



# Office of Inspector General

U.S. Department of Housing and Urban Development

# Semiannual Report to Congress

April 1, 2006, through September 30, 2006

# Profile of Performance

For the Period, April 1, 2006, through September 30, 2006

Audit and Investigation Results	Audit	Investigation	Hotline	Last 6 Months	FY 2006
Recommendations That Funds Be Put to Better Use <sup>1,2</sup>	\$322,886,137		\$4,514,185	\$327,400,322	\$919,640,953
Recommended Questioned Costs <sup>1,2</sup>	\$68,039,117			\$68,039,117	\$120,262,848
Indictments/Informations		712		712	1,459
Convictions/Pleas/Pre-Trial Diversions		512		512	955
Civil Actions		20		20	53
Investigative Recoveries/Receivables		\$81,726,077	\$152,495	\$81,878,572	\$247,314,466
Funds Put to Better Use		\$48,608,555		\$48,608,555	\$116,084,299
Collections from Audits	\$14,474,522			\$14,474,522	\$42,685,397
Administrative Sanctions <sup>3</sup>	3	947		950	2,137
Personnel Actions		16		16	40
Arrests <sup>4</sup>		2,034		2,034	3,570
Search Warrants		44		44	102
Weapons Seized		4		4	7
Subpoenas Issued	6	431		437	889

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

<sup>2</sup> For recommendations that Funds Be Put To Better use, \$210,642,087 had Management Decisions. Of

the Recommended Questioned Costs, \$39,449,411 had Management Decisions. Recommended and Management Decision amounts differ because not all Recommendations had received final determination at the end of the period, and there were some management decisions agreed to on recommendations from previous periods.

<sup>3</sup> Personnel actions include reprimands, suspensions, demotions, or terminations of the employees of Federal, state, or local governments, or of Federal contractors and grantees, as the result of OIG activities. In addition, this reporting category includes actions by Federal agencies to suspend, debar, or exclude parties from contracts, grants, loans, and other forms of financial or non-financial transactions with the government, based on findings produced by the OIGs.

<sup>4</sup> Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.



# Inspector General's Message



It is with great pride that I present the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) Semiannual Report to the Congress for the second half of fiscal year 2006.

During the reporting period, we had \$327.4 million in funds put to better use, \$68 million in questioned costs, and \$81.8 million in recoveries and receivables. This is exceptional work by our staff that has resulted in a significant positive impact on fraud and misuse of taxpayer dollars. I am grateful to the auditors, agents, and evaluators who worked so hard this year to achieve this milestone.

I direct your attention to our high profile audits and investigations. HUD OIG staff increased and improved their cooperation and collaboration with the Department and, as a result, developed and implemented better and more effective audit recommendations.

At this time, HUD OIG has taken inventory of our various interests and concerns regarding HUD programs. We have several concerns in each program area, but I will relate only our chief issues.

The largest HUD program in terms of economic impact is the Federal Housing Administration (FHA) mortgage insurance program. A recent audit found that HUD paid billions for claims in the single-family FHA mortgage insurance program, a large percentage of which were for mortgages that did not meet program requirements. HUD received and paid claims on loans for which the lender did not show that the borrower 1) was able to make the required monthly payments, 2) made the minimum investment in the property, or 3) was creditworthy. We estimate that final HUD costs for claims that did not meet program requirements totaled \$356 million.

HUD's most well-known program is its public and assisted housing. Presently, we are concerned with the adequacy of the Department's inspections of public housing authorities (PHA) for compliance with the national housing quality standards. We are finding that PHAs are not satisfying their responsibility to ensure that units are decent, safe, and sanitary.

We are also concerned with oversight of public housing operations. A case in point is a Chicago Housing Authority Section 8 landlord who was also a Chicago police officer, as well as a former president of a nonprofit organization approved by HUD to acquire discounted HUD properties. An investigation by HUD OIG led to a conviction on seven counts of bankruptcy fraud. This landlord did not report her nonprofit business, extensive proceeds from the resale of HUD properties, Section 8 rental assistance payments, or income from her employment with the Chicago Police Department and various nursing companies on two distinct bankruptcy petitions.

HUD's Community Development Block Grant program has not shown consistency in monitoring the performance of communities that get these funds for development. HUD

OIG believes that implementation of performance standards for grantees and a restructuring of enforcement procedures/remedies is needed.

During the months ahead, HUD OIG is increasing its efforts to ensure the administrative health and vitality of HUD's programs and activities. I know that with the hard work of the staff, we will continue a pattern of improved oversight and enforcement.

We are justifiably proud of the staff of HUD OIG for their tireless work and activities against waste, fraud, and abuse in the Nation's housing and urban development programs.

A handwritten signature in black ink, appearing to read "Kenneth M. Donohue". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kenneth M. Donohue  
Inspector General



# Strategic Plan

## Vision

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

## Mission

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

### Goal 1

#### Effectiveness

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

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

### Goal 2

#### Efficiency

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

#### Objectives

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

### Goal 3

#### Our Employees

Become the “Employer of Choice” among Offices of Inspectors General.

- Invest in people.
- Invest in the organization.

# Strategic Goals

## Goal 1 - Effectiveness

### Objectives:

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

Target	As of September 30, 2006	Key Measurements
75%	✓	75% of the recommendations reach management decisions within 120 days.
85%	✓	85% of the dollars associated with recommendations are sustained.
80%	✓	80% of all audits conducted are targeted at areas of significant interest to either HUD or OIG stakeholders.
80%	✓	80% of stakeholders rate OIG products and services good or better.
66%	✓	66% investigations referred for criminal, civil, or administrative action will focus on FHA single-family mortgage fraud and Section 8 rental assistance overpayment.

## Goal 2 - Efficiency

### Objectives:

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

Target	As of September 30, 2006	Key Measurements
8:1	✓	Sustain a return on investment (ROI) of 8:1.
70%	✓	70% of external audits completed within 2000 hours.
4/6 Actions per FTE	✓	Regional investigative performance for regions without forensic auditors will average 4 actions per FTE per year. Regions with forensic auditors will average 6 actions per FTE per year..

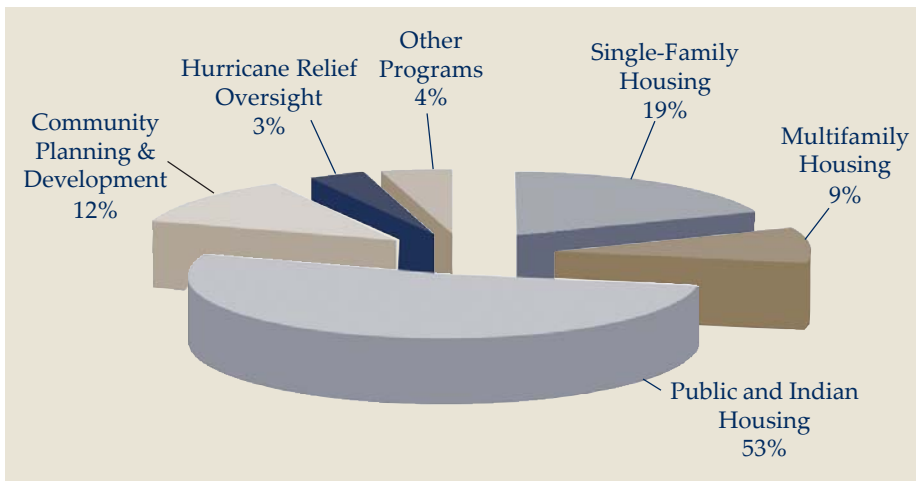
## Goal 3- Employer of Choice

### Objectives:

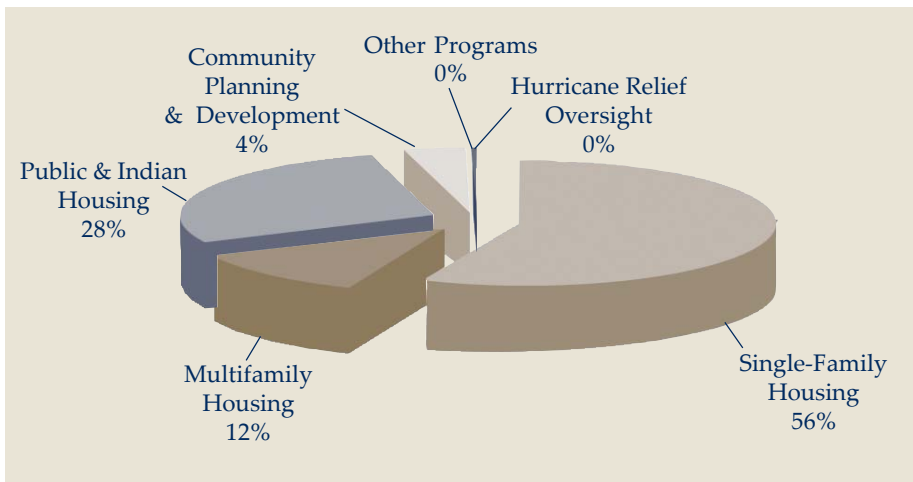
- Invest in people.
- Invest in the organization.

Target	As of September 30, 2006	Key Measurements
FY 07	On Schedule	Implement a leadership development program for succession planning.
80%	NEW	80% of employees rate organization good or better.

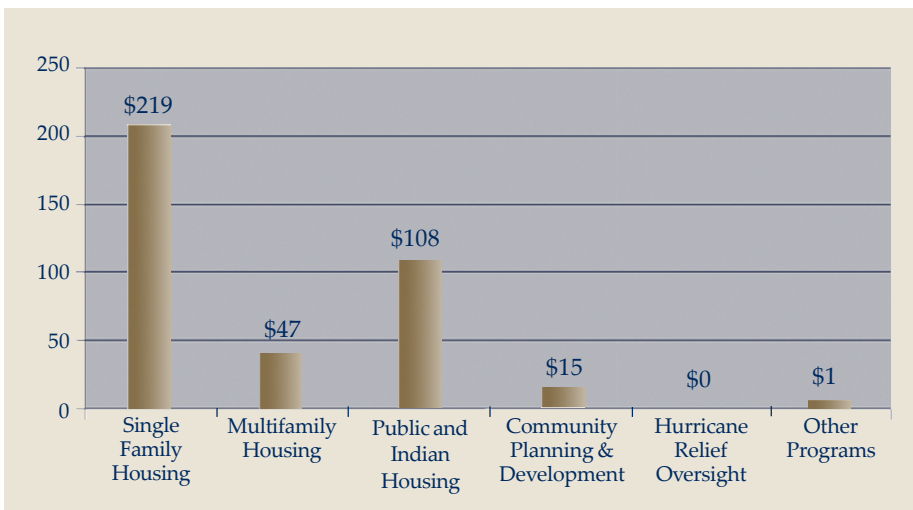
### Audit Reports Issued by Program



### Monetary Benefits Identified by Program

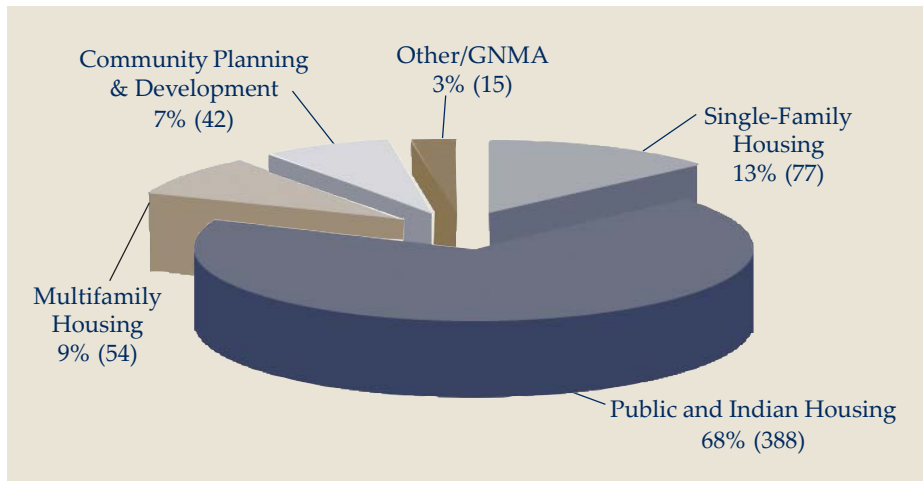


### Monetary Benefits Identified in Millions of Dollars

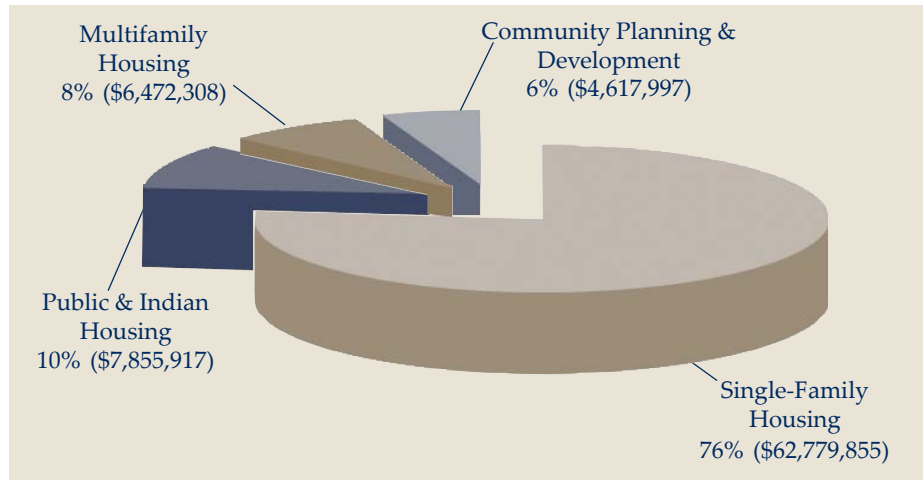




### Investigation Cases Opened by Program (Total: 576)



### Investigation Recoveries by Program (Total: 81,726,077)



# Acronyms List

<b>AIGA</b>	Assistant Inspector General for Audit
<b>AIGI</b>	Assistant Inspector General for Investigations
<b>ARIGA</b>	Assistant Regional Inspector General for Audit
<b>ASAC</b>	Assistant Special Agent in Charge
<b>ATFE</b>	Bureau of Alcohol, Tobacco, Firearms, and Explosives
<b>CAS</b>	Computer Audit Specialist
<b>CDBG</b>	Community Development Block Grants
<b>CID</b>	Criminal Investigation Division
<b>CPD</b>	Community Planning and Development
<b>DAIGA</b>	Deputy Assistant Inspector General for Audit
<b>DAIGI</b>	Deputy Assistant Inspector General for Investigation
<b>DEA</b>	Drug Enforcement Administration
<b>DHS</b>	Department of Homeland Security
<b>DIG</b>	Deputy Inspector General
<b>DoD</b>	Department of Defense
<b>DOE</b>	Department of Education
<b>DOJ</b>	U.S. Department of Justice
<b>DROD</b>	Disaster Relief Oversight Division
<b>DUI</b>	Driving Under the Influence
<b>EIV</b>	Enterprise Income Verification
<b>FBI</b>	Federal Bureau of Investigation
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FEMA</b>	Federal Emergency Management Agency
<b>FFMIA</b>	Financial Management Improvement Act of 1996
<b>FHA</b>	Federal Housing Administration
<b>FIRMS</b>	Facilities Integrated Resources Management System
<b>FISMA</b>	Federal Information Security Management Act of 2002
<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>HHS</b>	U.S. Department of Health and Human Services
<b>HOME</b>	Home Ownership Made Easy
<b>HOPWA</b>	Housing Opportunities for Persons with AIDS
<b>HUD</b>	U.S. Department of Housing and Urban Development

<b>ICE</b>	Immigration and Customs Enforcement
<b>IG</b>	Inspector General
<b>IRS</b>	Internal Revenue Service
<b>KDHAP</b>	Katrina Disaster Housing Assistance Program
<b>MTW</b>	Moving to Work
<b>NAHRO</b>	National Association of Housing and Redevelopment Officials
<b>OA</b>	Office of Audit
<b>OI</b>	Office of Investigation
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OTND</b>	Officer/Teacher Next Door
<b>PCIE/ECIE</b>	President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency
<b>PFCRA</b>	Program Fraud Civil Remedies Act
<b>PHA</b>	Public Housing Authorities
<b>PHSI</b>	Public Housing Safety Initiatives
<b>PIH</b>	Office of Public and Indian Housing
<b>REO</b>	Real Estate Owned
<b>RHIIP</b>	Rental Housing Integrity Improvement Project
<b>RIGA</b>	Regional Inspector General for Audit
<b>SA</b>	Special Agent
<b>SAC</b>	Special Agent in Charge
<b>SBA</b>	Small Business Administration
<b>SFA</b>	Supervisory Forensic Auditor
<b>SSA</b>	Social Security Administration
<b>SSN</b>	Social Security Number
<b>TSA</b>	Transportation Security Administration
<b>USAO</b>	U.S. Attorney's Office
<b>USDA</b>	U.S. Department of Agriculture
<b>USMS</b>	U.S. Marshals Service
<b>USPS</b>	U.S. Postal Service
<b>USPIS</b>	U.S. Postal Inspection Service
<b>VA</b>	U.S. Department of Veterans Affairs



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# Reporting Requirements

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

<b>Source/Requirement</b>	<b>Pages</b>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	137-139
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-122, 137-143
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	9-122
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report on which corrective action has not been completed.	<i>Appendix 2, Table B</i>
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	9-122
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	<i>No Instances</i>
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	<i>Appendix 1</i>
Section 5(a)(7)-summary of each particularly significant report and the total dollar value of questioned and unsupported costs.	9-122
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	<i>Appendix 2, Table C</i>
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	<i>Appendix 2, Table D</i>
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	<i>Appendix 2, Table A</i>
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	<i>No Instances</i>
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	<i>No Instances</i>
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	143



**Chapter 1**  
**HUD's Management**  
**and Performance Challenges**



# The HUD Office of Inspector General

The U.S. Department of Housing and Urban Development (HUD) Inspector General is one of the original 12 Inspectors General authorized under the Inspector General Act of 1978. Over the years, the Office of Inspector General (OIG) has forged a strong alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. OIG strives to make a difference in HUD's performance and accountability. OIG is committed to its statutory mission of detecting and preventing fraud, waste, and abuse and promoting the effectiveness and efficiency of government operations. While organizationally located within the Department, OIG operates independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. OIG's activities seek to

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

The Executive Office and the Offices of Audit, Investigation, Counsel, and Management and Policy are located in Headquarters. Also, the Offices of Audit and Investigation have staff located in eight regions and numerous field offices.

