money the City received through HUD was used to pay contractors and others for their work on various properties. Instead, the invoices submitted to the City exceeded the actual amount paid to the contractors, and Tontodonati and his family members kept the excess funds. This was a joint investigation by OIG and the FBI.

Clark Dale Koerner, former low-income rehabilitation manager for the Valley of Imperial Development Alliance (VIDA) in **El Centro, CA**, pled guilty to two counts of intentional misapplication of federal program funds. Koerner submitted false claims, fraudulently verified work completed by contractors, and diverted HUD Community Development Block Grant (CDBG) funds, which had been earmarked for the rehabilitation of homes owned by low-income individuals.

Koerner accepted applications from low-income homeowners who wished to rehabilitate their properties, inspected the properties, estimated repairs, and obtained bids from contractors to make the repairs. All rehabilitation work was funded by the CDBG Program, which was administered by VIDA. A joint investigation by OIG and the FBI found that Koerner provided claims for reimbursement and fraudulently verified that the work detailed on the claims was completed by various contractors. As part of his scheme, Koerner's identity of interest construction company received approximately $105,000 in CDBG funds for work that was substandard or incomplete. He also received approximately $65,000 in kickbacks from various contractors for steering bids their way and approving fraudulent claims. Koerner also diverted approximately $120,000 of CDBG funds for personal expenditures.

In **Hackensack, NJ**, an organizer of the Almighty Latin King/Queen Nation (ALKQN) was arrested following a sting operation arranged by OIG Agents on charges that he stole several U.S. Treasury checks from the mail while he was employed by Praxis Housing Initiatives, Inc., as a residential staff member. Praxis is a HUD funded social services housing agency that runs a hotel for persons afflicted with AIDS. While employed by Praxis, the individual, acting in concert with other ALKQN members employed by Praxis, stole several Social Security checks and IRS refund checks. The loss is approximately $100,000. The individual was made aware of the investigation by a corrupt New York State Division of Parole Officer and fled from the Bronx, NY, to Lancaster, PA.

Two additional ALKQN members and a female associate who accompanied the organizer from Lancaster, PA, were also interviewed and identified by the Bergen County Sheriff's Department Gang Intelligence Unit. One was determined to be a convicted felon who had served several years in state prison for homicide. A full magazine of hollow point ammunition was found in their vehicle. The Lancaster Sheriff's Department was contacted when the female associate displayed a pistol permit which had been issued by that agency. The Sheriff's Department advised that her permit would be revoked based on her association with known ALKQN members and convicted felons.

This was a joint investigation by the HUD and Social Security Administration OIGs, Postal Inspection Service, and the Secret Service.

Other Significant White Collar Investigations

During this reporting period, other significant white collar OIG investigations resulted in one guilty plea and one sentencing.

Following an OIG investigation, Daniel D. Asera, the former executive director of the Greater Nevada Fair Housing Council in **Reno, NV,** pled guilty to one count of theft of federal program funds. This nonprofit office operated under a $252,863 grant from HUD. It served rural Nevada in providing support and information regarding both federal and state laws prohibiting housing discrimination. From July 1998 to March 1999, Asera embezzled $39,630 by making unauthorized charges to 3 credit cards he obtained in the name of the nonprofit. He charged hotel rooms and meals, took cash advances at local area casinos, and made charges for pornographic Internet sites. He also hosted two "retreats" at Squaw Valley for his college fraternity and alumni from the University of California at Berkeley and paid for the hotel rooms and meals with the charge cards.

Jerry Wernard Williams, a former employee of the HUD **Beaumont, TX** Office Fair Housing and Equal Opportunity, was sentenced to 6 months incarceration and 2 years supervised release, and ordered to pay $1,400 in court assessment fees and $1,268 in restitution. The sentencing stemmed from an OIG investigation which disclosed that Williams submitted fraudulent travel vouchers while engaged in official government business. Specifically, between October 1996 and January 2000, Williams created and submitted 14 fraudulent hotel receipts. Some of the receipts included times when he stayed with friends at their homes, while others were for hotels where he did not actually stay.

Violent Crime in Public and Assisted Housing

As part of their regular workload, OIG Special Agents investigate violent crime and drug trafficking in public and assisted housing. These investigations are part of an initiative known as Operation Safe Home. The investigations are conducted in coordination with various federal, state, and local law enforcement task forces. In addition to law enforcement personnel from states, counties, cities, and housing authorities, the following federal agencies are primary partners in Operation Safe Home investigations: the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco, and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service

(USCS), the Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ).

Following are some of our recent significant investigative results in the violent crime area.

Thirty individuals were sentenced in federal court for distributing crack cocaine at the Bel Air Gardens public housing development in **Cleveland, OH**. The combined prison time totaled 172 years, while the average sentence was over 5 years with 5 years supervised release. Fifty-three of the 60 defendants in this case have been sentenced to 1 to 11 years in federal prison. Five of the remaining seven defendants have pled guilty and are awaiting sentencing.

Bel Air Gardens and Riverside Park were the most drug infested properties in West Cleveland before this Safe Home investigation began in 1999. Crime statistics for Riverside Park disclosed that, since the Safe Home initiative, calls to local Police have been reduced by 30 percent and drug arrests have declined by 67 percent. In addition, surveys have revealed that residents recognize and appreciate the positive effects of this investigation. The investigation was conducted by the OIG, DEA, FBI, Cuyahoga County Sheriff's Office, and the Cuyahoga Metropolitan Housing Authority Police.

The final sentencings resulting from an Organized Crime Drug Enforcement Task Force investigation, known as "Operation Tiger Paw," took place in **Louisville, KY**, during this reporting period. The defendants were charged with numerous counts of trafficking in crack cocaine in public housing developments, conspiracy to possess, sale of crack cocaine, and aiding and abetting in the possession and sale of crack cocaine. Derrick Lee Gaddie was sentenced to 151 months confinement, 4 years supervised release, and a $2,000 special assessment. Jancinto T. Richardson received 60 months confinement, 3 years supervised release, and a $1,600 special assessment. Kerry Wayne Richardson received 24 months confinement, 3 years supervised release, and a $200 special assessment. Danielle Mattingly was sentenced to 6 months home confinement, 3 years probation, and a $400 special assessment. This Task Force investigation was conducted by the OIG, FBI, and the Campbellsville Police Department.

Efforts by the **Albuquerque, NM** Operation Safe Home Task Force during this reporting period resulted in two sentencings, two indictments, seven prosecutions, and eight arrests. Charlotte A. Griego was sentenced to 7 years in federal prison and 3 years supervised probation for conspiracy to distribute crack cocaine and carrying a firearm during a drug trafficking crime in public housing. Guillermo Molina pled guilty in U.S. District Court to 1 count of conspiracy to distribute crack cocaine and 1 count of conspiracy to distribute heroin in public housing, and was sentenced to 37 months in prison and 36 months probation. Since Molina is a Mexican National, he was also ordered that, upon his release from prison, he is not to reenter the United States without prior approval from the Attorney General.

Two individuals were indicted on charges of selling narcotics to Task Force members in an area comprised of assisted housing complexes. In addition, Michelle A. Montano pled guilty to conspiracy to distribute crack cocaine and carrying a firearm during and in relation to a drug trafficking crime in public housing. Juan Amores pled guilty to possession with intent to distribute less than 50 grams of crack cocaine. He was also convicted in federal court for possession with intent to distribute more than 50 grams of crack cocaine, conspiracy to distribute over 50 grams of crack cocaine, and carrying a firearm during and in relation to a drug trafficking crime in public housing. Martin Molina pled guilty to one count of unlawfully, knowingly, and intentionally possessing with intent to distribute more than 500 grams of cocaine in public housing. Emad Al-Mosawi pled guilty to one count of intent to distribute crack cocaine and one count of knowingly possessing a firearm in furtherance of a drug trafficking crime.

The eight arrests resulted in the seizure of $4,500 worth of narcotics, several handgun magazines, 2 handguns, an assortment of ammunition, and $3,350 in cash. This Task Force is comprised of the OIG, the Westside and Eastside Narcotics Units of the Albuquerque Police Department, and the Bernalillo County Sheriff's Office.

As a result of initiatives by the **Houston, TX** Operation Safe Home Task Force during this period, 4 individuals were sentenced, 8 were indicted, and 487 were arrested in various public housing developments and Section 8 complexes. Charges included felony possession with intent to distribute crack cocaine, conspiracy to possess with intent to distribute, possession of a controlled substance, felony warrants, evading arrest, parole violations, theft, trespassing, felony burglary, aggravated sexual assault, and terrorist threats. Sentences totaled 363 months in prison and 8 years supervised release. During these operations, Task Force members seized a total of 1,260 grams of crack cocaine, 3,644 grams of marijuana, 2,754 grams of codeine, 63 grams of Xanax, 13 grams of Vicodin, small amounts of heroin, cocaine, PCP, and ecstasy, $4,068 in cash, and 8 weapons. This Task Force is comprised of OIG, the Houston Police Department, and the Harris County Constable's Office.

"Operation Isolation" is a joint effort by the OIG, USMS, Kansas Bureau of Investigation, Topeka Police Department, FBI Violent Crime Task Force, and the Kansas National Guard Counter Drug Operations Unit. The operation was initiated to identify individuals who were distributing drugs in the Deer Creek and Pine Ridge public housing developments and the Highland Park assisted housing development in **Topeka, KS**. As a result of Task Force efforts during this reporting period, Bobby Lawayne Evans pled guilty to distributing 9 grams of cocaine and 39 grams of marijuana with a total street value of over $2,800, and was sentenced to 37 months in prison and 48 months supervised release. He was also ordered to attend a substance abuse program.

Also as a result of this investigation, Acie Evans pled guilty to 1 count of a 5-count indictment for distributing 24 grams of cocaine with a street value of about $4,400, was sentenced to 46 months in prison and 48 months supervised release, and ordered to attend a substance abuse program. Evans is the 6th person out of 21 individuals previously arrested during "Operation Isolation." In addition, three individuals were evicted from public housing for drug related activities, violent crime, or felony conviction. Three other individuals were also served with restraining orders banning them from public housing premises due to criminal activity.

A federal jury in **Richmond, VA**, found Beverly A. Claiborne, Jr., guilty of murder and various narcotics related offenses, including conspiracy, possession with intent to distribute crack cocaine and heroin, murder in aid of racketeering activity, use of a firearm during a crime of violence, and murder during a crime of drug trafficking. Evidence disclosed that Claiborne shot one of his heroin customers, whom he suspected of being a police informant, five times in the head in the front yard of a South Richmond public housing residence in 1998. Claiborne was identified as a member of the *17th Street Boys* gang that distributed drugs and was responsible for widespread violence in South Richmond in the 1990's. Although most of the older gang members are currently incarcerated, prior to their incarceration they were developing the younger men in the neighborhood into narcotics dealers.

Tabari Riley, a *Young Guns* gang member, pled guilty in federal court to possession with intent to distribute crack cocaine. Riley was previously arrested by for selling 62 grams of crack cocaine during a controlled buy which took place in the vicinity of Ruffin Road Apartments, a federally assisted complex. A search incident to the arrest resulted in the seizure of $10,000 in cash and additional illegal drugs.

Pearl White, a Jamaican National, pled guilty in federal court to possession with intent to distribute cocaine hydrochloride. An investigation found that White frequently transported cocaine from New York to Richmond for sale by a particular dealer in the Hillside Court public housing complex.

These actions resulted from efforts by the "Operation Southside Crackdown" Task Force, which is comprised of the OIG, DEA, FBI, Virginia State Police, and the City of Richmond Police Department.

Patricia Hayes was sentenced to 12 months in federal prison and 36 months probation, and ordered to continue drug testing. The sentencing follows Hayes' guilty plea to maintaining a premise for the unlawful storage/distribution/use of crack cocaine. Hayes was previously arrested by members of the Project Safe Home Task Force. This Task Force is a multi-agency entity made up of the OIG, DEA, FBI, the U.S. Attorney's Office, the City of **Camden, NJ** Police Department, and the Camden County Prosecutor's Office, tasked by the Department of Justice to investigate instances of widespread illegal narcotics distribution in Camden's public and assisted housing. Specifically, Hayes was arrested for her involvement in the *Lost Boys* crack cocaine distribution network which operated in and around the Peter J. McGuire public housing development.

Also as a result of operations by the Project Safe Home Task Force, Devin Prichett was sentenced for his role in a crack cocaine distribution organization that was based in the same development. Prichett, who previously pled guilty to conspiracy to distribute crack cocaine, was sentenced to 15 months incarceration and 5 years supervised release, was fined $1,000, and ordered to pay a $100 special assessment.

Dereck Farmer pled guilty to distributing crack cocaine in **Key West, FL** Housing Authority developments. Farmer was one of 67 defendants who were arrested in December 1999 for selling crack cocaine to undercover Officers and Agents. Farmer was sentenced to 1 year imprisonment and 1 year probation. The investigation was conducted by OIG, DEA, and the Key West Police Department.

In **Greensboro, NC**, Roy William Lee pled guilty to one count of narcotics distribution and one count of maintaining a dwelling for drug distribution. Lee supplied a HUD subsidized Section 8 housing complex with drugs. The guilty plea stemmed from Safe Home initiatives by the Greensboro Operation Safe Home Task Force, made up of the OIG, FBI, Greensboro Police Department, and the North Carolina State Bureau of Investigations. In addition to the plea, three individuals were arrested. Two were charged with possession with intent to distribute cocaine, possession of cocaine, and sale and delivery of cocaine for supplying cocaine to Greensboro public housing developments. The third was charged with federal narcotics and weapons violations. This arrestee has been linked to an Organized Crime Drug Enforcement Task Force investigation in Greensboro. In total, the Task Force seized 15 ounces of cocaine, $22,000 in cash, and 1 vehicle.

Sylvan Perry was sentenced to 60 months in federal prison for distributing crack cocaine. During a 2-month undercover Safe Home initiative, OIG and the DEA identified Perry as a main source of crack cocaine to various Section 8 apartments in **Oklahoma City, OK**. Perry was arrested after selling over 23 grams of crack cocaine to undercover Task Force Agents. In addition, over 300 grams of marijuana, 30 grams of cocaine, 1 loaded pistol with laser sights and a filed down serial number, 2 digital scales, $7,600 in cash, and 1 vehicle were confiscated.

Operations by the OIG, FBI, and the **Newport, RI** Police Department led to the sentencing of Isaac Platts to 100 months incarceration and 48 months probation following his guilty plea to 4 counts of distribution of cocaine base. During this reporting period, Task Force investigations targeted narcotics traffickers operating in the Tonomy Hill, Park Holm, Chapel Hill, Festival Field, Bayside Village, and Rolling Green public housing developments. In addition to the sentencing, the execution of 4 search warrants and 27 arrest warrants resulted in the seizure of 7 bags of marijuana, 2 bags of cocaine, 2 vehicles, and $450 in cash, along with the arrest of 19 individuals on outstanding warrants.

Forty-seven individuals who controlled the sale of crack, heroin, cocaine, and marijuana in the Castle Hill public housing development in the **Bronx, NY**, were indicted on charges of conspiring to distribute controlled substances in the development. Following a 4-month undercover operation conducted jointly by the New York City Police Department's (NYPD) Organized Crime Control Bureau, South Bronx Narcotics Initiative, and the OIG, the individuals were identified as controlling a $1 million per year criminal enterprise in Castle Hill. Organized with assigned lieutenants, enforcers, street dealers, stash house operators, and lookouts that used handheld radios and bicycles, the subjects divided the 14 buildings of the development into sections where specified drugs were sold.

Castle Hill was one of the most drug plagued and crime ridden public housing developments in New York City. Designated as "Operation Good Neighbor," this Operation Safe Home initiative was organized at the request of the NYPD to identify the gang members and the leadership structure controlling the sale of narcotics in the development.

Two high ranking members of a local organized gang were indicted by a federal grand jury on charges of possession of controlled, dangerous substances and drug trafficking in and around the Haddington Homes public housing development in **Philadelphia, PA**. The indictment is the result of an investigation, known as "Operation West One," by the Philadelphia Housing Drug Task Force which includes OIG and local and public housing police.