## *Major Issues Facing HUD*

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development grant, subsidy, and loan programs. HUD's fiscal year (FY) 2007 budget request is about \$34 billion. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. At the end of FY 2006, FHA's outstanding mortgage insurance portfolio was about \$396 billion. The Government National Mortgage Association, also known as Ginnie Mae, through its mortgage-backed securities program, gives issuers access to capital markets through the pooling of federally insured loans.

HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD's Community Development Block Grant (CDBG) funds, hundreds of public housing authorities that manage assisted housing funds, thousands of HUD-approved lenders that originate and service FHA-insured loans, and hundreds of Ginnie Mae mortgage-backed securities issuers that provide mortgage capital.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries in its housing programs. HUD's management problems have for years kept it on the Government Accountability Office's (GAO) list of agencies with high-risk programs. More specifically, HUD must focus improvements on rental housing assistance programs and single-family housing

mortgage insurance programs, two areas in which financial and programmatic exposure are the greatest. The fact that HUD's reported management challenges are included as part of the President's Management Agenda's governmentwide and program initiatives is indicative of HUD's important role in the federal sector. HUD's current administration places a high priority on achieving presidential and secretarial initiatives as well as correcting weaknesses that put HUD on GAO's high-risk list.

As of the end of FY 2006, HUD's President's Management Agenda scoring status for the nine applicable initiatives consisted of three "green," four "yellow," and two "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has one of a number of serious flaws. HUD's baseline score for Improved Financial Performance remains at "red" until HUD eliminates its two remaining material weaknesses. However, HUD's progress indicator is green since HUD has completed its planned actions, including reaching an agreement with the Office of Management and Budget (OMB) on HUD's Integrated Financial Management Improvement Project (HIFMIP) acquisition strategy and replacing its noncompliant Loan Accounting System (LAS) with a compliant commercial off-the-shelf package. It is also noteworthy that HUD was the first agency to receive a "green" baseline goal score on the Eliminating Improper Payments initiative and has also achieved "green" baseline goal scores for the E-Government and Faith-Based Community initiatives.

Each year in accordance with the Reports Consolidated Act of 2000, HUD OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the

Department. OIG submitted its latest assessment on October 19, 2006. These reported challenges are the continued focus of our audit and investigative efforts. HUD is working to address these challenges and in some instances, has made significant progress in correcting them. The Department's management challenges and current efforts to address these challenges are as follows.

***Financial Management Systems.*** Since FY 1991, OIG has annually reported on the lack of an integrated financial system in compliance with all federal financial management system requirements, including the need to enhance FHA's management controls over its various insurance and other financial systems. During the past several years, HUD has made progress, implementing a new financial system at FHA and addressing most of the weaknesses that OIG identified, including initiating a vision statement for a departmentwide fully integrated financial system. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a reportable condition. The remaining weaknesses noted in OIG's audit of HUD's FY 2005 financial statements were as follows:

- FHA needs to continue progress to integrate its financial management systems.
- HUD's ability to prepare financial statements and other financial information requires extensive compensating procedures.
- HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis.

For the past several years, OIG's financial audits have also reported

weaknesses in internal controls and security over HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, protected from loss, and available to those who need it without interruption. HUD has completed certification and accreditation for all financial management systems and general support systems. However, the quality of the underlying documents and the actual certification and accreditation process varied by application. While a number of vulnerabilities were closed, additional vulnerabilities, identified through oversight activities, were not corrected before accreditation. Correction of approximately 85 percent of the vulnerabilities identified on financial management systems within FHA has been delayed with no projected resolution date. Finally, HUD has not tested and evaluated all of the technical information security controls for the financial management systems categorized as high impact.

***FHA Single Family Origination.*** FHA's single-family mortgage insurance programs enable millions of first-time, minority, low-income, elderly, and other underserved households to realize the benefits of homeownership. HUD manages about \$341 billion in single-family insured mortgages. Effective management of this high-risk portfolio represents a continuing challenge for the Department. The President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD has taken a number of recent actions to reduce risks including the following:

- Providing advisory guidance to Home Equity Conversion Mortgage (HECM) counselors on warning prospective borrowers about mortgage fraud schemes and how to avoid becoming victims.

- Publishing a final rule that changes HUD's delinquency-reporting requirement, thereby enabling the Department's Single Family Default Monitoring System to track significant key events between the beginning of a default episode and its resolution.
- Publishing a final rule prohibiting property flipping in HUD's single-family mortgage insurance programs.
- Providing special expanded loss mitigation authority to lenders to reduce insurance claim losses and assist borrowers that lost homes due to hurricane damage in the Gulf Coast region.
- At OIG's urging and in light of a recent Internal Revenue Service ruling regarding nonprofits that provide seller-funded downpayment assistance, proposing a rule that would establish specific standards regarding a borrower's investment in the mortgaged property when a gift is provided by a nonprofit organization.

While GAO and OIG have reported improved monitoring of lender underwriting and default tracking and expanded loss mitigation to help reduce mortgage foreclosures, HUD needs to further strengthen lender accountability and take strong enforcement actions against program abusers that victimize first-time and minority homebuyers. The audit of FHA's FY 2005 financial statements also reported a need to

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



- Continue improvement in the review over the credit reform estimation process.

OIG's internal audits focused on HUD's improving its oversight of the claims payment process and the late endorsement of loans. OIG's review of HUD's oversight of single-family mortgage insurance claims found documentation omissions and other lender noncompliance with program requirements at insurance endorsement. Therefore, OIG recommended that HUD independently verify the eligibility for insurance of inadequately documented loan files and seek recovery or satisfactory support for final HUD costs. In another audit, OIG assessed the impact of a recent policy change regarding eligibility for late endorsements and found that HUD's underlying risk assumption was flawed. OIG recommended that HUD reevaluate the policy using appropriate and available information.

In support of HUD and the President's Management Agenda, OIG's Strategic Plan for FY 2004 to 2009 gives priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. OIG's audits target lenders with high default rates. OIG's detailed testing typically focuses on mortgage loans that defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late endorsed loans, inadequate quality controls, and other operational irregularities. During FY 2006, OIG completed 33 external audits of FHA-approved mortgage lenders as well as five internal audits of single-family program activities. OIG recommended monetary recoveries, civil remedies, and funds that could be put to better use totaling \$259 million. During FY 2006 in the single-family housing program area, judicial actions taken on Office of Investigation cases included 366 indictments/informations.

**Public and Assisted Housing Program Administration.** HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD monitors these intermediaries' administration of the assisted housing programs.

Accurate and timely information about households participating in HUD housing programs is necessary to allow HUD to monitor the effectiveness of the program, assess agency compliance with regulations, and analyze the impacts of proposed program changes. The level of reporting is a criterion for housing agencies' performance in both the Public Housing Assessment System and the Section 8 Management Assessment Program. Housing agencies must have a minimum 95 percent reporting rate or be subject to sanctions.

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

The estimate of erroneous payments that HUD reports in its Performance and Accountability Report relates to HUD's inability to ensure or verify the accuracy of subsidy payments being determined and paid to assisted households. HUD has surpassed interim goals for reducing the FY

2000 estimated \$2 billion in net annual rental housing assistance overpayments. HUD's interim goals were for a 15 percent reduction in FY 2003, 30 percent reduction in FY 2004, and 50 percent reduction in FY 2005. These goals were established based on the FY 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based.

Although 60 percent of all subsidy determinations were found to be in error in 2000, that number declined to 41 percent in FY 2003 and 34 percent in FY 2004. The baseline estimate of gross annual improper payments has been reduced from \$3.2 billion in 2000 to \$1.6 billion in 2003 and \$1.2 billion in 2004. HUD is finalizing updated estimates to include in its FY 2006 Performance and Accountability Report.

Paralleling HUD efforts, our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. To comply with a congressional request, OIG conducted 51 external audits of the Section 8 Housing Choice Voucher program during FY 2006. OIG also has professional appraisers on staff to assist in evaluating housing quality requirements as part of our audit efforts. In total, these external audits addressed whether housing agencies are correctly calculating subsidy amounts, correctly determining family income, complying with housing quality standards, fully using authorized vouchers, and implementing controls to prevent duplicative and fraudulent housing assistance payments. OIG's audits identified questioned costs of more than \$16 million and reported more than \$112 million that could be put to better use.

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

Congress estimates that damage to residential structures will range from \$17 to \$33 billion. In the Presidentially Declared Disaster Areas, HUD's FHA single-family insurance fund insured more than 328,000 mortgages having an unpaid principal balance of \$23 billion. The hurricanes affected 79 Ginnie Mae issuers, causing Ginnie Mae to assess a \$500 million risk of loss to its investment portfolio. FHA's multifamily program in the Presidentially Declared Disaster Areas insured 528 projects with an amortized principal balance of \$3 billion. Of these, 112 or 21 percent sustained more than minor damage, resulting in significant potential losses.<sup>1</sup> Assets of HUD's public housing program suffered tremendous damage, affecting both property structures and housing of almost 120,000 families. The Housing Authority of New Orleans received a \$21.8 million grant from the public housing capital fund reserve for the cost and repair of its public housing inventory before a full assessment could be performed. HUD allowed States to reprogram \$380 million from existing community planning and development funds for the disaster areas. To expedite the process, HUD issued numerous waivers to streamline its grant programs including the HOME Investment Partnerships, Emergency Shelter Grants, and CDBG programs.

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<sup>1</sup> Loss estimates for both the single-family and multifamily programs were being finalized at the time of this report and are to be included in FHA's audited FY 2006 financial statements.

HUD's response to Hurricanes Katrina and Rita falls into three separate categories: (1) use of existing appropriations on the ground just before hurricane impact, (2) new appropriations for hurricane relief, and (3) Federal Emergency Management Agency funds administered by HUD in support of mission-critical assignments. HUD is administering the Katrina Disaster Housing Assistance and Disaster Voucher Programs, which were funded at levels of \$79 million and \$390 million, respectively. In addition, Congress appropriated \$16.7 billion in emergency CDBG funds in two emergency supplemental appropriations. Of this total, \$10.4 billion and \$5.5 billion have been allocated to the States of Louisiana and Mississippi, respectively. The remaining funds were allocated to the States of Alabama, Florida, and Texas.

Each state was required to submit a plan to HUD outlining how the state intended to spend its supplemental disaster funding. However, the subsequent waivers of CDBG program requirements, while granted by HUD in accordance with the provisions of the supplemental appropriations to facilitate the ease and expediency of funding, may have created vulnerabilities. For example, Mississippi and Louisiana opted to use portions of their overall CDBG funding for

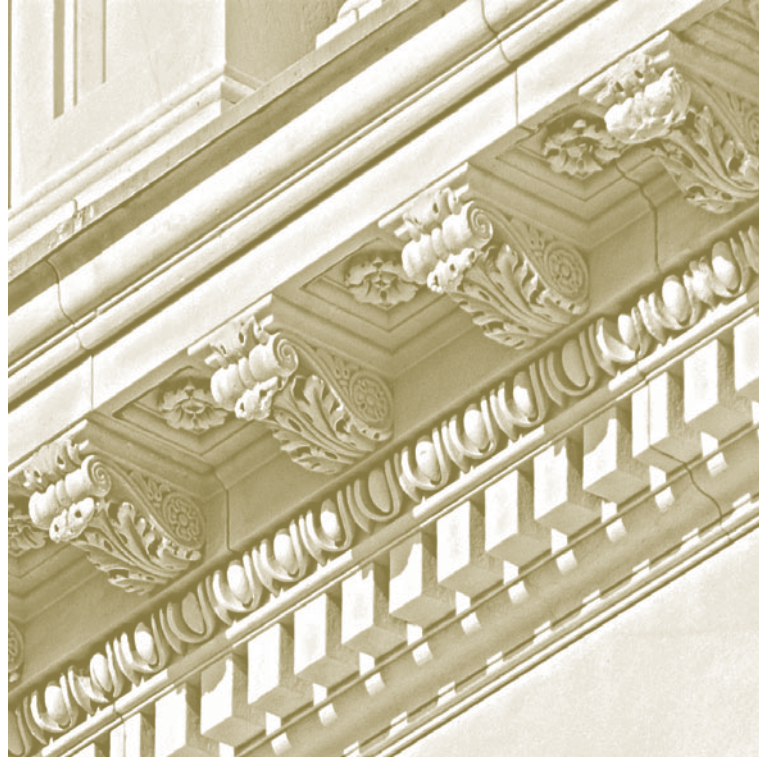
one-time grants to assist homeowners, who are not obligated to repair or rebuild their homes but may choose to use the grant in any legal way to work through their personal recovery situations. OIG has concerns about how a "compensation" plan that basically reimburses homeowners' losses will spur the rebuilding of now blighted communities.

There are also continuing problems with the execution of data matching among federal agencies. It took months for OIG to finalize a protocol with the Federal Emergency Management Agency to use its data for matching purposes to detect potentially fraudulent payments. The problems that OIG has encountered would be greatly mitigated if the Privacy Act included an exception for postdisaster data matching or if alternative legislation required federal agencies to engage in data matching as a routine procedure in their provision of disaster assistance.

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







## **Chapter 2**

# **HUD's Single-Family Housing Programs**



The Federal Housing Administration's (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, and construct a home.

Mutual Mortgage Insurance Fund single-family claims to determine whether HUD ensured that paid claims were reviewed to determine whether the mortgage loans met program requirements.

## Audits

During this reporting period, the Office of Inspector General (OIG) issued 12 external and 5 internal audit reports in the single-family housing program area. These reports disclosed more than \$2.4 million in questioned costs and more than \$216 million in recommendations that funds be put to better use.

### *FHA Mutual Mortgage Insurance Fund Claim Payments*

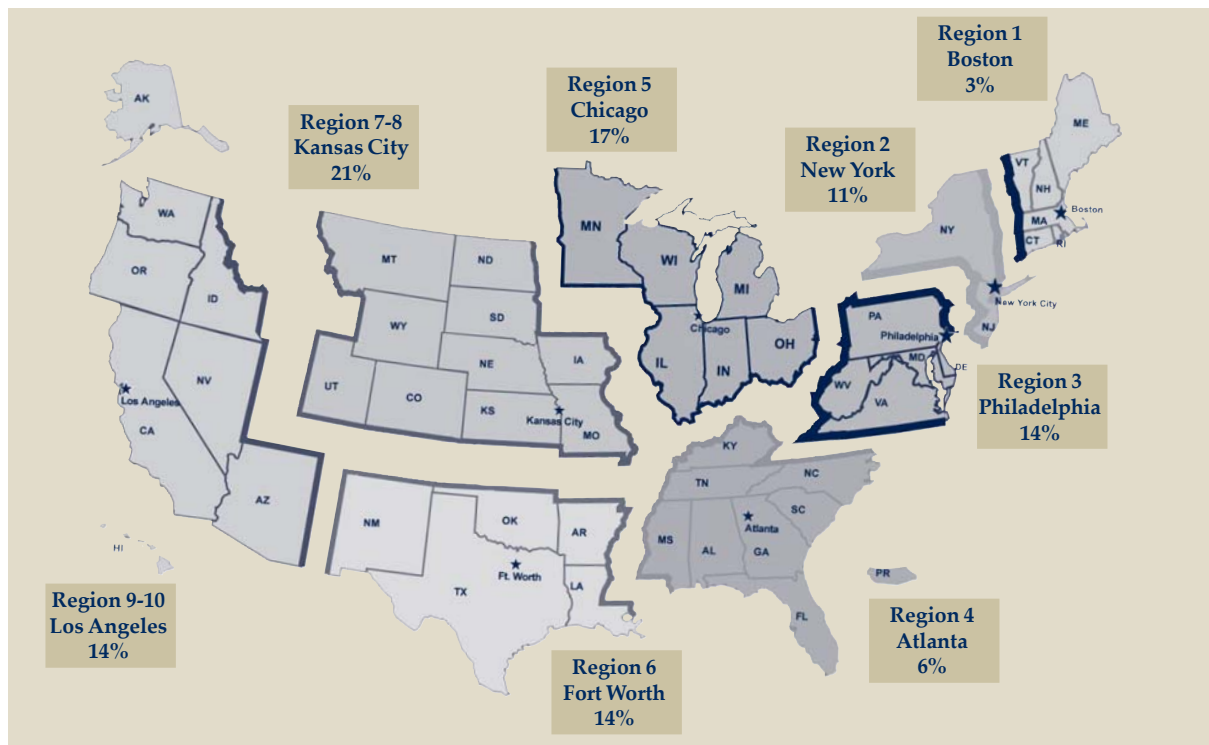
The U.S. Department of Housing and Urban Development (HUD) OIG reviewed HUD's controls over the payment of FHA

Of the 175 claims reviewed, 44 were paid for mortgages that did not meet program requirements. Final HUD costs for claims that did not meet program requirements are estimated to be \$356 million during the period October 1, 2003, through June 3, 2005.

OIG recommended that HUD (1) establish procedures to review paid claims associated with early defaulted loans and unsupported final costs and independently verify that loans met program requirements, (2) seek recovery or adequate support for final HUD costs for the 44 unsupported claims identified, and (3) assess costs and benefits associated with reviewing claims on early defaulted loans received since October 1, 2003, and if feasible, independently determine that loans comply with program requirements and seek recovery or adequate support for final HUD costs associated with those claims. (Audit Report: 2006-SE-0001)

#### A Look Back for the Year

Chart 2.1: Percentage of OIG Single-Family Closed Audit Cases, Performed FY 06



## *Late Lender Submissions for HUD's Housing Counseling Insurance Endorsement Assistance Program*

On May 17, 2005, HUD issued Mortgagee Letter 2005-23, removing the 6-month payment history requirement for loans submitted late for endorsement. HUD OIG analyzed the impact of the policy changes and reviewed the decision process followed by HUD in approving the rule change to determine whether changed late submission for endorsement rules were adequately supported and the decision process was documented as required by the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and HUD/FHA internal policy and practice.

Although HUD asserted that the change did not materially increase FHA's mortgage insurance risk, it did not perform a risk analysis to support this determination. A review of the performance of loans from seven prior OIG late endorsement audits found a three and one-half times higher risk of claims when loans had unacceptable payment histories within the prior 6 months. Further, since the issuance of the mortgagee letter, the default rate for loans submitted late has increased and is significantly higher than the default rate for loans submitted in a timely manner.

OIG recommended that HUD (1) rescind Mortgagee Letter 2005-23 until appropriate rule changes can be designed that are supported by an adequate risk assessment considering newly endorsable loans and (2) establish sufficient documentation practices to document assertions and identify support data referenced in published documents such as policies and directives. Documentation should be sufficient to permit a competent and independent management review and create an audit trail. (Audit Report: **2006-SE-0002**)

HUD OIG audited HUD's Housing Counseling Assistance Program, **Washington, DC**, to determine whether HUD (1) ensured the accuracy and reliability of the data reported on fiscal year activity reports, (2) had a system in place to measure the impact that the grants have on program performance measurements, and (3) had a monitoring system that adequately accounted for and safeguarded funds that HUD provides grantees.

The data reported on the activity reports were inaccurate and not current, performance goals did not measure the effects of grant funds on program objectives, and some departmental program objectives were not measured. In addition, HUD's oversight and monitoring of local counseling agencies was not adequate to ensure that the agencies were conducting activities in accordance with HUD requirements and grant agreements.

OIG recommended that HUD (1) establish controls to ensure accurate and reliable fiscal year activity reports, (2) implement procedures for reporting that provide for more timely information and the reporting of actual results in later reports when estimates are used, (3) implement a system that measures all program objectives and goals, and (4) establish and implement written procedures to ensure adequate oversight and monitoring of the program. (Audit Report: **2006-NY-0001**)

## *Credit Watch Terminated Lenders*

HUD OIG audited HUD's Office of Housing, **Washington, DC**, to determine whether its controls adequately stop Credit Watch terminated lenders from originating new loans in the area in which they were terminated.

HUD's controls usually stop lenders from originating new loans in areas in which their approval has been terminated. In a recent 3-year period, lenders originated 58 insured loans contrary to their sanctions. During the same period, HUD insured more than 3.3 million loans.

OIG recommended that HUD periodically search for loans that have been originated by terminated lenders and take appropriate action against the lenders that improperly originated the 58 loans identified. (Audit Report: 2006-KC-0002)

### *Mortgagees, Loan Correspondents, and Direct Endorsement Lenders*

Audits of single-family lenders and loan origination abuses continued to be a priority during this semiannual period. Lenders are targeted for audit through the use of data mining techniques, along with prioritizing audit requests from outside sources. During this period, HUD OIG reviewed 12 FHA single-family mortgage lenders. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the mortgage lender complied with HUD's regulations, procedures, and instructions for the underwriting of FHA loans and to determine whether the mortgage lender's quality assurance plan met HUD's requirements. The following section illustrates the audits conducted in the single-family mortgage lender area.

HUD OIG audited National City Mortgage Company of **Miamisburg, OH**, a nonsupervised lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program. Of the 41 loans reviewed, National City approved 20 that did not fully meet HUD's requirements. The loans defaulted early and/or went to claim. The underwriting deficiencies were material as well as

technical and included errors and documentation omissions clearly contrary to prudent lending practices. Further, National City incorrectly certified to the integrity of the data supporting the underwriting deficiencies and to the due diligence used in underwriting the loans. HUD paid more than \$94,000 in claims for two loans and incurred a loss of nearly \$48,000 for another two loans.

OIG recommended that HUD require National City to indemnify HUD for any future losses on nine loans with a total mortgage value of more than \$1 million; reimburse HUD more than \$94,000 for the claims paid on two loans once the associated properties are sold; reimburse HUD nearly \$48,000 for the loss incurred on two loans since the properties were already sold; buy down two active loans by \$2,900; improve its existing procedures and controls to ensure its underwriters follow HUD's underwriting requirements; implement its quality control plan for reviewing loans with early payment defaults; and ensure that quality control reviews under its quality control plan are timely, accurate, and properly documented. (Audit Report: 2006-CH-1014)



HUD OIG audited Premier Mortgage Funding, Inc., a nonsupervised loan correspondent, because its default rate was 378 percent of the average of all lenders in the San Antonio, TX, HUD jurisdiction. Premier's **Austin, TX**, branch originated 36 of 41 loans that defaulted within the first year of origination. Premier and its sponsor, JPMorgan Chase Bank NA, did not meet HUD underwriting or quality control requirements. HUD insured 11 loans totaling more than \$1 million that the sponsor approved with inaccurate credit information. Further, Premier and its sponsors charged borrowers \$163 in ineligible closing costs and approved 31 loans with appraisals that did not meet HUD requirements. These deficiencies increased

the FHA insurance fund's risk of loss. As of April 28, 2006, HUD had lost more than \$394,000 on these loans.

OIG recommended that HUD (1) require JPMorgan Chase to reimburse HUD more than \$394,000 for losses incurred on six loans, indemnify HUD for six loans totaling more than \$647,000, and buy down loans or repay HUD for other deficiencies; (2) require Premier and JPMorgan Chase to take action to correct quality control deficiencies and ensure that appraisals meet HUD requirements; and (3) take appropriate administrative sanctions against Premier and JPMorgan Chase for entering incorrect data into the automated underwriting system and certifying their integrity. (Audit Report: **2006-FW-1011**)



HUD OIG audited the **Devon, PA**, branch of Trident Mortgage Company, a nonsupervised direct endorsement lender approved to originate FHA single-family mortgage loans, because its default rate was above the state's default rate. Of the 26 loans reviewed, the Devon office did not fully comply with FHA requirements for 15 of the loans valued at just under \$2 million. Trident did not exercise due diligence in the review of assets and liabilities, properly verify income, ensure that all borrowers met the minimum required 3 percent investment in the property, properly document the qualifying ratios, and verify rental history. In addition, Trident overcharged for credit reports. For five of the cases reviewed, fees totaling \$146 were charged to the borrowers. Further, Trident did not perform the required number of quality control reviews of its FHA loans and did not ensure that all FHA loans that went into early default were flagged for review.

OIG recommended that HUD request from Trident an indemnification of more than \$487,000 on 13 loans, which it issued contrary to HUD's loan origination procedures, an indemnification of almost

\$80,000 on two loans that went into default, causing HUD to pay a claim, and require Trident to develop internal procedures to more closely monitor its underwriting procedures, reimburse borrowers \$146 in overcharges, and revise and implement its quality control plan to comply with HUD requirements. (Audit Report: **2006-PH-1012**)



HUD OIG audited First Residential Mortgage Corporation, a nonsupervised direct endorsement lender located in **Englewood Cliffs, NJ**. Seven of eleven loans reviewed exhibited significant underwriting deficiencies such as inadequate credit analysis, inadequate verification of funds to close, minimum cash investment not met, and inadequate verification of income and/or employment. The remaining four loans contained technical violations. In addition, one borrower was charged a \$495 ineligible commitment fee.

OIG recommended that HUD require First Residential to indemnify it for potential losses and/or claims on loans with significant underwriting deficiencies, reimburse one borrower for an ineligible charge, and implement a quality control process in accordance with HUD requirements. (Audit Report: **2006-NY-1009**)



HUD OIG audited First Suffolk Mortgage Corporation, **North Babylon, NY**, a nonsupervised direct endorsement lender. Three of eight loans reviewed exhibited significant underwriting deficiencies, and the remaining five loans contained technical violations. As a result, the FHA insurance fund paid claims associated with two loans and continues to assume a risk with another loan. In addition, First Suffolk did not always comply with HUD's and its own quality control requirements to (1) ensure that all HUD-insured loans that went into default within the first six payments were



reviewed and (2) document that corrective action was taken on all material findings identified in quality control reviews.

OIG recommended that HUD require First Suffolk to (1) reimburse HUD for the amount of claims and associated fees paid on two loans with significant underwriting deficiencies, (2) indemnify HUD against future losses on the one currently insured loan with significant underwriting deficiencies, (3) establish procedures to ensure that HUD's underwriting requirements are properly implemented and documented, and (4) implement procedures to ensure compliance with HUD's and its own quality control requirements. (Audit Report: **2006-NY-1007**)



HUD OIG audited First Magnus Financial Corporation's loan origination and business practices at the First Magnus corporate office in **Tucson, AZ**. First Magnus did not follow HUD requirements when underwriting six FHA-insured loans. As a result, the lender approved borrowers for FHA-insured loans for which they may not be able to make the monthly mortgage payments.

OIG recommended that HUD require First Magnus to indemnify it more than \$95,000 for estimated losses on three loans processed and originated in disregard of HUD rules and regulations and pay civil money penalties for four loans that were originated and processed using an incorrect branch lender identification number. (Audit Report: **2006-LA-1018**)



HUD OIG audited Community Central Bank, **Mt. Clemens, MI**, a supervised lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's single-family direct endorsement program, because of its high default to claim rate. Community Central

generally complied with HUD's requirements for underwriting FHA loans. However, it approved 3 of 29 FHA loans reviewed that did not fully meet HUD's requirements. Further, Community Central incorrectly certified to the due diligence used in underwriting the three loans. Its quality control plan did not comply with HUD's requirements, and quality control reviews were not performed in a timely manner. For the loans in question, the risk to the FHA fund was increased.

OIG recommended that HUD require Community Central to indemnify it for any future losses on two loans with a total mortgage value of more than \$140,000, reimburse it for any future net loss once the associated property is sold, and ensure that quality control reviews are timely and properly documented. OIG also recommended that HUD determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act (PFCRA) against Community Central and/or its principals for the three incorrect certifications identified. (Audit Report: **2006-CH-1017**)



HUD OIG reviewed 13 FHA loans underwritten by Nexgen Lending, Inc.'s **Lakewood, CO**, branch office. Nexgen did not follow HUD requirements in underwriting two of the loans. As a result, Nexgen placed HUD's insurance fund at risk for as much as \$207,000 and overinsured one mortgage for more than \$1,000. Nexgen's quality control plan met HUD's requirements. OIG recommended that HUD require Nexgen to indemnify it for the potential loss on the one loan with a significant deficiency and reimburse the appropriate parties for the overinsured mortgage. (Audit Report: **2006-DE-1006**)



HUD OIG audited KB Home Mortgage Company in **Los Angeles, CA**, after a prior OIG audit found indications that KB underwriters inaccurately certified that they



underwrote certain FHA loans. For 206 of the 543 loans reviewed, KB's underwriters inaccurately certified that they personally underwrote the loans. As a result, HUD has no assurance that these loans were properly underwritten to ensure that they were eligible for FHA mortgage insurance.

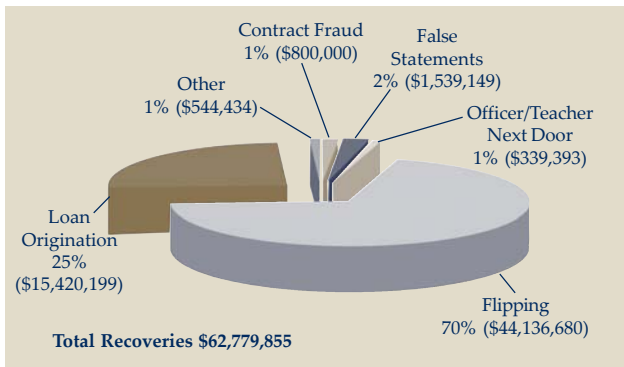
OIG recommended that HUD require KB to ensure that underwriter certifications for HUD-insured loans are only executed by direct endorsement underwriters after personally reviewing the appraisal, credit application, and all associated documents and using due diligence in underwriting the mortgage. (Audit Report: **2006-LA-1014**)



# Investigations

During this reporting period, OIG opened 77 investigation cases and closed 161 cases in the single-family housing program area. Judicial action taken on these cases during the period included \$62,779,855 in investigative recoveries, \$23,645,106 in funds put to better use, 111 indictments/informations, 144 convictions/pleas/pretrial diversions, 71 administrative actions, 9 civil actions, 3 personnel actions, and 98 arrests.

**Chart 2.2: Single-Family Recoveries**



Some investigations discussed in this report were conducted jointly with federal,

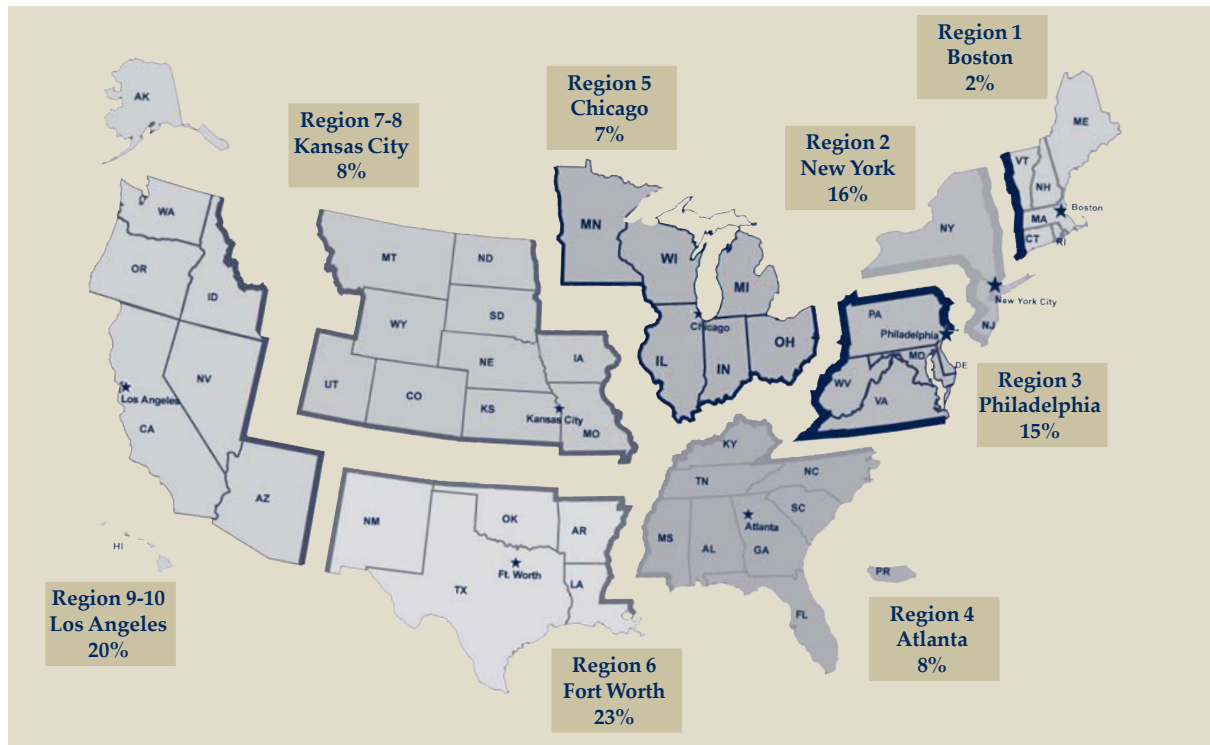
state, and local law enforcement agencies. The results of various significant investigations are described below.

## Loan Origination Fraud

Donald W. Gupton, Inc., doing business as Dynasty Homes of Henderson, Superior Housing Center, Creative Real Estate, Manufacturing Housing Sales Center, M&G Properties II, Inc., and CRE Properties, LLC, (The Companies) pled guilty in U.S. District Court, **New Bern, NC**, to one count each of conspiracy and money laundering. Donald Scott Carroll and Richard Meador, both sales managers for Gupton, were sentenced in U.S. District Court, **Raleigh, NC**, for their recent convictions on false statements; bank fraud; and/or conspiracy to commit mail fraud, wire fraud, or money laundering. Carroll was sentenced to 30 months incarceration and 3 years supervised release and ordered to pay HUD \$1,308,029 and 20 victims \$168,802 restitution; Meador was sentenced to 53 months incarceration and 3 years supervised release and ordered to pay HUD \$1,101,498 and 20 victims \$168,802

### A Look Back for the Year

**Chart 2.3: Percentage of OIG Single-Family Closed Investigation Cases, Performed FY 06**



restitution, jointly and severally with Carroll. Between 1999 and 2002, The Companies bought and sold more than 150 manufactured and mobile homes, some including land, and assisted unqualified borrowers in obtaining FHA-insured mortgages valued at more than \$11 million by using fictitious trade-ins, providing cash and fabricated gift letters, and falsely inflating values and/or certifying land ownership. A preliminary order of forfeiture commands The Companies to forfeit proceeds of up to \$11 million, assets associated with each organization, a Piper airplane, and more than 300 acres of land. As a result of foreclosures, HUD realized losses estimated at \$6.8 million.