Special Agents from the OIG, DEA, FBI, ATF, and the **Charleston, SC** Police Department arrested 19 individuals for distribution of heroin and crack cocaine. The arrests were the result of a federal indictment that charged 47 individuals with distributing heroin. In addition, state arrest warrants were issued against 20 people, charging them with distributing crack cocaine. The indictment was the result of 1-1/2 year undercover investigation involving criminal activity in an eastside Charleston neighborhood, which includes the Wraggsborough Homes, Wraggsborough Extension, and Meeting Street Manor public housing developments. The investigation was initiated after numerous complaints were received from residents about drug dealing. The residents reacted positively to the operation and openly welcomed law enforcement into the community; they were thankful that the dealers were finally being removed from the community.

Heroin purchased during the investigation that was tested at a DEA laboratory proved to be 90 percent pure, which is considerably higher than what is usually sold by street level dealers. This high grade of purity has also been linked to the rise in heroin overdose deaths in the State of South Carolina. Also during the investigation, the execution of 5 federal search warrants resulted in the seizure of over 1/4 key of heroin, 3 pounds of marijuana, 4 vehicles, 5 shotguns, 2 handguns, and approximately $50,000 in cash.

One person was indicted for selling over 10 grams of crack cocaine to an undercover OIG Agent in a HUD subsidized apartment complex. The indictment is the result of a 9-month Safe Home initiative targeting drug traffickers in subsidized housing in the **Kansas City, MO** area.

As part of "Operation Street Sweeper," the **Manchester, NH** Police Department and the OIG arrested 33 individuals. "Operation Street Sweeper" is a multi-agency narcotics investigation which targets narcotics street level drug dealing. The arrests were the result of dozens of undercover operations. The arrestees were charged with federal and state narcotics violations, state firearms violations, and conspiracy to commit murder. Many of those arrested resided in densely populated Section 8 neighborhoods.

Safe Home Task Force members arrested 11 of the 24 individuals who were indicted for possession of cocaine with intent to distribute in **Savannah, TN** public housing developments. The arrests were the result of a 6-month undercover operation conducted by OIG, the 24th Judicial District Drug Task Force, the Tennessee Highway Patrol, Tennessee Bureau of Investigation, and the Savannah Police Department. One of the arrestees was in possession of $1,200 in cash, 4 grams of crack cocaine, and 1 pistol. Thirteen other individuals are still fugitives.

During this reporting period, OIG, the Massachusetts State Police, the Bristol County Sheriff's Office, and the Massachusetts Department of Corrections conducted several Safe Home operations at public and assisted housing developments and Section 8 neighborhoods in **New Bedford, Fall River, Taunton, Somerset, and Dartmouth, MA**. A total of 60 people were arrested on charges including drug possession, delivering drugs to a prisoner, conspiracy to traffick in cocaine, cocaine possession, rape, kidnapping, assault and battery with a dangerous weapon, disorderly conduct, receiving stolen property, larceny, home invasion, public assistance fraud, and conspiracy to commit Racketeer Influenced Corrupt Organizations violations. One person was arrested on 1 outstanding warrant from the State of Delaware for 27 counts of theft, 16 counts of forgery, 16 counts of conspiracy, and identity theft. The individual was also charged with being a fugitive from justice.

A multi-agency task force arrested the leader of the *Santana Block Crips* street gang and 24 other co-conspirator gang members on federal drug possession and distribution charges. The arrests were the culmination of a 2-year investigation into an organization that imported cocaine from Mexico and distributed it to dealers in Texas, Illinois, Ohio, and other states. The leader of the *Santana Block Crips* and his lieutenants were responsible for the interstate distribution of multi-kilogram quantities of cocaine, as well as street distribution in the **Los Angeles, CA** area. The gang laundered money through a business called OG's Paging Network; a review of bank records showed that substantial cash deposits were made to the company's bank account.

In addition to the arrests, cash, drugs, 13 guns, including an AK-47 rifle, and 16 vehicles, valued at over $400,000, were seized. Over the 2-year span of the investigation, 33 kilograms of cocaine and over $250,000 in cash were seized.

The Task Force, known as the Compton Violent Inner-City Crime Task Force, was a collaboration by the FBI, DEA, ATF, INS, OIG, USMS, IRS Criminal Investigation Division, and the Los Angeles Sheriff's Department.

An OIG Agent and Officers of the **Washington, DC** Metropolitan Police Department executed an arrest warrant at Langston Dwelling, a public housing complex. One individual was arrested and charged with distribution of heroin. The arrestee bought and sold heroin at Edgewood Terrace, another public housing complex; he allegedly bought and sold the heroin on behalf of another person who has been indicted. The Langston Dwelling investigation identified the largest heroin ring in the District of Columbia. To date, 37 individuals have been arrested and charged with various federal drug violations in this case. Several individuals identified during the investigation will be included in a federal grand jury superseding indictment.

The **New Haven, CT** Task Force arrested a total of 27 people during this reporting period on a variety of charges, including conducting a prostitution ring, criminal impersonation, assault, operating a drug factory, selling narcotics, selling within 1,500 feet of a school, possession with intent to sell, and destruction of evidence. The arrests took place in public and/or assisted housing developments, including the Quinnipiac Terrace, Farnam Courts, Prescott Bush-Mall, Katherine Harvey Terrace, and Constance Motley developments. Task Force members seized over $18,000 in cash, 238 grams of crack cocaine, 1,469 grams of marijuana, 9 grams of heroin, 1 rifle, 1 shotgun, 1 Tec-9 weapon, 1 vehicle, 4 scales, 1 bullet proof vest, 4 crack pipes, ammunition, and drug packaging materials. This Task Force is made up of OIG, the Connecticut State Police, and the New Haven Police Department.

As part of the our Operation Safe Home activities targeting clandestine methamphetamine labs around public and assisted housing in **Tacoma, WA**, the Tacoma Police Department's Clandestine Methamphetamine Lab Unit (TPD) and an OIG Agent conducted several initiatives during this reporting period. During one effort, Task Force members served a search warrant at a residence next to several single family residences receiving assistance, and seized equipment and chemical precursors commonly used in the manufacturing of methamphetamine, 2 grams of pure methamphetamine, 7 handguns, and 1 illegally shortened 12-gauge shotgun. Of the weapons seized, two had their serial numbers filed off and two were stolen, including a .357 Magnum revolver which had been reported stolen from a nearby Police Department in 1999. Two individuals were arrested and charged with the unlawful manufacturing of a controlled substance with intent to deliver and possession of a stolen firearm. Four people were arrested in another initiative at public and assisted housing residences containing methamphetamine labs. A search revealed a large lab, including a 150-pound anhydrous ammonia cylinder. This lab was located next to two apartment buildings where several families receive HUD assistance. While farmers commonly use anhydrous ammonia as a fertilizer, it is a gas that can be fatal if inhaled and can cause severe burns. Officers also found eight hydrogen chloride gas generators, which are used in the final stage of methamphetamine production.

TPD and the OIG also combined forces with the Department of Corrections (DOC) to proactively contact individuals who are on supervised release and are suspected of selling or manufacturing methamphetamine. TPD and OIG assisted DOC in contacting a subject on active supervision residing next to several families on HUD assistance. The resident had been arrested in the past for the illicit production of methamphetamine. DOC conducted a search of the residence and located 1 gram of methamphetamine and 1 loaded semi-automatic pistol. The offender faces state charges for unlawful possession of a controlled substance and felon in possession of a firearm.

Operations in **Copiah County, Jackson, and Meridian, MS**, resulted in the arrest of two people for distributing drugs in and around areas of HUD subsidized housing. In addition, a reverse undercover operation resulted in the arrest of 3 individuals and the seizure of 2 vehicles and $2,500 in cash. The sting was part of an investigation related to the distribution of methamphetamine and cocaine from Texas into areas of Mississippi public and assisted housing. These efforts were carried out by OIG and DEA Agents, the Mississippi Highway Patrol, the Mississippi Bureau of Narcotics, and the Jackson Police Department.