David B. Finzi, a real estate investor, was sentenced in U.S. District Court, **Los Angeles, CA**, to 5 years probation and ordered to pay HUD \$2,389,133 restitution for his earlier conviction on wire fraud and aiding and abetting. Finzi and others located and purchased multiunit residential properties, flipped the properties at inflated values to fictitious purchasers while Finzi's purchase transactions were pending, prepared and submitted fraudulent loan applications for bogus purchasers, and obtained \$12.5 million in FHA-insured mortgage loans. As a result of foreclosures, HUD realized losses of \$3,161,942.



Cenobio Rojas and his wife, Ruth Rojas, owners of Continental Termite and Investments, were sentenced in U.S. District Court, **Los Angeles, CA**, for their previous guilty pleas to money laundering. Cenobio Rojas was sentenced to 37 months incarceration and ordered to pay HUD \$1,518,353 restitution; Ruth Rojas was sentenced to 21 months incarceration and 36 months probation and ordered to pay the above restitution jointly and severally with her husband. Cenobio and Ruth Rojas provided downpayment funds, used false loan documents, and inflated the values of properties sold to unqualified buyers

obtaining FHA-insured mortgages. As a result, 15 FHA-insured properties defaulted, 95 properties are at risk, and HUD realized losses of \$2,356,841.



Benedicta Gomez, an accountant and owner of One Service, Inc., Aurora, CO, pled guilty in U.S. District Court, **Denver, CO**, to one count of wire fraud. William Mendez, owner of William E. Mendez Team, Inc., at REMAX 100; former Mendez Team realtor Rogasiano Caldera; and unlicensed realtor and former Mendez Team assistant Claudia Mendez were sentenced for their earlier guilty pleas to numerous charges. William Mendez was sentenced to 49 months in prison and 36 months probation and ordered to pay HUD \$1,227,082 restitution; Caldera was sentenced to 15 months in prison and 36 months probation, ordered to pay HUD \$80,729 restitution, and debarred from procurement and nonprocurement transactions as either a principal or participant with HUD and throughout the Executive Branch of the Federal Government for 10 months; Claudia Mendez was sentenced to 8 months incarceration and 36 months probation and ordered to pay HUD \$109,167 restitution. Gomez, Caldera, and William and Claudia Mendez assisted unqualified and undocumented immigrants in obtaining more than 300 FHA-insured loans valued in excess of \$61 million. As a result of foreclosures, HUD realized losses of \$2.3 million.



Real estate investors Douglas Hastings and Phil Miskimon, along with Julie Smith, Shawn Fleming, and Jeffrey Meyer, each pled guilty in U.S. District Court, **Rockford, IL**, to numerous counts of conspiracy, false statements to HUD, and false statements. Dale Nelson, Chad Nicks, and Tasha Barnes, also known as Tasha Thompson, were sentenced for their earlier guilty pleas to conspiracy and false statements to HUD. Nelson was sentenced to 5 months incarceration, 5 months home confinement, and 24 months probation and ordered to pay

# Five face charges of bilking U.S. government

By Corina Curry

ROCKFORD REGISTER STAR

ROCKFORD — Five Rockford residents allegedly scammed the government out of several hundred thousand dollars by making up Social Security numbers and proof of income for potential homeowners so they could make money off the commission of house sales.

The group includes a loan officer, a real-estate agent, the loan officer's assistant and two businessmen. The loan officer, her assistant and the agent allegedly made up Social Security numbers and income and credit information for 10 to 15 people so they could secure government-backed home mortgages to buy houses. The businessmen are accused of signing documents stating that the applicants worked for them when the applicants allegedly never were employees. The scam went on from January 2000 to November 2003.

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HUD \$286,241 restitution; Nicks was sentenced to 5 months incarceration, 5 months home confinement, and 36 months probation and ordered to pay HUD \$257,372 restitution; Barnes was sentenced to 4 months incarceration, 4 months home confinement, and 12 months probation and ordered to pay HUD \$183,715 restitution. Hastings, Miskimon, Smith, Fleming, Meyer, Nelson, Nicks, Barnes, and others provided or

acquired false credit letters, verifications of employment, or gift letters and/or acted as straw buyers to assist unqualified applicants in obtaining more than 50 FHA-insured mortgages. As a result, 35 FHA-insured properties defaulted, and HUD losses exceed \$2 million.



Rhonda Torossian, a loan officer at RBC Mortgage Company; Nancy Rodriguez, a loan processor at RBC; Cesar Arenas, a realtor at Whitehead Realty; and Raul Raygoza and Israel Qunitero, both employees at Friends Furniture, were indicted in U.S. District Court, **Rockford, IL**, on numerous counts of false statements to HUD, mail fraud, and conspiracy. The above defendants allegedly provided false documents, including verifications of employment, credit letters, cashier's checks, Social Security cards and numbers, and correspondence, to unqualified buyers obtaining FHA-insured mortgages. As a result, more than 50 FHA-insured loans were identified, and HUD losses exceed \$2 million.



Columbia National Mortgage, Inc. (CNM), a subsidiary of American Home Mortgage Investment Corporation, **Philadelphia, PA**, entered into a settlement agreement with the U. S. Government and plaintiff/realtor Cynthia Santore-Smith, a former CNM employee. As a condition of the settlement agreement, CNM agreed to pay the U. S. Government \$800,000 and indemnify two FHA-insured loans on residential properties in Philadelphia, PA. In 2003, Santore-Smith filed a Qui Tam complaint and provided information relating to fraudulent FHA-insured loans packaged and processed by employees of CNM's Bensalem, PA, branch office during 1997, 1998, and 1999.



Edward Carrillo, owner of Sahara Investments in Scottsdale, AZ, was sentenced in Maricopa County Superior Court, **Phoenix, AZ**, to 5 years in prison and 7 years probation and ordered to pay



numerous victims \$1,097,432 restitution for accepting investor funds and failing to acquire properties or return investor monies. Carrillo was further charged in an information filed in U.S. District Court, Phoenix, AZ, with one count of mail fraud. Carrillo allegedly purchased FHA-insured properties through HUD's "preforeclosure" program at substantial discounts and using fraudulent appraisals, then resold the properties the same day at market value to purchasers obtaining conventional mortgages. As a result, 65 FHA-insured properties defaulted, and HUD realized losses in excess of \$1.8 million.



Andrew Bogdan, a former real estate speculator, was sentenced in U.S. District Court, **Baltimore, MD**, to 5 years probation and ordered to pay Community Law Center \$277,650 restitution for his earlier guilty plea to conspiracy. Bogdan and others purchased and resold properties at inflated values and assisted unqualified buyers in obtaining FHA-insured mortgages by submitting false employment, financial, and gift letter documentation. As a result, 64 FHA-insured properties defaulted, and HUD realized losses of \$1.6 million.



Barry C. Fauntleroy, President of EON Corporation; Devon Bowie, President of Neighborhood Mortgage Bankers; Sean Mason, a closing attorney for EON; and Stacey Morrero, an underwriter at Neighborhood Mortgage Bankers, were sentenced in U.S. District Court, **Newark, NJ**, for their earlier guilty pleas. Fauntleroy was sentenced to 12 months incarceration and 4 years probation, fined \$1,000, and ordered to perform 40 hours of community service; Bowie was sentenced to 9 months incarceration, 3 years probation, and 100 hours of community service; ordered to pay New Jersey State Division of Consumer Affairs \$300,000 restitution; and fined \$1,500; Mason was sentenced to 3 years probation, fined \$3,500, and ordered to

perform 100 hours of community service; Morrero was sentenced to 36 months probation and ordered to pay the State of New Jersey \$20,000. Fauntleroy, Bowie, Mason, and Morrero assisted unqualified borrowers in obtaining FHA-insured mortgages by submitting false loan documentation and appraisals. In addition, the above defendants purchased properties using borrower funds, failed to complete promised renovations, and overcharged borrowers through excessive origination fees. As a result, 33 FHA-insured properties defaulted, and HUD losses exceed \$1.2 million.



Ricardo Medina, a former realtor at REMAX 100, Lakewood, CO, and Perla Alvarado, a former loan officer at Creative Mortgage in Englewood, CO, were sentenced in First Judicial District Court, **Golden, CO**, for their earlier guilty pleas to theft. Medina was sentenced to 48 months confinement, 48 months probation, and 300 hours of community service and fined \$5,000; Alvarado was sentenced to 36 months probation and 96 hours of community service and ordered to pay HUD \$52,223 restitution. Medina, Alvarado, and others assisted unqualified and undocumented immigrant homebuyers in obtaining FHA-insured mortgages on numerous properties. As a result, 67 FHA-insured properties defaulted, and HUD losses approximate \$1 million. In addition, Medina, Alvarado, and previously indicted Nancy Rios, a former loan officer at Colorado Bank and Trust, Denver, CO, were suspended from participation in procurement and nonprocurement transactions as either participants or principals with HUD and throughout the Executive Branch of the Federal Government. The suspensions were based on an indictment filed in Jefferson County District Court, **Denver, CO**, charging Medina, Alvarado, and Rios with 49 predicate acts in violation of the Colorado Organized Crime Control Act.





David Calderon, owner of Atlas Home Loans (AHL), a HUD direct endorsement lender; his wife Baneza Calderon, AHL office manager; and his brother Carlos Calderon, a loan officer at AHL, each pled guilty in U.S. District Court, **Los Angeles, CA**, to false statements and/or misprision of a felony. David, Baneza, and Carlos Calderon created fraudulent documents for unqualified or ghost buyers obtaining FHA-insured mortgages. As a result, approximately 91 FHA-insured properties defaulted, and HUD realized losses of about \$910,000.



Lawrence Lynch, a real estate investor and partner in Tiffy Corporation, pled guilty in U.S. District Court, **Springfield, MA**, to mail fraud, money laundering, and forfeiture. Mark McCarthy, a loan originator and mortgage broker doing business as RCML INC., pled guilty to wire fraud, money laundering, and forfeiture. Joseph Sullivan, owner of Sullivan Appraisals; James Smith, former owner of Springfield Mortgage; mortgage broker Theodore C. Jarrett, Jr.; real estate investors Pasquale Romeo and Anthony Matos; and Michael Bergdoll, owner of Bergdoll Home Improvement, each pled guilty to wire fraud and money laundering. Kathryn Zepka, a mortgage broker, pled guilty to wire fraud and false statements. In addition, Albert V. Innarelli, a former real estate closing attorney; Jonathan Frederick, an appraiser doing business as Westside Appraisal; and real estate brokers Paul Starnes and Marc Brown were sentenced for their earlier guilty pleas. Innarelli was sentenced to 6 years imprisonment and 5 years probation and ordered to pay two financial institutions and seven victims \$1,293,858 restitution for his earlier guilty plea to wire fraud; Frederick was sentenced to 18 months confinement and 4 years probation and ordered to pay seven victims \$35,000 restitution for his previous guilty plea to wire fraud and conspiracy to launder money. Starnes was sentenced to 36 months incarceration and 5

# Defendants admit guilt in land-flip

By **BUFFY SPENCER**  
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SPRINGFIELD - A 57-year-old city woman and a 29-year-old Wilbraham man pleaded guilty in U.S. District Court yesterday to roles in a real estate fraud scheme.

Kathryn Zepka pleaded guilty to one count of wire fraud and to making a false statement to a federal agent.

Joseph Sullivan pleaded guilty to two counts of wire fraud and one count of conspiracy to launder money.

Judge Michael A. Ponsor set sentencing for Zepka on Oct. 12 and for Sullivan on Oct. 11.

Assistant U.S. Attorney William M. Welch II said that the highest sentence range the government will ask for in Zepka's case is 57-71 months, or about 5 to 6 years. He said the highest sentence range he will ask for in Sullivan's case is 97-121 months, or about 8 to 10 years.

The two were among 13 defendants in a multiyear, land-flipping scheme. Land-flipping involves buying depressed properties; identifying low-income buyers uneducated about the process; crafting bogus income and assets; inflating property values; and selling for double or triple the price within days.

Sullivan pleaded guilty to incorrectly appraising 130-132 Johnson St. at \$103,000 on the request of others in the scheme. The house was bought for \$35,000 on March 13, 2000, by two of the land-flippers and sold

on the same date for \$103,000 with a mortgage obtained based on false buyer information.

The other property Sullivan pleaded guilty to incorrectly appraising was 22 Burr St. He appraised it at \$84,000. It was bought by others in the scheme for \$23,500 in June 2001 and sold the same day for \$84,000.

In both cases, Sullivan admitted he incorrectly said the properties were not in need of major repairs. The wire fraud charge is based on the scheme using false information to get lending institutions to wire mortgage money.

The conspiracy charge is that Sullivan with others participated in the land-flip scheme.

The family that bought 22 Burr St. without being permitted to see inside was relocating with five children from Bronx, Welch said. They found it had been occupied by squatters for more than a year, and they spent about three months trying to evict them. The house did need major repairs, Welch said.

Zepka pleaded guilty to playing a part in the scheme regarding 2-4 St. Jerome Ave. in Holyoke. She worked primarily as a mortgage broker for one of the other defendants in the land-flip enterprise, Welch said.

He said she assisted the buyer in getting a loan based on fraudulent statements on the loan application, including attesting to having a face-to-face meeting with the buyer, who would have testified he never met her.

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years probation and ordered to pay two banks \$137,685 restitution for his earlier guilty plea to wire fraud and conspiracy to commit money laundering; Brown was sentenced to 1 day incarceration, 12 months confinement at a community corrections center, 12 months house arrest with electronic monitoring, 400 hours of community service, and 5 years supervised release and ordered to pay Bank of America

and National City Mortgage \$137,685 restitution for his earlier plea to wire fraud and money laundering. The above defendants purchased and flipped more than 70 HUD real estate owned (REO) properties and obtained more than \$5.9 million in FHA-insured mortgages for unqualified buyers by processing fraudulent loans containing false information and documentation. As a result, 31 FHA-insured properties defaulted, and HUD realized losses of \$834,795.



Gilbert Lugo and Tracey Silvis Rangell, former owners of Benefit Escrow in Downey, CA, pled guilty in U.S. District Court, **Los Angeles, CA**, to an information charging them with conspiracy, false statements, and aiding and abetting. Lugo, Rangell, and others assisted unqualified buyers in obtaining FHA-insured mortgages by providing downpayments and submitting false statements. As a result, 30 FHA-insured properties defaulted, and HUD losses exceed \$700,000.



Naomi LaBrie, formerly doing business as Rehablers, Inc., pled guilty in U.S. District Court, **Kansas City, KS**, to false statements to HUD. LaBrie provided closing funds for FHA-insured homebuyers, instructed the homebuyers to falsify gift letters, and certified on settlement statements that she did not provide funds for loan closings. As a result, 20 FHA-insured properties defaulted, and HUD losses exceed \$600,000.



Brian Lyles, a real estate investor, and Shena Fraser, a loan officer at A&E, Independent, and Germaine Mortgage Companies, were each sentenced in U.S. District Court, **Newark, NJ**, to 3 years probation and ordered to pay HUD \$537,701 restitution, jointly and severally, for their earlier guilty pleas to conspiracy to commit mail fraud and false statements. Lyles and Fraser purchased residential properties,

flipped the properties at inflated values, and recruited or assisted unqualified buyers in obtaining FHA-insured mortgages by submitting false employment, income, and financial documentation. As a result, 16 FHA-insured properties defaulted, and HUD realized losses of \$537,701.



Harold Meza, a real estate agent and investor who operated JLF Properties, California Discount Realty, North Wind Realty, and Casa Blanca Realty in San Bernardino County, CA, and Karla Preciado, also known as Karla Venegas, an unlicensed real estate agent and Meza's assistant, were each indicted in U.S. District Court, **Los Angeles, CA**, on one count of conspiracy and six counts each of false statements and aiding and abetting. Meza, Preciado, and others allegedly obtained or produced false identification documents, employment verifications, gift letters, or other records for unqualified buyers acquiring FHA-insured mortgage loans. As a result, 40 FHA-insured properties defaulted, and HUD losses exceed \$500,000.



Jocelyn Sicat and Andy Pena, former owners of Crossmark Mortgage, were sentenced in U.S. District Court, **Los Angeles, CA**, for their earlier guilty pleas to wire fraud. Sicat and Pena were each sentenced to 6 months home detention, 3 years supervised release, and 600 hours of community service and ordered to pay HUD \$367,929 restitution, which they paid on or before sentencing. Sicat and Pena conspired and created false documents to assist unqualified buyers in obtaining FHA-insured mortgages. As a result, 12 FHA-insured properties defaulted, and HUD realized losses estimated at \$474,264.



Kenneth DiPrenda, a former AMS Mortgage loan officer; Mario Mendoza, a former realtor for Weichart Realty; Linda Serrano, a real estate closing attorney; and

Myriam Vaca, an employee of formerly indicted realtor Mario Mendoza, were each sentenced in U.S. District Court, **Newark, NJ**, for their earlier guilty pleas to conspiracy to submit false statements to HUD. DiPrenda was sentenced to 2 years probation and ordered to pay HUD \$28,858 restitution; Mendoza was sentenced to 6 months home confinement and 2 years probation and ordered to pay HUD \$100,000; Serrano and Vaca were sentenced to 1 and 2 years probation, respectively. In addition, John and Caridad Prados were arrested after criminal complaints were filed charging them with defrauding HUD for the purpose of executing a Title 11 bankruptcy petition and using a false Social Security number (SSN) to secure FHA-insured loans. DiPrenda, Mendoza, Serrano, Vaca, and John and Caridad Prados recruited and assisted unqualified borrowers in obtaining FHA-insured mortgages by submitting fraudulent employment, identity, and other loan documentation. As a result, 12 FHA-insured properties defaulted, and HUD losses exceed \$349,000.



Lionel Crosby, a taxicab driver, pled guilty in U.S. District Court, **Las Vegas, NV**, to one count of fraud against HUD. Lionel Crosby's brother, Stefan Crosby, was sentenced to 21 months imprisonment and 3 years supervised release and ordered to pay HUD \$302,365 restitution for his earlier guilty plea to conspiracy and false statements to HUD. Lionel and Stefan Crosby provided fraudulent employment, income, identification, and other documentation to unqualified straw buyers obtaining FHA-insured loans. In addition, both Lionel and Stefan Crosby personally applied for FHA-insured loans using bogus documents. As a result, 12 FHA-insured properties defaulted, and HUD realized losses of \$302,365.



Rashid Muhammad, a recruiter for RETI Relocation Services, pled guilty in U.S.

District Court, **Atlanta, GA**, to conspiracy and wire fraud. Calvin D. Dalton, President of RETI Relocation Services, Inc.; James F. Stovall III, a closing attorney; certified real estate appraisers John Bello, David R. Bobo, and Paul Jaretsky Jr.; mortgage brokers Martin Rosenthal and George W. McRee Jr.; real estate broker Larry Frazier; and straw recruiters/borrowers William Chavis, John Hyacinty, Reginald Kemp, Rhonda Kent, Constance Zielins, and Leonard Zielins, were indicted on numerous counts of money laundering, bank loan fraud, bank fraud, wire fraud, mail fraud, and conspiracy. Demetri Dante Coffee, an FHA-approved appraiser, was charged in a superseding indictment with bank fraud, wire fraud, mail fraud, and conspiracy. The above defendants allegedly created and submitted false documentation to obtain 98 mortgage loans valued at more than \$20 million, including two FHA-insured loans. As a result of foreclosures, HUD losses approximate \$300,000.



Michael Grady, Joel Rosario, and Robert Zappone, doing business as GRZ LLC, a home connection and mortgage super center, entered into a \$750,000 civil settlement with the Connecticut Attorney General's Office (CAGO) in Superior Court, **Waterbury CT**. In December 2003, CAGO filed a civil lawsuit alleging the above defendants performed cosmetic repairs on neglected properties before selling the properties at inflated values to purchasers who obtained 17 FHA-insured mortgages valued at \$1,358,824. As a result, three FHA-insured properties defaulted, and HUD realized losses approximating \$235,000.



Real estate investor Sholom Moskowitz and Trena Hill, a former loan officer with Community Home Mortgage Company, were each sentenced in U.S. District Court, **Newark, NJ**, for their earlier guilty pleas to tax evasion, bank fraud, false statements to a financial institution, and/or conspiracy to



submit false statements to a financial institution. Moskowitz was sentenced to 6 months home confinement and 5 years probation and ordered to pay HUD \$201,244 restitution; Hill was sentenced to 5 years probation and ordered to pay HUD \$91,556 restitution. Moskowitz and Hill prepared false loan applications, appraisals, employment verifications, and gift letters to assist unqualified individuals in obtaining nine FHA-insured mortgages. As a result, four FHA-insured properties defaulted, and HUD realized losses of \$201,224.



Sean Beard, owner of First Equity Corporation, and real estate investors Morgan Haines and Theodore Antonucci were each sentenced in U.S. District Court, **Rochester, NY**, for their earlier guilty pleas to conspiracy to commit mail fraud, conspiracy to commit bank fraud, and/or false documents or statements to obtain a HUD loan. Beard was sentenced to 16 months incarceration and 3 years supervised release and ordered to pay HUD \$38,441 and Countrywide Mortgage \$23,412 restitution; Haines was sentenced to 6 months home confinement and 5 years probation and ordered to pay the above restitution jointly and severally with Beard; Antonucci was sentenced to 48 months incarceration and 5 years probation and ordered to pay HUD \$156,341 and numerous banks \$775,217 restitution. Beard, Haines, Antonucci, and other conspirators purchased homes, flipped the properties to each other at inflated values, provided false documentation to secure FHA or conventional financing on the properties, and defaulted on mortgage loans in excess of \$1 million shortly afterward. As a result, two FHA-insured properties defaulted, and HUD realized losses of \$186,475.



Mordecai Smith, the former chief financial officer of Virginia Beach Public Schools, pled guilty in U.S. District Court,

**Norfolk, VA**, to bankruptcy fraud, aggravated identity theft, and wire fraud. Smith fraudulently verified the creditworthiness of two borrowers obtaining FHA-insured mortgages through a bogus company known as 4H Investment Mutual, LLC; duped an individual into investing \$27,000 for an appraisal and downpayment on a \$10 million multifamily Section 8 apartment complex; fraudulently used the SSN of another person to obtain a conventional mortgage; and filed eight bankruptcies, five under his name and three under his spouse's name, to forestall foreclosure proceedings against his personal residence. As a result, both FHA-insured mortgages defaulted, and HUD realized losses of \$126,900.



Elie Louie-Pierre, a former loan officer at Saxon Mortgage Bankers (SMB), was sentenced in U.S. District Court, **Central Islip, NY**, to 5 years probation and ordered to pay HUD \$92,015 restitution for his previous guilty plea to fraud against HUD. Carol Horton Branch and Francis Purcell, real estate agents with 5-Star Realty and Pelican Properties, were convicted in U.S. District Court, **Mineloa, NY**, on one count of conspiracy. Branch and Purcell were each sentenced to 5 years probation, and Purcell was fined \$1,000. Louie-Pierre, Branch, and Purcell produced, obtained, and used fraudulent documents to originate at least 75 FHA-insured mortgages during Louie-Pierre's employment with SMB. As a result of foreclosures, HUD realized losses of \$92,015.



Axel Bonilla, a former loan officer at Main Street Mortgage and Ark Mortgage, was sentenced in U.S. District Court, **Trenton, NJ**, to 18 months incarceration and 3 years probation and ordered to pay numerous victims \$1,531,062 and HUD \$76,123 restitution for his earlier guilty plea to mail fraud charges. Bonilla and previously indicted Laura Barlow, a former

underwriter at Main Street Mortgage Service and Ark Mortgage, assisted unqualified borrowers in obtaining FHA-insured mortgages by providing false documents. Bonilla also embezzled and converted more than \$1.5 million in investor funds, by creating false documents and reporting fictitious investment earnings, and used investor funds to purchase residential properties. As a result, HUD realized losses of \$76,123 when six FHA-insured mortgages defaulted.



Farid Bayot and Shaian Birashk, real estate brokers/owners of Global One Realty Inc., Aurora, CO, each pled guilty in U.S. District Court, **Denver, CO**, to wire fraud and/or aiding and abetting. Bayot was sentenced to 36 months probation and ordered to refrain from employment in the real estate or mortgage industry. In addition, Mehdi “Tim” Ghaemi, owner of Arborz Real Estate Company in Greenwood Village, CO, and Hamidullah Sarwary, a former Littleton Housing Authority (LHA) Section 8 tenant, were arrested after theft, forgery, and/or criminal impersonation charges were filed in State District Court, **Englewood, CO**. Bayot and Birashk assisted Sarwary purchase property and obtain an FHA-insured mortgage. Ghaemi allegedly assisted Sarwary in hiding his property ownership from LHA, and Sarwary allegedly failed to report his ownership of the property on LHA certifications. As a result, HUD realized losses of \$46,988 when Sarwary defaulted on his FHA-insured mortgage, and \$3,760 in LHA housing assistance Sarwary was not entitled to receive.



Ifiok Equere, a loan broker and real estate investor, was sentenced in U.S. District Court, **St. Louis, MO**, to 37 months incarceration and ordered to pay HUD and Wells Fargo Mortgage \$104,702 restitution for his earlier guilty plea to false statements and felon in possession of a firearm. Equere used false documents to flip properties and

broker FHA-insured mortgage loans. As a result, two FHA-insured properties defaulted, and HUD realized losses of \$46,299.



Willie Bynum pled guilty in U.S. District Court, **Norfolk, VA**, to one count of conspiracy to make false statements to HUD. Bynum purchased three properties, obtained FHA-insured mortgages by falsifying loan applications and using or attempting to use straw buyers, rented then sold two properties and allowed unqualified purchasers to assume his FHA-insured loans, and defaulted on the remaining FHA-insured mortgage. As a result, HUD realized a loss of \$25,000.



Twelve undocumented immigrants pled guilty in Johnson County District Court, **Kansas City, KS**, to various charges of identify theft and false statements. The above defendants were each sentenced to 5 months incarceration and 18 months probation and ordered to refinance or sell their FHA-insured properties to eliminate about \$900,000 in mortgages considered at risk. The defendants fraudulently obtained FHA-insured mortgage loans using false SSNs through an unidentified loan officer in Olathe, KS. As a result, 72 FHA-insured mortgages valued at approximately \$5 million were identified at risk.



Realtor Rohan A. Johnson, also known as Ato Ra Ajah El, and real estate consultant Donovan Gilpin, doing business as Pre Amble Properties and professing membership in an antigovernment Moorish rights group, were indicted in a superseding indictment filed in U.S. District Court, **Central Islip, NY**, on conspiracy, theft of government property, and mail fraud charges. Johnson and Gilpin allegedly filed fraudulent real estate deeds transferring ownership of 14 HUD-owned or FHA-insured properties, a U.S. Department of Veterans Affairs (VA)-guaranteed property, and a bank-owned



property to Pre Amble Properties. After transferring the properties, Johnson and Gilpin allegedly resided in two HUD properties, sold the bank property to an unsuspecting buyer, and attempted to sell the VA property and two HUD properties to undercover operatives for \$550,000. In addition, Johnson allegedly claimed to be a HUD official on numerous deed recordings. As a result, the bogus deeds prevented HUD from selling its properties to legitimate buyers and banks from deeding foreclosed properties to HUD.



John Thomas, a former appraiser, was sentenced in U.S. District Court, **St. Louis, MO**, to 3 years probation and ordered to pay his victim \$40,000 restitution for his previous guilty plea to conspiracy to commit wire fraud. Thomas and others falsely inflated the value of both FHA-insured and conventionally financed properties, concealed needed repair information, and received payments for bogus appraisals. As a result, six properties obtained fraudulent FHA-insured mortgages valued at \$650,000.



Dwayne Jones, a former loan officer at the now defunct First Funding Mortgage Bankers (FFMB), pled guilty in U.S. District Court, **Brooklyn, NY**, to one count of conspiracy to defraud the United States. Jones submitted false statements to HUD and Countrywide Home Loans when he flipped his personal property to a relative, who obtained an FHA-insured mortgage through FFMB for \$75,000 more than the approved purchase price. Jones received proceeds in excess of \$51,000 and a short payoff on his original FHA-insured loan, also serviced by Countrywide. Countrywide, unaware that the property on which it approved a short payoff was flipped to a straw buyer for \$75,000 more than the approved purchase price, submitted a claim to HUD for more than \$85,000.



Kelly Jones, a loan officer and real estate agent at Amortgage Link and Nationwide Real Estate Solutions LLC, and Wander Colon, an FHA-insured mortgagor, were indicted in U.S. District Court, **Memphis, TN**, on numerous charges of conspiracy, fraud, false statements, and general provisions. Jones allegedly submitted false financial documents to assist unqualified borrowers in obtaining FHA-insured mortgages. Colon allegedly submitted false income and employment information to acquire an FHA-insured mortgage. As a result, two FHA-insured mortgages valued at approximately \$225,000 are at risk.



Brad Marks and Edwin Rivera, former owners of the now defunct Quality Builders, Inc., and Quality Home Remodeling, were sentenced in U.S. District Court, **Philadelphia, PA**, for Marks' earlier guilty plea and Rivera's prior conviction on charges of mail fraud, wire fraud, and aiding and abetting. Marks was sentenced to 20 months incarceration and 3 years probation and ordered to pay \$400,000 to the victims. Rivera was sentenced to 41 months incarceration and 3 years probation and ordered to pay the above restitution jointly and severally with Marks. Marks and Rivera induced Latino homeowners into signing home improvement contracts; assisted them with obtaining low-cost bank or HUD-insured Title I financing; obtained homeowner loan proceeds; and provided incomplete, shoddy, or no property improvements as promised. As a result, homeowner loss is estimated at more than \$400,000.

### *Identity Fraud and False Social Security Numbers*

Vincent Sirolli, owner of Encore Mortgage Services, Inc. (EMS); Keith Lyon, EMS Chief Operating Officer; Dana Siciliano, EMS loan officer; June Kodiak, EMS underwriter; Ciriaco Gatta, also known

as Jack Gatta, an appraiser; Mary Diantonio and Anthony Giampietro, settlement agents at Rittenhouse Abstract and Title Company; Mahn Huu Doan, also known as Bruce Doan; Trung Tam Dang; and straw buyer/seller Zu-Yun Kim, also known as Andy Kim, were indicted in U.S. District Court, **Philadelphia, PA**, on numerous counts of conspiracy, wire fraud, false statements to HUD, identity fraud, and aiding and abetting. The above defendants allegedly purchased properties using false or borrowed identities, submitted and/or processed false financial documents and inflated appraisals, and concealed financial transactions at loan settlements to secure more than 180 fraudulent FHA-insured mortgages valued in excess of \$11 million. As a result, HUD realized losses of \$11,781,000 when 180 properties defaulted.



Lesly Bardales, a self-employed tax preparer, pled guilty to an information filed in U.S. District Court, **Los Angeles, CA**, charging him with mail fraud and unlawful transfer of an identification document. Bardales created false pay stubs and IRS W-2 documents and conspired with a former Social Security Administration (SSA) employee to obtain and use genuine Social Security cards and numbers for unqualified borrowers obtaining FHA-insured mortgages. As a result, more than 100 FHA-insured mortgages valued in excess of \$1.3 million were obtained, and HUD realized losses of \$135,899 when eight loans defaulted.



James Rucker, a mortgage broker with Ravenswood Mortgage, pled guilty in U.S. District Court, **Chicago, IL**, to one count of wire fraud. Rucker submitted FHA-insured loan packages containing false identification, downpayment, employment, tax, and other financial information for unqualified and/or straw buyers obtaining FHA-insured mortgages. As a result, one property

defaulted, and HUD realized a loss greater than \$50,000.



Kathleen Ramon, also known as Kathleen Hagan and doing business as El Mercado de Kansas City, was charged in Johnson County District Court, **Kansas City, KS**, with nine counts of unlawful use of driver's license and making a false writing. Ramon, through El Mercado de Kansas City, allegedly received payments from undocumented immigrants obtaining fraudulent Kansas-issued drivers' licenses. In addition, Ramon allegedly coached undocumented immigrants on obtaining mortgage and bank loans and insurance and filing tax documents under assumed identities. As a result, seven FHA-insured mortgages valued at \$480,631 were identified, and 150 fraudulent drivers' licenses obtained.



Sergio Manual Rodriguez, a former FHA-insured mortgagor, was indicted in U.S. District Court, **Macon, GA**, on one count each of Social Security fraud and false statements. Rodriguez allegedly used the identity of another person to obtain and default on an FHA-insured mortgage loan. As a result, HUD realized a loss greater than \$40,000.



David J. Brown, owner of 12 Volt, an electronics retailer, pled guilty in U.S. District Court, **Washington, DC**, to an information charging him with bank fraud. Brown and other conspirators laundered credit card fraud proceeds by purchasing approximately 11 HUD REO properties using false financial documents and bogus identifications. After purchasing HUD REO properties, Brown falsified documents and leased some properties to Washington, D.C. Housing Authority for use in its rental assistance program.



Edward Futch, also known as Edward Daniels, was sentenced in U.S. District Court, **Norfolk, VA**, to 3 years probation, ordered to cease using the name and identity of Edward Daniels, and fined \$1,000 for his earlier guilty plea to one count of making false statements to HUD. Futch possessed and used identities and SSNs in two names, obtained credit under both, and applied for and received an FHA-insured mortgage loan by submitting fraudulent documentation. The FHA-insured loan was cured from default status, and HUD realized no loss.

### *Bankruptcy Fraud*

Richard Leroy Davis, owner of Foreclosure and Tenant Company Association, pled guilty in U.S. District Court, **Detroit, MI**, to one count of mail fraud. Davis and previously convicted conspirators Chris Thomas and Milton Goddard acquired partial ownership in 600 distressed properties, including 120 properties with FHA-insured mortgages; filed fraudulent bankruptcies to forestall foreclosure proceedings; and skimmed property equity by diverting monthly payments. As a result, 100 properties valued at \$7 million defaulted, and HUD losses are yet to be determined.



Salvador Bernal Hernandez pled guilty in U.S. District Court, **Salt Lake City, UT**, to making false statements, false bankruptcy declaration, false bankruptcy documents, and misuse of an SSN. Hernandez acquired the identity of others, used their identities to obtain three properties with FHA-insured mortgages, and filed fraudulent bankruptcies to avert foreclosure proceedings. As a result of foreclosures, HUD realized losses of \$225,000.