OIG Agents and Officers from the **Chicago, IL** Police Department's Organized Crime Division executed a state search warrant at the Ogden Courts public housing development and arrested two individuals for possession of a controlled substance and the unlawful use of a weapon by a convicted felon. They seized 66 grams of crack cocaine, 1 loaded revolver, ammunition, drug paraphernalia, and $200 in cash.

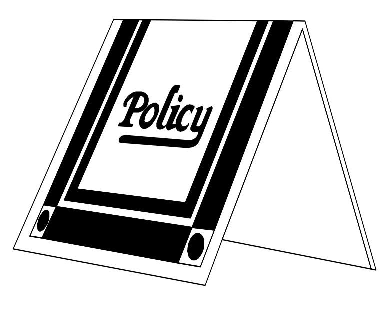
OIG and DEA Agents purchased 1/4 pound of methamphetamine for $2,300 from an individual who lived in Stratford Square Apartments, a project-based Section 8 complex in **Omaha, NE**. Three weeks later, the individual was arrested with 1/2 pound of methamphetamine in his possession. A search of his residence yielded another 1/2 pound of methamphetamine, $1,000 in cash, and an "8-ball" (about 4 grams) of cocaine.

Also in this case, an investigation by the OIG, FBI, and the Omaha Police Department identified numerous narcotics traffickers living in public housing. One undercover operation involved the purchase of 1/2 pound of methamphetamine and 1 ounce of cocaine from a public housing resident. A purchase of 2 pounds of methamphetamine led to the identification of further co-conspirators and 2 arrests. Search warrants yielded an additional 3 pounds of methamphetamine and 1 kilo of cocaine.

Since the initiation of this investigation, $9,200 in cash, 2 handguns, 2 vehicles, 2,067 grams of methamphetamine, and 1,130 grams of cocaine have been seized. Eviction action is pending for one resident.

Chapter 5

Regulations, Notices, and Other Directives



Making recommendations on legislation, regulations, and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. During this 6-month reporting period, the OIG reviewed 98 proposed HUD regulations and notices. This Chapter highlights some of the issues raised by OIG during these reviews.

Regulations

Voluntary Conversion of Developments from Public Housing Stock

This proposed final rule requires public housing agencies (PHAs) to assess the appropriateness of converting an entire development. The 1937 Housing Act, as amended, and the HUD implementing regulations require every PHA to conduct and submit to HUD an initial assessment, no later than October 1, 2001, to determine for each development whether the units should be converted from the Low-Income Program to the Tenant-based Assistance Program.

We nonconcurred with this proposed final rule because it did not comply with authorizing legislation. The OIG was concerned about the assessment limitation because although an entire development may be viable, a small segment of units within a development may meet the conversion criteria and will not be identified. These nonviable units within a development can accelerate the deterioration of the entire development. Further, excluding the nonviable units from the assessment can understate the number of units needing to be converted to tenant-based assistance and the amount of resources HUD will need to direct and control the conversion activity.

HUD's Office of Public and Indian Housing and the OIG mutually agreed to revise the proposed final rule to notify PHAs that the assessment will determine whether a development or a portion of a development needs to be converted to tenant-based assistance.

The proposed final rule was published in the Federal Register and the rule became effective on July 23, 2001.

Public Housing Capital Fund Program

This proposed rule governs PHA use of HUD provided funds for either the development of new housing or the modernization of existing housing as well as management improvement activities.

We nonconcurred with the proposed rule because HUD did not: conduct a required risk assessment, establish controls for limiting new construction to the replacement of units in PHA inventory, and prescribe a methodology for the disposition of appropriated funds designated for emergencies but not used for emergencies.

The Appropriation Act for FY 2001 provided about $3 billion for the Capital Fund subject to HUD's publishing regulations containing controls to mitigate any risks before the funds are obligated and expended. HUD obligated the $3 billion to PHAs. However, HUD did not conduct a risk assessment and the proposed regulation did not contain controls to mitigate the risks to the effective, economical, and efficient expenditure of the funds by PHAs for development, modernization, and management activities.

Section 9(g) of the 1937 Housing Act stated that a PHA may not use funds to construct new units if the construction would result in a net increase from the number of public housing units owned, assisted, or operated by the PHA on October 1, 1999. HUD did not prescribe in the proposed regulation or in existing regulations and handbooks any methodology for determining the number of units in a PHA inventory at October 1, 1999. Consequently, the Department may authorize the construction of new units in excess of the unit limitation and the financial assistance normally associated with low-income housing.

Section 9(k) of the Act states that HUD shall set aside not more than 2 percent of the appropriation for an emergency reserve, and not more than $25 million can be used in succeeding years. HUD's proposed regulation did not prescribe a methodology for the disposition of appropriated funds designated for emergencies but not used for emergencies. A potential consequence of the lack of a formal methodology for processing the unobligated funds is that the funds will remain idle for a prolonged time, losing their purchasing power.

The Office of Public and Indian Housing is considering OIG's nonconcurring comments. The proposed rule had not been issued at the close of this semiannual reporting period.

Resident Participation in Section 8 Housing

This proposed rule would recognize the importance of resident involvement in creating a positive living environment and in actively participating in the overall mission of public housing. The proposed rule was to implement sections 20 and 34 of the 1937 Housing Act, as amended.

We nonconcurred with the proposed rule because HUD did not conduct the required risk assessment, and the rule contained requirements conflicting with the provisions in the statute. Additionally, certain terms needed to be defined in the rule so that the prescribed controls will be interpreted by PHAs as HUD intended.

The Office of Public and Indian Housing and OIG mutually agreed to the revision to the proposed rule and on the need to conduct a risk assessment. The proposed rule, after revision, will contribute to achieving HUD's stated goal of promoting housing stability, self-sufficiency, and asset development of families and individuals.

The proposed rule is being revised and had not been issued at the close of this semiannual reporting period.

Notices

Program Requirements for the Sections 202 and 811 Capital Advance Programs

This Notice would provide changes to the application procedures, rating criteria, and selection process for Sections 202 and 811 Capital Advance Programs. The Notice also provides minority business enterprise goals and guidance on the Fair Housing and Equal Opportunity application processing.

We nonconcurred with this Notice because HUD had not performed a front-end risk assessment, or developed adequate rules, regulations, and controls for a new, complex financing structure. This financing structure would allow mixing Sections 202 and 811 funds with other sources of funds for project financing. HUD had not developed procedures for reviews, underwriting, or mixed-finance projects, making this concept inherently risky.

We recommended that HUD perform a front-end risk assessment and develop rules and regulations, as well as a legal and programmatic framework, for mixed-financing prior to selecting or approving projects. We also recommended that the Notice be revised to include clear instructions on the intended financing structures and controlling provisions.

The Department revised the Notice to address our concerns and agreed to perform a risk assessment before any funds were committed. The Notice was issued on July 2, 2001.

PHA Plan Guidance; Further Streamlining of Small PHA Plans; Partial Release of Capital Formula Funding; Sanctions for Noncompliance

This proposed Notice would allow a PHA to obligate and expend up to 50 percent of its Capital Funds before HUD approved both the PHA's annual and 5-year spending plans. HUD allocated Capital Funds to PHAs for rehabilitating existing housing and building replacement units. Each year, PHAs submit annual and 5-year plans specifying the work items to be funded. HUD determined that PHAs are not spending their Capital Funds in a timely manner, resulting in reduced purchasing power, and, according to statutory requirements, subjecting the funds to recapture. To accelerate obligations and expenditures, HUD decided to authorize PHAs to obligate and spend the funds before HUD approved the PHA annual and 5-year plans.

We nonconcurred with this proposed Notice because it would cause PHAs to incur approximately $1.5 billion in ineligible obligations and expenditures. The Offices of Public and Indian Housing and Inspector General mutually agreed to enhancements for the proposed Notice that accommodated HUD's policy for accelerating spending of the Capital Funds while at the same time ensuring the funds are properly spent. The Notice was amended to reflect that each PHA is eligible to obligate 50 percent of the annual Capital Fund allocation for work items in the HUD approved PHA 5-year plan, prior to HUD's reviewing, amending, and approving the PHA's current annual plan.

The Notice was issued on August 2, 2001.