Barbara Kessinger, also known as Sheila Murphy, was sentenced in U.S. District Court, **Chicago, IL**, to 3 years probation and ordered to pay HUD \$97,079, VA \$13,807, and Bank of

America \$9,122 restitution for her earlier bankruptcy fraud conviction. Kessinger acquired one FHA-insured and two VA-guaranteed properties using a bogus name and SSN, failed to make mortgage payments, and filed multiple sham bankruptcies to hinder foreclosure proceedings.



Debra Ahmad-Bey, a Chicago Housing Authority (CHA) Section 8 landlord, Chicago police officer, and the former president of Developing Economical & Better Living, Inc., a nonprofit organization permitted to acquire discounted HUD REO properties, was convicted in U.S. District Court, **Chicago, IL**, on seven counts of bankruptcy fraud. Ahmad-Bey failed to report her nonprofit business, extensive proceeds from the resale of HUD REO properties, CHA Section 8 rental assistance payments, or income from her employment with the Chicago Police Department and various nursing companies on two distinct bankruptcy petitions.



### *Other Single-Family Fraud*

Steven Lucas and Robert Bronke, former employees of now-defunct Dollars Express, a HUD/FHA 203K general contractor, each pled guilty in U.S. District Court, **Chicago, IL**, to one count of wire fraud. Arnold Gillard, a former maintenance supervisor, was sentenced to 48 months incarceration and ordered to pay First Tennessee Bank \$260,275 restitution for his earlier guilty plea to wire fraud. Lucas, Bronke, Gillard, and others defrauded HUD and First Tennessee Bank by recruiting straw buyers and falsifying completed work orders to facilitate the release of contracting escrow funds on more than 70 FHA-insured 203K mortgaged properties. As a result, HUD realized losses in excess of \$4 million.



Isaac Lee Woods and Regina Bailey Woods, owners and officers of Woodbai, Inc., a mortgage lender doing business as



Unlimited Financial Resources, were both convicted in U.S. District Court, **New Bern, NC**, on 32 counts of conspiracy, wire fraud, false statements, and money laundering. Isaac and Regina Woods created phony mortgages, electronically submitted the bogus mortgages to the secondary mortgage market, and caused Government National Mortgage Association to guarantee \$1.4 million in counterfeit investments. As a result, Isaac and Regina Woods fraudulently acquired more than \$1 million, used most of the money to purchase rental properties in Durham, NC, and leased some of the properties to Durham Housing Authority for use in its Section 8 program. In addition, Timothy Eugene Benjamin, a defense witness who testified at the U.S. v Woods trial, was indicted in U.S. District Court, **Raleigh, NC**, on numerous counts of conspiracy, endeavoring to obstruct justice and aiding and abetting, attempted witness tampering and aiding and abetting, and false declarations in court. During Isaac and Regina Woods' trial, Benjamin allegedly telephoned a government witness; made numerous false, misleading, and/or threatening statements; and attempted to influence or prevent the witness from testifying. In addition, while testifying on the Woods' behalf, Benjamin allegedly made materially false declarations.



Steven Marquez, a loan officer at Primera Mortgage Company, was charged in a superseding indictment filed in Cook County Circuit Court, **Chicago, IL**, with multiple counts of theft. Marquez allegedly deceived two property owners and acquired rights to their properties, sold the properties to borrowers obtaining FHA-insured mortgages, and collected the sales proceeds. The property owners, believing they were refinancing their original loan, mistakenly signed "power of attorney" documents assigning their homeownership rights to Marquez. The new FHA-insured mortgages valued at more than \$250,000 are in foreclosure, and HUD losses are yet to be determined.



A TRIBUNE INVESTIGATION UPDATE

# Church lots considered 'fair game'

Ex-lawyer admits crimes, officials say

By Ray Gibson and Robert Becker  
Tribune staff reporters

A disbarred Berwyn attorney was ordered held in lieu of \$100,000 bail Wednesday after prosecutors said he had "confessed to all the crimes" in the fraudulent sale of vacant land owned by churches.

In the last month, the Tribune has exposed a scheme that sold 22 vacant lots owned by a dozen churches, a homeless shelter and a school. The newspaper linked the sales to Phillip Radmer, who used his Berwyn home as the address for the shell companies named in the deals.

Asst. State's Atty. John Mahoney told Cook County Criminal Court Judge Raymond Myles that Radmer went after the vacant lots because the churches were not required to pay property taxes on them.

"He considered it fair game to acquire these properties," Mahoney told the judge.

A day after his arrest, Radmer appeared Wednesday via a

video monitor dressed in a white T-shirt and blue jeans. He was silent during the hearing. Charged with two felonies—theft and organizing an ongoing financial crime—he remained jailed, with his next hearing scheduled for July 10.

Also Wednesday, a church that lost a parcel filed suit to regain its land.

Saint John Church-Baptist filed the suit in Cook County Circuit Court asking the court to void Radmer's title to its parcel. The lawsuit also asked a judge to order Illinois Secretary of State Jesse White to revoke the corporation that Radmer allegedly formed to sell the property.

The flurry of court activity was the culmination of three weeks of intense scrutiny of the former attorney following a Tribune investigation.

The newspaper's stories launched an investigation by the office of Cook County State's Atty. Richard Devine, the U.S. Postal Inspection Service and other agencies, which resulted in a raid Tuesday on Radmer's apartment.

Mahoney, deputy supervisor of the public corruption

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Dariusz Przybylek, an investor, and Erwin Espe, a former HUD-approved appraiser, were arrested after criminal complaints were filed in U.S. District Court, **Chicago, IL**, charging them with mail and wire fraud. Przybylek allegedly attempted to purchase a HUD-owned property for 150 percent of the HUD-appraised value by submitting an inflated appraisal, phony contractor affidavits, and fraudulent loan documents to facilitate his receipt of \$113,000 for property rehabilitation through a straw contractor at closing.



Kenneth Mixon was charged with two counts of false pretenses and breaking and entering with illegal entry in a criminal complaint filed in Wayne County Court, **Detroit, MI**. Mixon allegedly entered HUD-owned properties, presented himself as the owner and collected tenant rents in excess of \$4,700, and unlawfully resided in one property. As a result, HUD losses are estimated at approximately \$45,700, including \$41,000 in property damage.



Israel Pena, a former youth pastor at a church in Bronx, NY, was found guilty in U.S. District Court, **White Plains, NY**, of conspiracy, bank fraud, and mail fraud. From 1998 to 2001, Pena purchased properties in the New York metropolitan area, flipped the properties to unqualified first-time homebuyers at a substantial profit, and assisted the ineligible borrowers in obtaining both FHA-insured and conventional mortgages by submitting false loan documents and/or providing fictitious downpayment deposits. As a result, HUD realized a loss of \$16,000 when one FHA-insured property defaulted.



Shatanya Fitchpatrick, also known as Shatanya Douglas, owner of ABS Rentals and Investments; Manjur Alam, a realtor at ReMax Preferred Properties; and straw buyers Kathleen Fitchpatrick, Deverell Jones, and Demond Reed were each sentenced in U.S. District Court, **Wichita, KS**, for their earlier guilty pleas to numerous counts of conspiracy to commit fraud against HUD, false statements to HUD, and/or wire fraud. Shatanya Fitchpatrick was sentenced to 4 months incarceration and 36 months probation and ordered to pay the U.S. Department of Agriculture \$22,552 restitution; Alam was sentenced to 12 months probation and ordered to pay HUD \$2,000 restitution; Kathleen Fitchpatrick was sentenced to 12 months probation and ordered to pay the court \$500; Jones was sentenced to 3 months incarceration and 24

months probation and ordered to pay the court \$500; Reed was sentenced to 24 months probation and ordered to pay the court \$500. In addition, the above defendants agreed to a 36-month governmentwide debarment. Shatanya Fitchpatrick and her previously indicted husband, Bryon Fitchpatrick, used illicit drug sales proceeds to purchase HUD-owned properties as investments through Alam via straw buyers Kathleen Fitchpatrick, Jones, and Reed. After purchasing the properties, Bryon Fitchpatrick used the homes to store illegal drugs before renting or selling the properties.



Maritza Portillo, a real estate agent and loan officer at Transatlantic Financial Corporation, Covina, CA, was sentenced in U.S. District Court, **Los Angeles, CA**, to 3 months in a community corrections center, 6 months house arrest with electronic monitoring, and 27 months supervised release for violating the terms and conditions of her federal probation, a result of her earlier guilty plea to conspiracy to commit bribery. While on probation, Portillo enticed and paid an individual to act as a straw buyer and purchase residential investment property, promising to remit a portion of the sale proceeds when reselling the property at a later date. Portillo sold the property, failed to divide the sale proceeds with the straw buyer, and diverted the funds to other business associates. In addition, Portillo recruited a relative to collect rents from tenants residing in eight additional properties she purchased through straw buyers; three of the properties had FHA-insured mortgages.



James Elliott Coleman, the former president of the Allen Village Charter School (AVCS) Board, pled guilty in U.S. District Court, **Kansas City, MO**, to 11 counts of conspiracy, federal program fraud, and interstate transportation of stolen funds. Coleman embezzled then repaid AVCS more



than \$47,000 in funds he obtained through a mortgage investment fraud scheme. Coleman and previously indicted James Lynn Woolard solicited investors for mortgage investments, provided false documents to obtain conventional mortgage loans on the investment properties, and leased the properties to various organizations providing HUD-subsidized housing assistance payments.



Barry Oaks, Sr., a San Joaquin Sheriff's Office deputy, entered into a settlement agreement with the U.S. Attorney's Office, **Sacramento, CA**, agreeing to pay HUD \$70,293. Oaks purchased but failed to reside in property he acquired through HUD's Officer/Teacher Next Door (OTND) program.



John Henry Davis, a California licensed real estate agent and lieutenant at Ironwood State Prison in Blythe, CA, was convicted in U.S. District Court, **Los Angeles, CA**, on one count of attempting to corruptly influence a witness and acquitted of false statement

charges. Davis, previously indicted on false statements under HUD's OTND program, attempted to influence the testimony of a witness/tenant in an effort to hide his true residency at the OTND property. Davis purchased a HUD-owned property through HUD's OTND program in Rialto, CA, failed to reside at the property, leased the property for approximately 34 months, collected rents totaling \$23,800, and falsely certified his residency at the property on annual certifications. As a result, HUD realized losses approximating \$60,300.



James Anthony Street, a former U.S. Postal Inspection Service police officer, was sentenced in U.S. District Court, **Los Angeles, CA**, to 1 year probation and ordered to pay a \$2,100 fine for his earlier guilty plea to false statements. Street, a participant in HUD's OTND program, owned property in Bloomington, CA, when he submitted written certifications claiming the OTND property he purchased in Long Beach, CA, was his sole residence. Street paid HUD \$48,500 when he sold the OTND property.





## **Chapter 3**

# **HUD's Public and Indian Housing Programs**

The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to more than 2,637 public housing authorities (PHA) nationwide. More than 1,657 PHAs manage public housing units, and almost 980 with no public housing manage units under Section 8 tenant-based programs. PHAs administer both public housing and Section 8 programs. HUD also provides assistance to PHAs' resident organizations to encourage increased resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

These reports disclosed more than \$47.1 million in questioned costs and about \$61 million in recommendations that funds be put to better use. During this reporting period, OIG reviewed Section 8 Housing Choice Voucher program activities, public housing activities, including the low-rent housing and Moving to Work (MTW) Demonstration programs and the operating fund program.

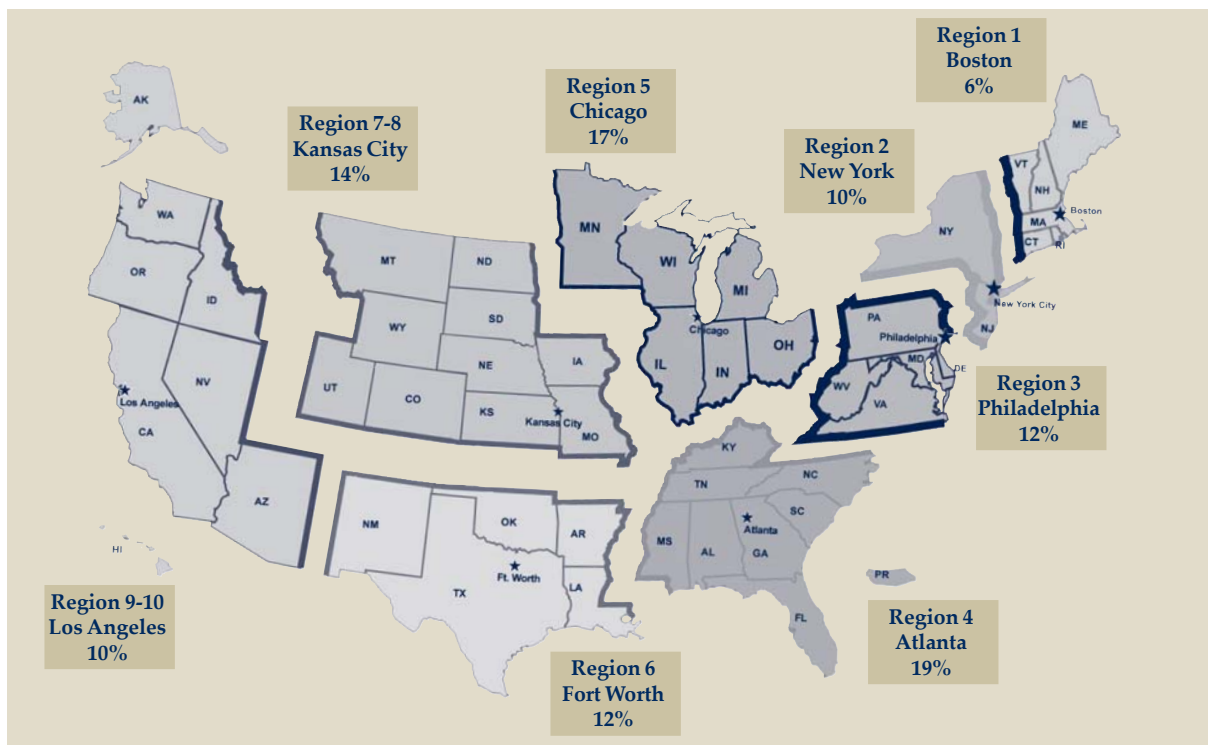
## Section 8 Housing Choice Voucher Program Activities

Audits of the Section 8 Housing Choice Voucher program were a priority during this semiannual reporting period. In HUD's fiscal year (FY) 2006 appropriation, the Congress directed OIG to increase its audit and investigative efforts related to public housing agencies' administration of this program. Public housing agencies were selected for audit based on risk analysis and/or hotline complaints. While OIG's objectives varied by auditee, the majority of

## Audits

During this reporting period, the Office of Inspector General (OIG) issued 47 reports: 5 internal and 42 external audits in the public and Indian housing (PIH) program

**A Look Back for the Year**  
**Chart 3.1: Percentage of OIG Public and Indian Housing Closed Audit Cases, Performed FY 06**



the reviews were to determine whether the units met housing quality standards, whether the PHA managed the program according to HUD requirements, and whether the eligibility of the tenants was correctly determined.

HUD OIG audited the Housing Authority of the County of Cook's, **Chicago, IL**, Section 8 Housing Choice Voucher program based upon a risk analysis that identified it as having a high-risk program.

Of the 83 housing units inspected, 64 did not meet HUD's housing quality standards, and 61 had 279 violations that existed at the time of the Authority's previous inspection. In addition, the Authority improperly permitted 18 of 31,587 individuals reviewed to be claimed as dependents in more than one program unit, resulting in more than \$20,000 in overpayments of program housing assistance. The Authority also failed to determine the reasonableness of program rents before approving housing assistance payment contracts for 11 of the 20 tenant files reviewed and lacked documentation to support when its rent reasonableness database was last updated. As a result, program funds were not used efficiently and effectively, and fewer funds were available to assist low- and moderate-income families on the Authority's waiting list.

OIG recommended that HUD require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$123,000 in program funds, ensure that program housing units inspected during the audit are repaired to meet HUD's housing quality standards, and implement procedures and controls to address the findings reported. (Audit Report: **2006-CH-1012**)



HUD OIG audited the Housing Authority of the City of Passaic, **Passaic, NJ**. From 2002 through 2005, the Authority did

not adequately manage its Section 8 program. It made ineligible transfers of program funds from Section 8 administrative fee reserves to its low-rent housing program and from the capital fund to its Section 8 program. In addition, it did not maintain adequate documentation for rent and employee benefits costs charged to the Section 8 program and for payments to the City of Passaic for police services. Further, an inspection of 65 units revealed that 44 units failed for material noncompliance with housing quality standards.

OIG recommended that HUD instruct the Authority to (1) reimburse the Section 8 administrative fee reserve for the \$1 million transferred to the low-rent housing program and recapture or reduce Section 8 administrative fees by more than \$590,000; (2) reimburse the capital fund more than \$401,000 from the Section 8 program; (3) provide additional supporting documentation for rent expenses, employee benefits costs, and payments for police services and repay any unsupported costs determined to be ineligible; and (4) develop and implement procedures to ensure that units meet housing quality standards. (Audit Report: **2006-NY-1012**)



HUD OIG audited the Metropolitan Development and Housing Agency's, **Nashville, TN**, inspection of Section 8 units. Of 71 Section 8 units inspected, 52 did not meet minimum housing quality standards, and 30 of those were in material noncompliance. As a result, tenants lived in units that were not decent, safe, and sanitary, and the Agency made housing assistance payments for units that did not meet standards.

OIG recommended that HUD require the Agency to inspect the 52 units that did not meet minimum housing quality standards to verify that the owners took appropriate actions. If appropriate actions



were not taken, the Agency should abate the rents or terminate the housing assistance payment contracts. HUD should also require the Agency to implement internal controls that ensure units meet HUD's housing quality standards and inspection requirements to prevent more than \$8.7 million from being spent on units that are in material noncompliance with standards. (Audit Report: 2006-AT-1009)



HUD OIG audited the Columbus Metropolitan Housing Authority's, **Columbus, OH**, Section 8 Housing Choice Voucher program based upon a risk analysis that identified it as having a high-risk program.

Of the 67 housing units inspected, 47 did not meet HUD's housing quality standards, and 34 had 164 violations that

existed at the time of the Authority's previous inspection. In addition, of the 8,976 unit inspections conducted by the Authority in calendar year 2005, 966 were not conducted within the required 1 year of the previous inspection, and 35 of the 76 files reviewed did not contain the documentation required by HUD and the Authority's program administrative plan. The Authority also incorrectly calculated housing assistance payments, resulting in more than \$12,000 in overpayments and more than \$11,000 in underpayments from January 2003 through December 2005.

OIG recommended that HUD require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$83,000 in program funds, provide documentation or reimburse its program more than \$332,000 from nonfederal funds for the unsupported housing assistance payments and administrative fees, ensure that units inspected during the audit are repaired to meet HUD's housing quality standards, and implement adequate procedures and controls to ensure that program units meet housing quality standards. (Audit Report: 2006-CH-1011)



HUD OIG audited the Housing Authority of the County of Cook's, **Chicago, IL**, Section 8 Housing Choice Voucher program based upon a risk analysis that identified it as having a high-risk program.

Of the 70 households' files reviewed, the Authority incorrectly calculated housing assistance payments for 26 and lacked supporting documentation regarding admission and selection for five households, resulting in nearly \$28,000 in overpayments of program housing assistance and utility allowances and more than \$47,000 in unsupported housing assistance. The Authority also failed to adequately use HUD's Enterprise Income Verification (EIV) system to determine that reported zero-income households had unreported income,

**FEDERAL AUDIT**

# Housing units found to be poor

By Geoff Dutton and Matt Zapotosky  
THE COLUMBUS DISPATCH

Poor Franklin County residents in federally subsidized apartments frequently live in substandard or unsafe conditions, according to a new federal review of a program that serves 26,000 people.

The Columbus Metropolitan Housing Authority, which missed some problems during prior inspections, is poised to pay landlords an estimated \$7.6 million over the next year for apartments that are "not decent, safe and sanitary," according to an audit released this week by the inspector general of the U.S. Department of Housing and Urban Development.

The Columbus housing authority locally manages HUD's Section 8

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resulting in more than \$62,000 in improper housing assistance and utility allowance payments. It also did not monitor and correct escrow balances of its Family Self-Sufficiency Program participants and accurately account for payments related to household portability. As a result, program funds were not always used efficiently and effectively, and fewer funds were available to assist low- and moderate-income families on the Authority's waiting list.

OIG recommended that HUD require the Authority to (1) reimburse its program from nonfederal funds for the improper use of program funds, (2) provide support or reimburse its program from nonfederal funds for the unsupported housing assistance payments and related administrative fees, and (3) implement adequate procedures and controls to address the findings cited to help ensure that more than \$3.4 million in program funds are spent on housing assistance payments that meet HUD's requirements. (Audit Report: **2006-CH-1021**)



HUD OIG audited the Lucas Metropolitan Housing Authority's, **Toledo, OH**, Section 8 Housing Choice Voucher program based upon a risk analysis that identified it as having a high-risk program.

Of the 62 housing units inspected, 49 did not meet HUD's housing quality standards, and 45 had 212 violations that existed at the time of the Authority's previous inspections. The 45 units had between 1 and 12 preexisting violations per unit. OIG estimates that over the next year, the Authority will pay more than \$1.3 million in housing assistance payments on units with material housing quality standards violations. In addition, of 67 files reviewed, 37 did not contain the documentation required by HUD and the Authority's program administrative plan. The Authority also incorrectly calculated housing assistance payments, resulting in

more than \$22,000 in unsupported payments, more than \$21,000 in overpayments, and nearly \$1,300 in underpayments from April 2004 through March 2006.

OIG recommended that HUD require the Authority to (1) reimburse its program from nonfederal funds for the improper use of program funds, (2) provide support or reimburse its program from nonfederal funds for the unsupported housing assistance and utility allowance payments and related administrative fees, and (3) implement adequate procedures and controls to address the findings cited to help ensure that nearly \$2 million in program funds are spent on payments that meet HUD's requirements. (Audit Report: **2006-CH-1019**)



HUD OIG audited the Ann Arbor Housing Commission's, **Ann Arbor, MI**, Section 8 Housing Choice Voucher program, based upon a risk analysis that identified it as having a high-risk program.

Of the 62 housing units inspected, 45 did not meet HUD's housing quality standards, and 40 had 125 violations that existed at the time of the Commission's previous inspections. In addition, the Commission improperly calculated the housing assistance payments for 16 of 25 tenant files reviewed and did not perform reexaminations in a timely manner. This resulted in more than \$7,000 in housing assistance payment errors. Also, the Commission did not establish an adequate cost allocation plan for charging indirect costs to its program.

OIG recommended that HUD require the Commission to reimburse its program from nonfederal funds for the improper use of almost \$59,000 in program funds, ensure that program housing units inspected during the audit are repaired to meet HUD's housing quality standards, and implement

procedures and controls to address the findings reported. (Audit Report: **2006-CH-1013**)



HUD OIG audited the Orange City Housing Authority's, **Orange, NJ**, Housing Choice Voucher program. Of 59 Section 8 units inspected, 55 did not meet minimum housing quality standards, 37 of which were in material noncompliance. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet housing quality standards. Additionally, the Authority did not always allocate expenses accurately to the Housing Choice Voucher program and did not always correctly calculate its housing assistance payments and obtain necessary documents related to tenant recertifications.

OIG recommended that HUD instruct the Authority to (1) to ensure that units meet housing quality standards and that corrective action has been taken on those units that failed to meet standards, (2) develop procedures and controls for allocating and charging costs to the Housing Choice Voucher program, (3) provide documentation for all unsupported cost and reimburse any cost determined to be ineligible, and (4) establish procedures to ensure that all voucher recertification information for tenants and landlords is adequately supported and documented. (Audit Report: **2006-NY-1010**)



HUD OIG audited the Housing Authority of the City of Austin's, **Austin, TX**, Section 8 Housing Choice Voucher program. In 482 of the 662 vouchers reviewed, the Authority applied the correct voucher size and correctly computed housing assistance payments. However, it overhoused 180 tenants and paid more than \$588,000 in excess housing assistance payments. In addition, HUD overfunded the Authority's FY 2006 Section 8 Housing Choice Voucher program budget by more than \$189,000.

OIG recommended that HUD require the Authority to (1) correct the voucher size for overhoused tenants, (2) repay HUD for the housing assistance overpayments, (3) improve and correct its procedures for assigning subsidy size to avoid future losses of up to \$768,000, and (4) take the necessary action to reduce the Authority's FY 2006 Section 8 budget by more than \$189,000. (Audit Report: **2006-FW-1015**)



HUD OIG audited the Municipality of Bayamon Housing Authority's, **Bayamon, PR**, Section 8 Housing Choice Voucher program. Of the 66 units inspected, 58 did not meet minimum housing quality standards, and 15 were in material noncompliance. As a result, tenants lived in units that were not decent, safe, and sanitary, and HUD made housing assistance payments for units that did not meet standards.

OIG recommended that HUD require the Authority to inspect all of the 58 units that did not meet minimum housing quality standards to verify that the landlords took appropriate corrective actions to make the units decent, safe, and sanitary. If appropriate actions were not taken, the Authority should abate the rents or terminate the tenants' vouchers. HUD also should require the Authority to implement an internal control plan and incorporate it into the Authority's Section 8 administrative plan to ensure that units meet HUD's housing quality standards and inspections meet HUD requirements. (Audit Report: **2006-AT-1015**)



HUD OIG audited the **Orlando, FL**, Housing Authority's Section 8 Housing Choice Voucher program. Of 67 Section 8 units inspected, 20 did not meet standards, and eight of those were in material noncompliance. As a result, the Authority paid more than \$31,000 in ineligible subsidies and more than \$10,000 in excess housing assistance payments for 5 of 22



tenants housed in units larger than justified by the families' composition.

OIG recommended that HUD require the Authority to abate Section 8 subsidies or terminate housing assistance payment contracts on all units that do not meet standards if the violations detected are not corrected in a timely manner. HUD should also require the Authority to improve its controls over the inspection process to ensure that inspectors properly identify and report all housing quality standards violations in the units they inspect to prevent more than \$1.1 million from being spent on units with material housing quality standards violations. HUD should further require the Authority to repay more than \$31,000 from nonfederal funds for ineligible housing assistance payments it made for the eight units with material violations.

OIG also recommended that HUD require the Authority to reimburse its program from nonfederal funds more than \$10,000 for excess housing assistance payments for five overhoused tenants plus any additional amount paid until corrective action is taken. HUD should also require the Authority to establish controls to ensure initial determination of the correct voucher size and to adjust tenant vouchers in a timely manner to reflect reported changes in family composition. HUD should further require the Authority to issue the correct size voucher to overhoused tenants and ensure that their subsidy amounts are properly calculated. (Audit Report: **2006-AT-1010**)



HUD OIG audited the Housing Authority of the City of Los Angeles' tenant eligibility determinations for its Section 8 Housing Choice Voucher program. The Authority did not establish and document its Section 8 tenants' eligibility to receive housing choice vouchers in 76 of 133 cases reviewed. As a result, the Authority paid more than \$1 million in unsupported and ineligible housing assistance payments.

OIG recommended that HUD require the Authority to (1) support or reimburse HUD more than \$1 million in unsupported Section 8 housing assistance payments, (2) implement the necessary controls and/or revisions to its administrative plan to ensure that the eligibility determinations are made properly in the future, and (3) conduct training with Section 8 personnel on the new controls and procedures. (Audit Report: **2006-LA-1012**)



HUD OIG audited the Rockford Housing Authority's, **Rockford, IL**, Section 8 Housing Choice Voucher program based upon a risk analysis that identified the Authority as having a high-risk program. Of 85 files reviewed, 73 did not contain documentation required by HUD and the Authority's program administrative plan to support more than \$547,000 in housing assistance and utility allowance payments. The Authority incorrectly calculated households' payments, resulting in nearly \$50,000 in overpayments and more than \$2,500 in underpayments for the period October 2003 through November 2005. OIG estimates that over the next year, the Authority will overpay more than \$338,000 in housing assistance and utility allowance payments.

OIG recommended that HUD (1) require the Authority to provide documentation or reimburse its program from nonfederal funds for the unsupported housing assistance and utility allowance payments and associated administrative fees, (2) reimburse its program from nonfederal funds for the improper use of program funds, (3) reimburse the appropriate households for the underpayment of housing assistance and utility allowance payments, and (4) implement adequate procedures and controls to address the deficiencies identified. (Audit Report: **2006-CH-1020**)

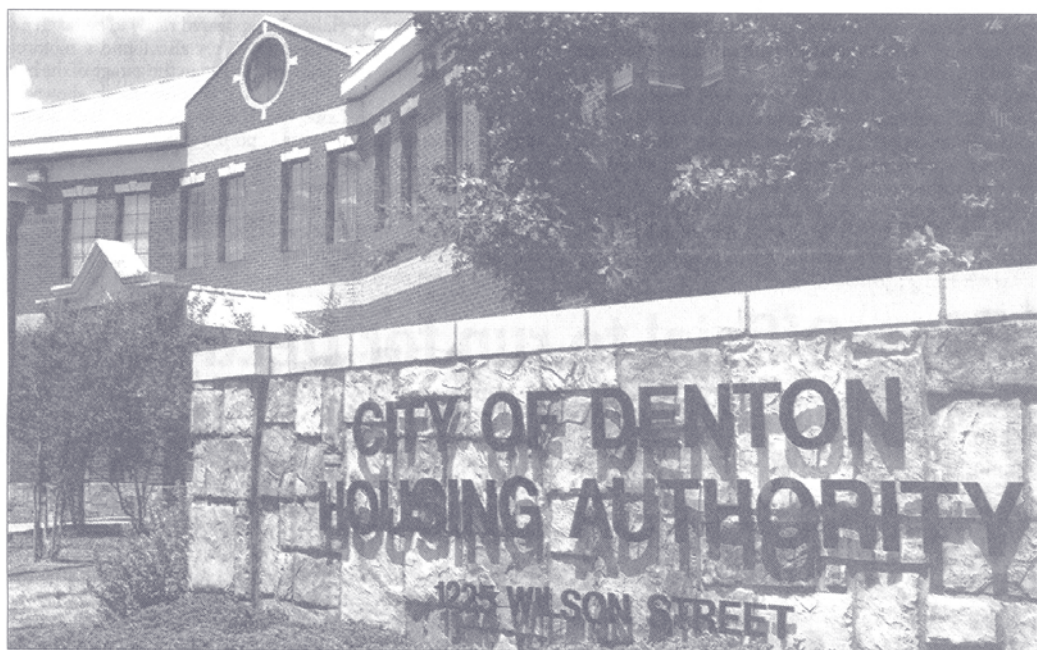




HUD OIG audited the Section 8 program administered by the Housing Authority of the City of Denton, **Denton, TX**. The Authority applied its decreased payment standards without granting the required grace period. Further, it did not grant disability allowances for six eligible tenants in determining adjusted income. As a result, it underpaid an estimated \$126,000 in subsidies for 447 tenants. Twenty-nine tenants were overhoused because the Authority assigned a voucher size that exceeded its subsidy size standards with either no explanation or questionable justification. The Authority paid almost

\$51,000 in ineligible or unsupported subsidy payments for these tenants.

OIG recommended that HUD require the Authority to (1) repay tenants for subsidy underpayments caused by decreasing payment standards too early and not granting disability allowances, (2) repay its Section 8 account for overpayments from overhousing tenants, (3) strengthen its quality control process, and (4) develop and implement controls to ensure that the procedural errors identified during the audit are corrected and avoided in the future. (Audit Report: **2006-FW-1013**)



Denton Record-Chronicle/Gary Payne

The Denton Housing Authority may have to pay back more than \$100,000 after an audit revealed subsidy errors.

## Audit reveals housing subsidy errors

### Denton Housing Authority not sure of amount owed

By Lowell Brown  
Staff Writer

The federal housing department could force the Denton Housing Authority to pay back more than \$100,000 to renters after auditors found the agency short-changed people who qualified for housing vouchers.

The audit report, issued last month by the U.S. Department of Housing and Urban Development's office of inspector general, found errors in how the Denton Housing Authority ran the department's voucher program between October

#### ON THE NET

Full audit report on the Denton Housing Authority: <http://www.hud.gov/oig/ig/661013.pdf>

Denton Housing Authority: [www.dentonhousingauthority.com](http://www.dentonhousingauthority.com)

2003 and March 2006.

The housing authority is not a city department, but the mayor does appoint its five-member board of directors.

Officials with the housing authority have not disputed the audit's broad findings, but they are investigating whether the suggested repayment amounts are accurate.

"We could protest [the findings] if we

thought they were in error, but as far as I know, these were mistakes that were made and we are correcting them," said Bill Giese, chairman of the housing authority board.

Under the voucher program, qualified low-income residents can choose housing in the private market through a subsidy that helps cover the cost of rent. The housing authority receives federal funding and pays the subsidy to the landlord on the tenant's behalf.

The housing authority also is responsible for deciding tenant eligibility, taking into account income and family size, and verifying family earnings and make-

See HOUSING on 7A

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HUD OIG reviewed the Section 8 Housing Choice Voucher program at the Portland Housing Authority in **Portland, ME**. The Authority did not use its Section 8 administrative fee reserves in a timely manner or properly allocate salary and employee benefits expenses to the program. It transferred Section 8 administrative fee reserves to its local programs account, but as of March 2006, it had not used almost \$648,000 of these reserve funds for program or other housing purposes. It also undercharged its program by more than \$158,000 in salary and employee benefits expenses because its cost allocation procedures improperly charged the program costs to its Public Housing Capital Fund program when the Housing Choice Voucher program had funding shortfalls.

OIG recommended that HUD require the Authority to (1) repay to its Section 8 program the unused portion of almost \$648,000 in administrative fee reserve funds transferred to its local programs account and provide supporting documents for verification of the more than \$158,000 in transferred reserve funds to the Public Housing Capital Fund program, (2) identify current and valid uses for the remaining Section 8 administrative reserves (almost \$490,000), and (3) establish and implement formal written procedures to properly allocate costs to the benefiting programs. In addition, OIG recommended that HUD verify the repayment of more than \$158,000 to the Authority's Public Housing Capital Fund program for ineligible administrative expenses. (Audit Report: **2006-BO-1011**)



HUD OIG audited the Freeport Housing Authority, **Freeport, NY**, to determine whether it (1) implemented admission policies that complied with HUD requirements, (2) ensured that Section 8 program units met housing quality standards, (3) maintained a financial management system that adequately safeguarded funds, and (4) operated its not-

for-profit entity in accordance with HUD regulations.