Section 8 Project-Based Rent Adjustments Using an Annual Adjustment Factor

This proposed Notice was to update existing guidance relating to Rent Comparability Studies (RCS) for Section 8 properties that utilize the Annual Adjustment Factor (AAF) as the method of rent adjustment.

In 1997, the Congress passed and the President signed the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) that dramatically altered the way in which expiring project-based Section 8 contracts are renewed. One of the primary changes made by MAHRA was the requirement that projects must conduct an RCS to assure that Section 8 contracts are not renewed at rents that exceed comparable market rents for the area.

Many project owners, who have not yet renewed under MAHRA and who utilize the AAF as the method of rent adjustment, have requested that HUD permit a 5-year RCS to be used for AAF properties. Owners held that an annual RCS was costly and unnecessary. HUD was proposing to make such a change by replacing the annual RCS with an inflation adjusted RCS.

We nonconcurred because using an inflation adjusted rent as the maximum allowable rent no longer provides the test of comparability to market rents that is required.

After consultation with OIG and other HUD offices, the Department is now considering other options.

The Notice had not been issued at the close of this semiannual reporting period.

Close Out of Turnkey III Homeownership Program

This proposed Notice would terminate the Turnkey III Homeownership Opportunity Program. PHAs would be required to determine whether each unit has a buyer residing in the unit with the financial capacity to meet the contractual terms of the Turnkey III Program. When the PHA determines the potential buyer is not qualified, the unit will be converted from the Turnkey III Program into a unit in the Low-income Housing Program.

We nonconcurred with this proposed Notice because the Department has not decided on the methodology for counting the number of units in the PHA inventory at October 1, 1999. Section 9 of the 1937 Housing Act, as amended, prohibits a PHA from constructing any new units except as replacements for units in the inventory at October 1, 1999. The Department has a number of options for determining the unit count at October 1, 1999. When the Department evaluates the PHA request to convert one or more units from the Turnkey III Program to the Low-income Program, a determination as to the number of units owned by the PHA at October 1, 1999, should be part of the evaluation process, but cannot occur without the methodology for determining the number of units being established. After HUD establishes the methodology for determining the number of units in the inventory, the methodology should be incorporated into the conversion review process.

The Office of Public and Indian Housing is considering OIG comments. The Notice had not been published at the close of this semiannual reporting period.

Mortgagee Letter

Clarification of Requirements for Nonprofit Participation in Single Family FHA Activities

This proposed Mortgagee Letter would clarify the requirements that new nonprofit applicants must meet to participate in FHA's Single Family Nonprofit Programs, including discounted purchases of HUD homes, FHA insured financing, and down payment or secondary financing assistance.

We did not agree with the proposed Mortgagee Letter that experience with group homes, homeless shelters, or housing counseling activities demonstrated that an organization had the financial and administrative capacity to operate a homeownership program. We did not believe there is a sufficient correlation between these type activities and having knowledge of housing development experience, such as managing rehabilitation, purchasing and selling properties, etc. Also, the Mortgagee Letter should state that HUD would not approve nonprofit entities whose entities have been assumed within the past 2 years by another entity and/or individuals. This is one method that has recently come to our attention to circumvent HUD's 2-year requirement of having 501(c)(3) IRS tax-exempt status.

The Office of Housing agreed with our comments and the Mortgagee Letter had not been issued at the close of this semiannual reporting period.

Notice of Funding Availability (NOFA)

Funding Availability for the Family Unification Program

This NOFA would announce that PHAs are eligible to compete for $25 million in housing rental assistance for the Family Unification Program. This program provides financial assistance to families for whom the lack of adequate housing is a primary factor in the separation, or the threat of imminent separation, of children from their families.

We nonconcurred with this proposed NOFA because it proposed awarding assistance in excess of the authorized budget contrary to the requirement in section 422 of Public Law 106-377. This Public Law mandated that no part of the appropriations shall be available for any activity in excess of the amount set forth in the budget estimate submitted to the Congress. HUD sent to the Congress a budget estimate of $11,466,000 for the Family Unification Program. The proposed NOFA anticipated expending $13,534,000 in excess of the amount budgeted (proposed NOFA funds of $25 million minus the budget authority of $11,466,000).

The Office of Public and Indian Housing agreed only to provide assistance equal to the budget estimate of $11,466,000. The Office of Public and Indian Housing actions promoted compliance with the budgeting process.

The NOFA was published on July 11, 2001.

Chapter 6

Audit Resolution

In the audit resolution process, the OIG and HUD management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant pending issues where resolution action is delayed. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 9/30/01," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/01."

Delayed Actions

Audits of HUD's FY 1991 through 2000 Financial Statements

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 10 fiscal years, beginning with Fiscal Year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for FY 2000, we were able to express an unqualified opinion on HUD's principal financial statements.

The results of our FY 2000 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; (2) ensure that subsidies are based on correct tenant income; and (3) improve monitoring of housing subsidy determinations. In addition to the weaknesses that continue to exist from prior years, our report also includes a material weakness about the need to enhance FHA's information technology systems to more effectively support its business processes as well as data integrity. Corrective action plans to resolve these issues have continued to change over the last decade.

Audits of FHA's FY 1991 through FY 2000 Financial Statements

First issued March 27, 1992. FHA has been preparing financial statements for 10 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2000 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes; (2) place more emphasis on early warning and loss prevention for single family insured mortgages; and (3) monitor and account for its single family property inventory. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and application level security controls. This weakness was expanded in FY 1999 and FY 2000 to include improvements needed in FHA's data integrity. FHA did resolve a material weakness in FY 2000 and part or all of three reportable conditions.

FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The FY 2001 financial statement audit will assess FHA's accomplishments in correcting these conditions

San Francisco Housing Authority — Drug Elimination Program

First issued July 22, 1998. An audit of the San Francisco Housing Authority (SFHA) Drug Elimination Program found weaknesses in the procurement process, such as a lack of adequate cost analyses, and fixed-price elements in contracts that should have been entirely cost reimbursable. In some cases, written contracts were not executed. These weaknesses resulted in excessive and unsupported costs, which potentially could lead to disputes with contractors as well as give the appearance of favoritism. Corrective action was to include centralization of procurement activities, training of staff, and revision of procurement procedures.

Based on assurances and documentation provided by the Housing Authority, the Memphis Troubled Agency Recovery Center (TARC) was prepared to consider action completed in September 1999. However, the OIG advised the TARC that an ongoing audit of the SFHA showed that actions were not complete. Our March 31, 2000 audit report on contracting practices, conducted in conjunction with our audit of the Low-Income Housing Program, noted continuation of the same or similar deficient procurement practices. Accordingly, the TARC did not close the recommendations.

The TARC engaged a consulting firm to evaluate more recent procurement activities that showed a continuation of poor procurement practices. In May 2001, following an OIG on-site review, we sent a memorandum to the TARC advising that the SFHA had not completed corrective actions on seven open recommendations. In August 2001, the TARC notified the SFHA of needed corrective actions and requested a written response detailing actions taken to resolve the open issues. The TARC is performing on-site monitoring of SFHA's contracting practices and expects to continue monitoring through at least December 2001. (Report No. 1998-SF-1003)

HUD's Oversight of the Empowerment Zone Program

Issued March 30, 1999. HUD did not have an adequate system of oversight and control for the Empowerment Zone Program. Specifically, HUD did not effectively assess the progress and status of empowerment zones, confirm whether the use of empowerment zone funds was appropriate or complied with cities' strategic plans, or ensure the accuracy of performance reviews submitted by cities. As a result, HUD did not detect inefficient and ineffective uses of empowerment zone resources and empowerment zone benefit achievements were overstated. In 1999, HUD agreed to develop procedures to improve the oversight and control of the Empowerment Zone Program by March 2000.

HUD did not meet the March 2000 completion date because the former empowerment zone coordinator did not take action on the recommendations. Based on the OIG's discussions with the Office of Community Planning and Development (CPD), the CPD Comptroller started taking action on the recommendations in February 2001. In March 2001, the Comptroller estimated that the outstanding recommendations would be closed by July 2001. CPD's decision to obtain the services of a contractor has further delayed completion of final action. HUD's Comptroller advised that CPD completed a statement of work to obtain outside services in drafting the recommended procedures and controls. The Comptroller expects that all actions will be completed by March 31, 2002. (Report No. 1999-CH-0001)

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

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

In November 2000, the Los Angeles Office of CPD requested revised management decisions. The local office agreed that the City could not support job creation/retention and area benefit activities. However, they concluded that the City's program benefited low- and moderate-income persons. Therefore, it would not be necessary for the City to repay the program. The basis for the local office's decision was that a legitimate business training activity occurred and businesses that received CDBG assistance obtained business licenses in the City. Further, the businesses were located in an area with 57 percent low-income households and jobs created were primarily low paying.

We disagreed with the Los Angeles Office of CPD and referred the matter to the Acting General Deputy Assistant Secretary for CPD for decision in February 2001.

In July 2001, the Comptroller for the Office of the Assistant Secretary for CPD agreed with the OIG's position and the Los Angeles Office of CPD advised the City to reimburse about $732,000 to its line of credit. The City has advised the Los Angeles Office of CPD that it will offer a resolution to this matter by October 4, 2001. (Report No. 1999-SF-1003)

CDBG Program — City of St. Louis, MO

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

Subsequent to the audit, the City changed the national objective to "an activity to aid in the prevention or elimination of slums or blight." However, the City has produced no documentation to support that the area of the activity was deteriorating, declared a slum or blighted area, or that there were conditions existing in the building that would qualify it as "spot blight." Nonetheless, in March 2001, the Office of CPD advised they consider the project to meet the national objective of prevention or elimination of slums or blight. On March 16, 2001, we advised the Acting General Deputy Assistant Secretary that we disagreed with their position and requested a meeting to discuss the issue.

In June 2001, the Acting General Deputy Assistant Secretary again requested that the City provide sufficient supporting documentation on its use of HUD funds.

HUD program staff believes the City has supported some of the expenditures; however, as of August 2001, HUD had requested further support for other expenditures. On September 24, 2001, the General Deputy Assistant Secretary provided documentation to the OIG to support the expenditures. The OIG is currently evaluating the information. If agreement cannot be reached, the matter will be referred to the Deputy Secretary in October 2001. (Report No. 1999-KC-244-1002)

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial system requirements within 3 years or obtain OMB's concurrence if more time is needed. FFMIA requires us to report, in our Semiannual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of FY 2000, the Department reported that 11 systems were not in substantial compliance with FFMIA. Our audit of HUD's FY 2000 financial statements cites additional financial management systems weaknesses which we reported as reasons for the Department's FFMIA noncompliance. These include noncompliance with: (1) federal financial management systems requirements; and (2) the standard general ledger at the transaction level. HUD has submitted plans to OMB to correct material system weaknesses with a target completion date of December 31, 2005. Since the Department was not in compliance by April 2001, HUD will need to obtain OMB's approval for additional time to comply with FFMIA.

Appendices

of

U.S. Department of Housing and Urban Development
Office of Inspector General
Semiannual Report to Congress
for the period ending 9/30/01

Appendix 1 - Audit Reports Issued

for the period

April 1, 2001 through September 30, 2001

Internal Reports

Single Family

Audit Reports

2001-AT-0001 Audit of the Officer and Teacher Next Door Programs, 6/29/01. Questioned: $1,113,200; Unsupported: $84,750.

PIH

2001-AT-0002 Troubled Agency Recovery Center, Memphis, TN, 8/17/01.

2001-FW-0001 New Orleans, LA Housing Authority, 5/11/01.

2001-AO-0003 Drug Elimination Funds Used for Creative Wellness Program, 8/29/01. Questioned: $98,110; Unsupported: $1,089.

2001-SE-0002 Implementation of the Native American Housing Assistance and Self-Determination Act of 1996, 8/02/01.

IT & Systems

2001-DP-0003 Real Estate Management System (REMS), 9/28/01.

2001-DP-0004 Real Estate Assessment Center (REAC) Systems Development and Security, 9/28/01.

Miscellaneous

2001-AO-0002 Use of Contractors by the Deputy Chief Financial Officer, 6/04/01.

2001-FW-0002 HUD's Compliance with the Government Performance and Results Act, 5/31/01.

Single Family

Audit-Related Memoranda

2001-DE-0801 Approval and Monitoring of Nonprofit Organizations in FHA Single Family Insurance Programs, Denver, CO, 9/28/01.

2001-PH-0803 Philadelphia, PA Homeownership Center, Single Family Disposition Activities, 6/14/01. Questioned: $937,280;Unsupported: $937,280.

Internal Reports - continued

Multifamily

Audit-Related Memoranda - continued

2001-HQ-0801	HUD's Procedures for Notifying Internal Revenue Service of Foreclosures, 9/27/01.

PIH

2001-AO-0803	Administration of the Vacancy Reduction Program, 9/21/01.
2001-BO-0801	Unprocessed Year End Settlements for Contract Administered Section 8 Projects in Massachusetts, 5/23/01. Questioned: $3,233,094; Unsupported: $3,233,094.
2001-SE-0802	Nationwide Audit of Rent Reasonableness for Section 8 Tenant-Based Units, 8/29/01.

IT & Systems

2001-DP-0802	Annual Evaluation of HUD's Security Program and Practices, 9/06/01.

External Reports

Single Family

Audit Reports

2001-DE-1002	Brothers Redevelopment, Inc., Denver, CO, Housing Activities in FHA Single Family Insurance Programs, 9/28/01.
2001-KC-1005	First Community Resources, Inc., St. Louis, MO, Section 203(b) Home Mortgage Insurance Program, 9/28/01.

Multifamily

2001-CH-1006	Alliance, OH Community Hospital, Special Purpose Grants, 5/03/01. Questioned: $140,388; Unsupported: $5,490.
2001-DE-1003	Foster and Associates, Kalispell, MT, Management Activities for Projects Clark Fork Manor and Whitefish Manor, 9/28/01.
2001-KC-1002	One McKnight Place, St. Louis, MO, Review of Project Disbursements, 5/11/01. Questioned: $31,708.
2001-KC-1003	Villa West II Apartments, Topeka, KS, Topeka Housing Associates II, L.P., 6/04/01. Questioned: $8,853.
2001-NY-1002	Belmax Management Corporation, Brooklyn, NY, Management Agent, 4/17/01. Questioned: $391,287; Unsupported: $327,305.
2001-NY-1004	National City Mortgage Company, Buffalo, NY, Non-Supervised Mortgagee, 8/23/01.

External Reports - continued

PIH

Audit Reports - continued

2001-BO-1004 Weymouth, MA Housing Authority, 4/02/01. Questioned: $79,434; Unsupported: $77,638.
2001-BO-1005 City of Meriden, CT Housing Authority, 5/21/01. Questioned: $23,242.
2001-CH-1007 Detroit, MI Housing Commission, Hope VI Program, 5/16/01. Questioned: $17,550,686: Unsupported: $16,416,788.
2001-NY-1003 Saratoga Springs, NY Housing Authority, Low-Rent Housing Program, 7/24/01. Questioned: $228,217; Unsupported: $225,480.
2001-PH-1005 City of Pittsburgh, PA Housing Authority, 5/03/01. Questioned: $8,141,168; Unsupported: $6,758,294.

CPD

2001-AT-1006 City of Hattiesburg, MS Community Planning and Development Programs, 8/27/01. Questioned: $291,460; Unsupported: $242,000.
2001-BO-1006 State of Connecticut, Home Investment Partnerships Program, 8/29/01.
2001-CH-1008 Travelers and Immigrants AID/Chicago Connections, Chicago, IL, Supportive Housing Program Grant, 6/19/01. Questioned: $20,491; Unsupported: $11,441.
2001-FW-1004 City of San Antonio, TX Section 108 Loan Program, 5/25/01. Questioned: $17,575,841; Unsupported: $17,575,841.
2001-FW-1005 Harmony House, Inc., Harrison, AR, Supportive Housing Program, 8/27/01. Questioned: $157,066; Unsupported: $37,263.
2001-FW-1006 Dallas, TX Homeless Consortium, Continuum of Care Program, 8/27/01.
2001-KC-1004 Kansas City, MO Department of Housing and Community Development, Review of Subrecipient Selection, Monitoring and Reporting, 7/09/01.
2001-PH-1004 Resources for Human Development, Philadelphia, PA, Supportive Housing Grants, 4/20/01. Questioned: $343,023.
2001-PH-1006 Philadelphia, PA Department of Commerce's Loan Assistance to the Urban Education Development Research and Retreat Center Rehabilitation Project, 8/01/01. Questioned: $2,917,629; Unsupported: $2,117,629.
2001-SE-1001 City of Seattle, WA Continuum of Care, Supportive Housing Program Grants, 8/15/01. Questioned: $239,928; Unsupported: $142,890.

Single Family

Audit-Related Memoranda

2001-AT-1806 The Rain Foundation, Titusville, FL, Nonprofit Participation in FHA Single Family Insurance Program, 9/24/01.
2001-AT-1807 Family Home Providers, Inc., Cumming, GA, Nonprofit Participation in FHA Single Family Insurance Program, 9/25/01.
2001-AT-1808 Autographed Book Give-Away for Inner-City Youths, Inc., Orlando, FL, Nonprofit Participation in FHA Single Family Insurance Program, 9/27/01. Questioned: $23,225.
2001-DE-1801 Clarion Mortgage Capital Inc., Centennial, CO, Single Family Loan Originator, 6/01/01.
2001-FW-1807 Community Housing Fund, Irving, TX, Nonprofit Participation in FHA Single Family Insurance Program, 8/17/01.
2001-SF-1806 Golden Home Mortgage, Concord, CA, Sections 203(b) & (k) Mortgage Loan Insurance Programs, 9/28/01.

External Reports - continued

Audit-Related Memoranda

Multifamily

2001-DE-1802	Lafayette Square Apartments, Macomb, IL, Management Controls over Disbursements, 9/28/01.
2001-CH-1802	Apex Management Company, Dayton, OH, Multifamily Equity Skimming, 8/02/01.
2001-KC-1802	Prairie Park Apartments, Waterloo, IA, 6/28/01.
2001-KC-1803	Review of Oak Tree Park Apartments, Overland, MO, 9/28/01. Questioned: $164,713.

PIH

2001-AT-1804	Decatur, GA Housing Authority and Dekalb County Housing Authority, 6/05/01.
2001-AT-1805	Parish, AL Housing Authority, 8/17/01. Questioned: $6,454.
2001-FW-1806	City of Edinburg, TX Housing Authority, 6/29/01.
2001-FW-1808	HUD Takeover of Beaumont, TX Housing Authority, 8/21/01.
2001-FW-1809	Jefferson Parish, LA Housing Authority, Limited Procurement Review, 9/25/01. Questioned: $512,058; Unsupported: $512,058.
2001-PH-1803	County of Chester, PA Housing Authority, Low-Rent Housing Operations, 8/31/01.
2001-SE-1801	Interior Regional Housing Authority, Fairbanks, AK, Management of a Rehabilitation Project at the Native Village of Fort Yukon, 7/13/01.

CPD

2001-AT-1803	Veterans Opportunity and Resource Center, Inc., Atlanta, GA, Accounting System Evaluation, 4/23/01.
2001-BO-1803	State of Massachusetts, Department of Housing and Community Development, Home Program, 5/17/01.
2001-FW-1804	Neighborhood Housing Services, Inc., Tulsa, OK, CDBG & Home Activities, 4/06/01.
2001-FW-1805	Harris County, Supportive Housing Grant, Houston, TX, 4/27/01.
2001-PH-1802	City of Philadelphia, PA Shelter Plus Care Grant, 8/24/01. Questioned: $331,907; Unsupported: $331,907.
2001-SF-1804	County of Orange, Mercy House Coalition, Santa Ana, CA, Supportive Housing Program Grant, 5/09/01. Questioned: $294,987; Unsupported: $182,463.
2001-SF-1805	Los Coyotes Band of Mission Indians, Warner Springs, CA, 9/25/01. Questioned: $21,620.

Table A

Audit Reports Issued Prior to Start of Period with No Management Decision At 09/30/01

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision

Nothing to report.

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 09/30/01

Report Number	Report Title	Issue Date	Decision Date	Final Action
1992TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 1
1992PH1009	Huntington, WV Community Development Block Grant Program	07/10/92	11/07/92	12/31/01
1993SF1014	Tucson Health Care Limited Partnership	09/23/93	01/21/94	Note 1
1993FW1016	Anthony & Associates, Inc., Multifamily Management Agent, Albuquerque, NM	09/28/93	12/10/93	Note 1
1995SF0001	Multi-district Audit of Section 236 Program, Excess Rental Income Collections	12/21/94	03/31/96	09/30/02
1995CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
1996FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	Note 2
1996SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	Note 1
1996FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	08/19/96	10/17/96	Note 2
1996DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 1
1997PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 1
1997AT1001	Memphis, TN Housing Authority	01/13/97	03/31/98	10/05/01
1997NY0802	Riverside South Apartments, New York, NY	02/21/97	09/30/99	Note 1
1997AT1806	Limited Review of Martin Street Plaza, Atlanta, GA	04/17/97	07/14/97	Note 2
1997FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
1997CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Ins. Prog., Livonia, MI	09/17/97	01/06/98	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
1998HQ0801	Review of HUD's 2020 Management Reform Plan	11/25/97	07/14/99	Note 1
1998SF1002	Redwood Villa, Multifamily Mortgagor Operations, Mountain View, CA	03/31/98	08/14/98	04/03/02
1998AT1005	Housing Authority of the City of Tampa, FL	04/23/98	10/21/98	06/01/02
1998SF1003	San Francisco, CA Housing Authority, Drug Elimination Program	07/22/98	12/09/98	12/31/01
1998CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 1
1998CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 1
1998DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	09/29/99	Note 1
1999PH0001	Youthbuild Program, Multiple Location Review	11/10/98	03/08/99	Note 1
1999NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 1
1999FO0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/99	09/30/99	12/31/01
1999CH0001	HUD's Oversight of the Empowerment Zone Program	03/30/99	09/17/99	Note 1
1999PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	07/31/03
1999SF1003	City of Lynwood, CA, CDBG and HOME Programs	08/19/99	12/16/99	Note 2
1999SF1803	Northern Pueblos Housing Authority, Limited Review of Operations, Santa Fe, NM	09/08/99	11/09/99	Note 2
1999CH1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	Note 2
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 2
1999KC1002	Community Development Block Grant Program, St. Louis, MO	09/28/99	01/21/00	Note 2
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	Note 2
2000AT1001	Mego Mortgage Corporation, Title I Approved Lender, Atlanta, GA	10/04/99	02/09/00	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99	09/19/01	10/31/04
2000PH1002	Philadelphia, PA Housing Authority Police Department	11/15/99	03/16/00	04/01/02
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	Note 2
2000FW1001	New Orleans, LA Housing Authority, Executive Monitor Contract with Moten & Associates	01/19/00	09/29/00	Note 2
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	Note 2
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	12/31/01
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00	09/28/01	12/31/02
2000AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00	09/28/01	12/31/02
2000AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	Note 2
2000SF0001	Single Family Production	03/30/00	01/19/01	12/31/01
2000AO0001	Nationwide Audit of Storefront Operations	03/31/00	09/08/00	Note 1
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
2000KC0001	Assessment of Resident Association Grants, Multi-Location Summary Report	03/31/00	07/28/00	Note 2
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	03/30/02
2000FW1802	Alexandria, LA Housing Authority, Agreed Upon Procedures	04/26/00	10/01/00	Note 2
2000FW1803	Leesville, LA Housing Authority	05/10/00	10/06/00	04/01/11
2000DP0003	Integrated Disbursement and Information Systems	05/11/00	02/14/01	Note 2
2000AT1007	St. Petersburg, FL Housing Authority	05/24/00	10/03/00	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000FW1003	Pope & Booth, P.C. Closing Agent Contract, Austin, TX	05/24/00	07/24/01	Note 2
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	10/18/01
2000FW1006	Fortune Escrow, Inc., Closing Agent Contract, Glendora, CA	08/23/00	11/02/00	10/24/01
2000CH1811	City of South Bend, IN, Broadway Street Mortgage Loan Subsidy Program	09/13/00	01/04/01	12/31/01
2000DE1004	Chippewa Cree Housing Authority, Housing Activities and Related Mgmt. Controls, Rocky Boy, MT	09/21/00	01/19/01	10/15/02
2000BO1803	State of Maine, FIX ME Program, Augusta, ME	09/25/00	01/23/01	11/20/01
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	10/31/01
2000NY1803	Hoboken, NJ Housing Authority, Low-Rent Housing Program	09/25/00	12/01/00	12/01/01
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	12/31/01
2000AT0002	Demolition of HUD Real Estate Owned Properties, Chicago, IL	09/28/00	05/10/01	02/01/02
2000CH0801	HUD's Settlement Agreement, Associated Estates Realty Corp., Office of Multifamily Housing	09/28/00	03/30/01	Note 2
2000PH1004	Wilmington, DE Housing Authority, Public Housing Operations	09/28/00	01/25/01	12/11/01
2000DP0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/00	03/30/01	03/30/02
2000FO0802	Survey of HUD's Contract Award Process	09/29/00	01/31/01	01/31/02
2000KC0002	Housing Subsidy Payments	09/29/00	02/21/01	12/31/01
2000SE0003	Nationwide Audit, Use of and Disposition of Residual Receipts	09/29/00	08/15/01	12/30/03
2001AT1001	Housing Authority of the City of Miami Beach, FL	10/20/00	02/13/01	02/13/02
2001DP0001	HUD Entity-Wide Security Program	10/31/00	01/09/01	10/01/01

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001CH1001	City of Ironton, OH Community Development Block Grant Program	11/16/00	03/21/01	03/20/02
2001CH1002	Muskegon, MI Housing Commission, Low-Rent Public Housing, Section 8 and SRO Programs	11/29/00	03/29/01	12/31/01
2001NY1001	Bay Towers, Far Rockaway, NY	12/07/00	04/20/01	12/31/01
2001AT1004	Palm Beach, FL, County Division of Human Resources, Supportive Housing Grant	12/08/00	06/05/01	12/31/01
2001AT1801	Municipality of Aquadilla, PR	12/12/00	05/10/01	04/30/02
2001FW1002	City of Dallas, TX Continuum of Care Program	12/13/00	06/26/01	04/12/02
2001FW1003	City of Uvalde, TX Housing Authority, Section 8 and Low-Rent Programs	12/18/00	04/26/01	11/30/09
2001CH1003	Saginaw, MI Housing Commission, Low-Income, Section 8, and Drug Elimination Grant Programs	01/04/01	05/04/01	10/31/01
2001BO1002	Waller, Smith and Palmer PC – HUD Closing Agent, New London, CT	01/05/01	05/16/01	12/31/01
2001BO1802	Hartford, CT Department of Mental Health/Addiction Service, Continuum of Care	01/05/01	04/11/01	10/31/01
2001CH1801	Cuyahoga County CDBG, Revolving Loan Fund, Cleveland, OH	01/10/01	05/10/01	12/05/01
2001PH1801	Housing Authority of Baltimore City, MD, Thompson Court Decree	01/24/01	05/21/01	02/28/02
2001BO1003	Multifamily Operations, Bowdoin Apartments, Malden, MA	01/29/01	05/16/01	10/31/01
2001AO0001	Drug Elimination Technical Assistance Program	01/31/01	04/27/01	04/27/02
2001SF1802	HUD Earthquake Loan Program Funds, Woodland Hills, CA	02/08/01	06/14/01	07/31/02
2001PH1002	Chester, PA Housing Authority	02/15/01	05/18/01	12/31/01
2001DP0801	Review of the Department’s Internet Privacy Status	02/21/01	04/23/01	03/31/02
2001DP0002	HUD’s Central Accounting and Program System	02/27/01	06/08/01	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001FO0002	FHA Audit of Fiscal Year 2000 Financial Statements	03/01/01	07/24/01	12/21/06
2001FO0003	Audit of HUD's Fiscal Year 2000 Financial Statements	03/01/01	07/18/01	12/31/02
2001CH1004	Youngstown, OH Metropolitan Housing Authority	03/09/01	07/09/01	10/31/01
2001FW1803	AIDS Foundation Houston, Inc., Supportive Housing Program Grant, Houston, TX	03/09/01	05/21/01	05/21/02
2001CH1005	London, OH Metropolitan Housing Authority, Safeguarding of Monetary Assets and Inventory	03/22/01	07/18/01	02/28/02
2001SF1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/01	07/24/01	12/31/01
2001FO0004	HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data	03/28/01	07/24/01	06/30/03
2001PH1003	Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs	03/28/01	09/10/01	08/31/02
2001AT1005	San Juan, PR Public Housing Administration, HOPE VI, Comprehensive Grant, and Economic Development & Support Services Programs	03/30/01	09/28/01	08/06/02
2001NY0001	Canal Corridor Initiative, HUD Administered Small Cities, CDBG, Section 108 Loan Guarantee Programs	03/30/01	05/29/01	12/01/01
2001SF1001	Force Account Modernization Activities, Comprehensive Grant Program, San Francisco, CA	03/30/01	08/04/01	12/31/01

AUDITS EXCLUDED:

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

NOTES:

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

TABLE C

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 09/30/01 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	23	$46,301	$13,320
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	7	$13,056	$4,153
A3 For which additional costs were added to reports in beginning inventory	-	$37	0
A4 For which costs were added to non-cost reports	2	$1,055	$55
B1 Which were issued during the reporting period	27	$54,877	$49,221
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	59	$115,326	$66,749
C For which a management decision was made during the reporting period	34[1]	$51,166	$20,768
(1) Dollar value of disallowed costs: • Due HUD • Due Program Participants	 13[2] 25	 $14,810 $32,201	 $14,001 $6,178
(2) Dollar value of costs not disallowed	8[3]	$4,155	$589
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	8	$29,084	$14,707
E For which no management decision had been made by the end of the reporting period	17 <37>[4]	$35,076 <$16,766>[4]	$31,274 <$13,698>[4]

1 2 audit reports also contain recommendations with funds to be put to better use.
2 5 audit reports also contain recommendations with funds due program participants.
3 7 audit reports also contain recommendations with funds agreed to by management.
4 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

TABLE D

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 09/30/01 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	3	$8,125
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	2	$3,911
A3 For which additional costs were added to reports in beginning inventory	0	0
A4 For which costs were added to non-cost reports	0	0
B1 Which were issued during the reporting period	0	0
Subtotals (A+B)	5	$12,036
C For which a management decision was made during the reporting period	2[1]	$4,279
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	0	0
• Due Program Participants	1	$4,128
(2) Dollar value of recommendations that were not agreed to by management	1	$151
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	3	$7,757
E For which no management decision had been made by the end of the reporting period	0 <0>[2]	$0 <$0>[2]

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

EXPLANATIONS OF TABLES C AND D

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

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

PROFILE OF PERFORMANCE

for the period

April 1, 2001 through September 30, 2001

Audit and Investigation Results	Audit	Investigation	Combined	FY 2001
Recommendations That Funds Be Put to Better Use	$0		$0	$4,094,628
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	$4,279,255		$4,279,255	$4,796,103
Questioned Costs	$55,969,124		$55,969,124	$85,154,530
Management Decisions on Audits with Questioned Costs	$51,165,552		$51,165,552	$64,709,233
Indictments		438	438	889
Successful Prosecutions		429	429	775
Years of Prison Sentences		765	765	1,568
Investigative Recoveries	$1,319,100	$1,192,293	$2,511,393	$4,720,957
Collections From Audits and Investigations	$6,184,872	$21,006,168	$27,191,040	$75,447,095
Arrests		778	778	3,245
Search Warrants		84	84	401
Value of Drugs Seized		$2,029,757	$2,029,757	$6,731,581
Weapons Seized		142	142	380
Administrative Sanctions	10	214	224	396
Subpoenas Issued	7	244	251	557

NOTE: This reporting period's investigative statistics are incomplete as the New York Housing Fraud Initiative Office in the World Trade Center was destroyed on September 11, 2001.