The Authority improperly issued housing choice vouchers to 22 tenants and erroneously disbursed more than \$49,000 in housing assistance payments. It lacked a system to monitor the results of housing quality standards inspections to ensure that housing assistance payments were abated when needed and to document that it conducted quality control inspections as required by HUD regulations. Weaknesses in the Authority's financial management system allowed the disbursement of more than \$588,000 for questionable and ineligible costs and caused the incorrect calculation of Section 8 administrative fees. Further, the Authority did not obtain a partial release of declaration of trust from HUD to transfer properties to its not-for-profit entity as required by HUD regulations.

OIG recommended that HUD reallocate the Authority's unused housing choice vouchers and require it to (1) seek a HUD waiver to allow tenants who were improperly issued vouchers to retain them, (2) seek reimbursement of ineligible housing assistance payments, (3) establish a system to track housing quality inspection activities, (4) develop and implement financial controls to ensure proper allocation and disbursement of funds, and (5) obtain properly approved partial release of declaration of trust documents for property transferred for sale under the homeownership program. (Audit Report: **2006-NY-1008**)



HUD OIG audited the Dallas County Housing Agency's, **Dallas, TX**, Section 8 program. The Agency operated its Section 8 program in compliance with HUD requirements. It computed housing assistance payments correctly and had effective controls in place to ensure that it met housing quality standards. However, it overhoused 34 tenants by granting

unjustified subsidy size exceptions and unnecessarily paid more than \$63,000 in housing assistance payments for 23 of the tenants.

OIG recommended that HUD require the Agency to (1) repay ineligible housing assistance overpayments of more than \$63,000 and (2) improve its procedures to ensure that it assigns the correct subsidy size for all tenants. (Audit Report: **2006-FW-1009**)



HUD OIG audited the Housing Authority of the County of Butler to determine whether the Authority was properly administering its Section 8 Housing Choice Voucher program. The Authority generally administered its Section 8 program properly, but some improvements were needed. The Authority, located in **Butler, PA**, did not allocate administrative salary and employee benefit costs to the Section 8 program on a reasonable and fair basis. As a result, it could not support more than \$229,000 in expenditures for administrative salaries and associated employee benefits over a 3-year period. In addition, the Authority did not always calculate housing assistance payments correctly or maintain adequate documentation in its client files to demonstrate compliance with HUD requirements. It also did not have written procedures for conducting quality control reviews of the client files, which would have alerted it to the deficiencies. As a result, it made housing assistance overpayments of more than \$500 and underpayments of more than \$1,000 in the 21 client files reviewed and did not have adequate assurance that the housing assistance payments it made to landlords were reasonable.

OIG recommended that the Authority (1) provide documentation to support the more than \$229,000 in questioned employee salary and benefit costs or reimburse the Section 8 program from the programs that benefited from the erroneous costs

allocations; (2) develop and implement a reasonable method for allocating costs to the Section 8 program, thereby putting more than \$76,000 to better use over a 1-year period; (3) repay its Section 8 program more than \$500 and reimburse clients more than \$1,000 from its earned Section 8 administrative fees for housing assistance overpayments and underpayments; and (4) develop and implement procedures for calculating rents correctly, maintaining client files adequately, performing quality control reviews of its client files, and performing adequate rent reasonableness determinations. (Audit Report: **2006-PH-1010**)



HUD OIG audited the Benton Harbor Housing Commission's, **Benton Harbor, MI**, Public Housing Capital Fund program. The Commission lacked documentation to support more than \$206,000 in program expenditures and improperly used \$500 in program funds to pay expenses related to its Housing Choice Voucher program. Further, the Commission's procurement activities were not conducted according to its and HUD's requirements.

OIG recommended that HUD require the Commission to (1) provide documentation to support the unsupported expenditures or reimburse its program from nonfederal funds for the applicable portion; (2) provide documentation that it reimbursed its program from its Section 8 housing administrative fees for the improper payment of expenses related to its Section 8 Housing Choice Voucher program; and (3) implement adequate procedures, controls, and board oversight to correct the weaknesses cited. (Audit Report: **2006-CH-1010**)



HUD OIG audited the **Miami, FL**, Miami Dade Housing Agency's Section 8 Housing Choice Voucher program. The Agency overhoused 17 tenants and unnecessarily paid almost \$62,000 in excess



subsidies on behalf of 13 of the tenants. It also had 228 tenants who could be overhoused with the potential to incur excess subsidy payments. By improving its procedures, the Agency could avoid future losses of almost \$82,000, which would allow it to provide vouchers to additional tenants.

OIG recommended that HUD require the Agency to (1) submit a corrective action plan to correct the 17 overhoused tenant vouchers, (2) reimburse its program almost \$62,000 from nonfederal funds, (3) submit a time schedule to review the additional 228 tenants for overhousing and a corrective action plan to correct any overhoused tenant vouchers and reimburse its program from nonfederal funds, and (4) develop and implement procedures to ensure that tenants receive the proper voucher size to avoid future losses of almost \$82,000. (Audit Report: **2006-AT-1012**)

## *Public Housing Authority Management of Assets*

HUD OIG audited HUD's efforts to collect a more than \$2.7 million debt from the Omaha Housing Authority of **Omaha, NE**, in response to a citizen's complaint that the Authority had not taken steps to repay or resolve the liability. The audit objectives were to determine why the liability existed, to whom it was owed, and what efforts HUD made to collect it.

HUD did not ensure that the Authority repaid its public housing programs more than \$2.7 million for ineligible program activities, nor did it establish a repayment agreement. As a result, the Authority's programs did not have these funds available for their intended purposes.

OIG recommended that HUD establish a repayment agreement with the Authority to resolve the liability. (Audit Report: **2006-KC-0003**)



HUD OIG audited the Omaha Housing Authority in **Omaha, NE**, to determine whether the Authority followed HUD procurement requirements. The Authority did not follow required procurement procedures. It used more than \$5,000 in HUD funds to purchase ineligible goods and services, and it could have saved at least \$970,000 when it purchased \$1.9 million in other goods and services.

OIG recommended that HUD require the Authority to repay its low-rent program for the ineligible purchases and improve controls over its procurement process. (Audit Report: **2006-KC-1010**)



HUD OIG audited the Saginaw Housing Commission's, **Saginaw, MI**, Public Housing Operating Fund program based on a request from HUD. The Commission improperly acquired the Saginaw County Fairgrounds property, which included a harness raceway, using nearly \$536,000 in program funds. Because of the Commission's improper use of these funds, its program also lost more than \$25,000 in interest income that would have been realized if the funds had been invested. The Commission failed to file a required declaration of trust to evidence its covenant to convey or encumber the property and to protect HUD's rights and interests. Further, the Commission entered into eight rooftop lease agreements without required HUD approval and did not restrict more than \$12,000 in revenue to pay for program expenses.

OIG recommended that HUD require the Commission to (1) reimburse its program for the inappropriate use of funds and lost interest income identified, (2) file a declaration of trust on the property if it has not been sold, (3) submit its current rooftop lease agreements to HUD for approval, and (4) implement adequate procedures and controls to address the findings cited. OIG also recommended that HUD pursue



administrative sanctions against the Commission's former executive director and its board members involved in the improper purchase of property. (Audit Report: **2006-CH-1018**)



Based on a complaint from a member of the Housing Authority of the City of Las Vegas', **Las Vegas, NV**, board of commissioners, HUD OIG reviewed the Authority's contracts with Abt Associates to determine whether the Authority followed federal procurement and contracting requirements when it hired Abt. OIG expanded its review to determine whether the Authority retained interest from improperly invested grant funds.

The Authority awarded three contracts totaling more than \$473,000 to Abt in 2004 and 2005 in violation of federal requirements and its own policies and procedures for procurement, contracting, and contract administration. It also improperly retained investment earnings totaling almost \$85,000 from improperly drawn down replacement housing factor grant funds for FYs 2000 and 2001.

OIG recommended that HUD require the Authority to provide adequate support of cost reasonableness or reimburse the low-rent housing program more than \$473,000 from nonfederal funds, reimburse the Federal Government for the almost \$85,000 in interest earned on the grant funds, take appropriate administrative sanctions against responsible Authority officials, and provide contract and procurement training to both the board and Authority officials. (Audit Report: **2006-LA-1017**)



HUD OIG reviewed the Housing Authority of the City of Macon's administration of its housing development activities as part of its audit of HUD's oversight of public housing agency development activities with related

nonprofit entities. The audit objectives were to determine whether the Authority, located in **Macon, GA**, used low-income housing and HOPE VI program funds for unauthorized purposes to benefit other entities without specific HUD approval and whether the Authority complied with applicable laws and regulations and properly safeguarded low-income resources when it conducted business with affiliated nonprofit entities and consultants.

The Authority violated its annual contributions contract with HUD by using funds from its low-income housing general fund account to pay expenses of its programs' affiliated entities. As of December 31, 2004, 11 programs or entities, including nonprofit firms and other programs, owed the general fund account more than \$395,000. As a result, the Authority made ineligible disbursements with low-income housing funds totaling more than \$395,000. Further, the Authority violated its contract with HUD by using low-income public housing assets as collateral to guarantee loans for two affiliated nonprofit entities totaling \$2.2 million, thereby placing contract assets at risk. The original \$2.2 million in loan balances guaranteed has been reduced to \$125,000, which is the amount currently at risk. Additionally, the Authority violated federal contracting requirements by entering into an open-ended contract with a consultant without a ceiling price. The Authority spent almost \$228,000 on the contract, which has been in effect since November 2001.

OIG recommended that HUD require the Authority to (1) collect the more than \$395,000 or current balance owed to the general fund account and repay the low-income public housing reserve the amounts collected, (2) pursue terminating the loan guarantees so the contract collateral used to guarantee the unpaid loan balances of \$125,000 will not be at risk, (3) justify the necessity and reasonableness of the payments made for the consultant's contract

and reimburse any amount that cannot be supported from nonfederal funds, and (4) terminate or amend the consultant's contract in accordance with applicable federal requirements. (Audit Report: **2006-AT-1008**)



HUD OIG audited the Housing Authority of the City of North Charleston's, **North Charleston, SC**, implementation of a HUD Section 5(h) homeownership program to determine whether the Authority administered its capital funding for the Oakleaf project in accordance with HUD program requirements for financial management and reasonableness and necessity of expenditures and whether the project was adequately progressing toward accomplishing its homeownership objective.

The Authority inappropriately pledged public housing program funds to secure a \$400,000 commercial bank loan for real estate improvements at Oakleaf. In addition, the Authority's noncompliance with program requirements and untimely planning caused delays in its Oakleaf homeownership program. The delays hampered the Authority's ability to provide timely homeownership opportunities to low-income individuals and families.

OIG recommended that the HUD ensure that the Authority obtains prior approval from HUD before entering into any future contract or agreement that obligates HUD funds to secure debt and require the Authority to provide a reasonable plan for completing the project and selling the units and properly assess and document homebuyers' progress and related time extension. (Audit Report: **2006-AT-1013**)



HUD OIG audited the Hampton Redevelopment and Housing Authority, **Hampton, VA**, to determine whether the Authority carried out its operations in

accordance with applicable HUD requirements.

The Authority did not properly allocate almost \$60,000 in salary and benefit costs to its nonfederal housing developments. It also did not always follow federal procurement requirements when awarding contracts. In addition, it made some incorrect housing assistance payments and did not settle almost \$62,000 in interfund balances due its low-rent public housing fund from other HUD programs in a timely manner.

OIG recommended that HUD require the Authority to provide adequate documentation to support almost \$60,000 in questioned salary and benefit costs or reimburse its public housing program from nonfederal sources, reduce the amount of housing assistance payments by the more than \$5,000 overpayment on the Authority's next Section 8 year-end settlement statement, reimburse applicable tenants almost \$800 for housing assistance underpayments, and repay its low-rent public housing fund almost \$62,000 from its other HUD programs. OIG also recommended that the Authority provide adequate documentation to justify its awarding of four contracts or repay almost \$85,000 or the amount currently expended under the contracts from nonfederal funds and create and implement adequate internal controls to ensure that it fully complies with HUD and other federal requirements. (Audit Report: **2006-PH-1011**)



HUD OIG reviewed the development activities of the Columbus Housing Authority, **Columbus, NE**, to determine whether it spent or encumbered HUD assets for development activities without HUD approval.

The Authority inappropriately spent more than \$204,000 in public housing funds to develop a non-HUD multifamily housing development. It also improperly

encumbered its public housing assets when it signed loan documents containing setoff provisions that allowed the bank to take Authority bank account funds in the event of default on the loans. The Authority defaulted on the loans, and the bank seized more than \$88,000 in public housing funds.

OIG recommended that HUD require the Authority to repay its public housing program from nonfederal sources, continue to pursue recovery of the funds seized by the bank, and ensure that no additional HUD funds are used for nonfederal purposes without HUD approval. (Audit Report: **2006-KC-1013**)



HUD OIG audited the Pickaway Metropolitan Housing Authority's, **Circleville, OH**, activities with its related nonprofit organization because the Authority was identified as having high-risk indicators of nonprofit development activity. The Authority improperly loaned nearly \$256,000 in 5(h) Homeownership Plan (program) sales proceeds to its nonprofit, Building Affordable Housing Corporation. The two loans occurred without HUD approval and did not follow federal requirements regarding the use of the program proceeds. The Authority's program also lost more than \$60,000 in interest income that would have been realized if the proceeds had been invested. Further, the Authority paid more than \$22,000 in expenses that would not have been incurred if it had conducted the Corporation's development activities. The Corporation used nearly \$2,400 in program proceeds to pay legal expenses related to its development activities that were not adequately supported by detailed invoices.

OIG recommended that HUD require the Authority to (1) reimburse its program from nonfederal funds for the improper use of program funds, (2) provide documentation or reimburse its program from nonfederal funds for the unsupported

payments identified, and (3) implement adequate procedures and controls to correct the cited weaknesses. (Audit Report: **2006-CH-1016**)



HUD OIG audited the Orange City Housing Authority, **Orange, NJ**, regarding its payments to and on behalf of the City of Orange and the write-off of an account receivable from the City. The objective was to determine whether payments to the City for street lighting and a write-off of an account receivable from the City were proper.

The Authority paid for street lighting expenses, which should have been furnished by the City at no cost to the Authority. It also wrote off an account receivable pertaining to the cost of the lights without obtaining board approval. As a result, the Authority paid for the City's street lighting costs and was deprived of funds from a more than \$156,000 receivable, which could be used to pay for necessary operating expenses if collected.

OIG recommended that HUD instruct the Authority to record an account receivable for the more than \$156,000 due from the City and notify the City to pay for street lighting costs. (Audit Report: **2006-NY-1011**)



HUD OIG reviewed the development activities of the Columbus Housing Authority, **Columbus, NE**. The Authority inappropriately spent more than \$62,000 in public housing funds to operate Crown Villa, a non-HUD multifamily development. It also inappropriately signed Crown Villa loan documents that contained setoff provisions allowing the bank to take Authority deposits in the event of default. The Authority defaulted, and the bank seized more than \$88,000 in public housing funds to satisfy the defaulted loans. The Authority still owes nearly \$112,000 on a remaining loan. It is now at significant risk

of being unable to continue administering HUD housing programs.

OIG recommended that HUD require the Authority to (1) repay its public housing program from nonfederal sources, (2) ensure that no additional HUD funds are used for nonfederal activities without prior HUD approval, (3) terminate the bank agreement that is encumbering public housing funds, and (4) implement controls to protect federal funds. OIG also recommended that HUD impose administrative sanctions against the Authority, its former executive director, and members of its board of commissioners for placing the Authority in its current position. (Audit Report: **2006-KC-1014**)



HUD OIG audited the public housing program of the Youngstown Metropolitan Housing Authority in **Youngstown, OH**, based on a citizen's complaint to the hotline. The complainant alleged that the Authority's executive director (1) ordered Authority personnel to purchase her a new sport utility vehicle for her personal use, (2) failed to follow HUD's and the Authority's procurement policies, (3) used the Authority's employees for personal services during duty hours, (4) used the Authority's equipment for her own and others' personal use, and (5) tampered with the Authority's records. OIG's objectives were to determine whether the complainant's allegations were substantiated and whether the Authority used HUD funds in accordance with applicable requirements.

The Authority did not follow HUD's requirements for full and open competition and its procurement procedures manual regarding the procurement of legal and housing maintenance training services totaling almost \$100,000 from July 2004 through January 2006. In addition, it did not follow federal requirements regarding its use of almost \$4,000 in public housing operating funds from May 2004 through September 2005. It used more than \$2,000

to pay entertainment expenses for its employees and residents, more than \$1,000 to pay travel expenses, and more than \$150 to pay bereavement expenses. The complainant's other allegations were not substantiated by the review.

OIG recommended that HUD require the Authority to (1) support that the use of operating funds for legal services was reasonable or reimburse its operating fund from nonfederal funds for the applicable amount, (2) implement procedures and controls to ensure that it follows HUD's requirements and/or the Authority's procurement procedures manual when procuring services and using operating funds, (3) submit its legal services contracts to HUD for review and approval before disbursing additional HUD funds for legal services, and (4) review its use of operating funds to ensure that funds were used for allowable expenses. If operating funds were used to pay inappropriate expenses, the Authority should reimburse its operating fund from nonfederal funds as appropriate. (Audit Report: **2006-CH-1009**)



HUD OIG audited the Housing Authority of **Lawrence County, KY**, to determine whether it managed its procurement and financial management systems in accordance with HUD requirements. The Authority spent almost \$72,000 for questionable purchases and travel expenses. HUD and the Authority have entered into an improvement plan and memorandum of agreement to address inefficiencies in the Authority's operations, but additional actions are needed.

OIG recommended that HUD (1) require the Authority to provide support for almost \$72,000 in questionable costs or repay any ineligible or unsupported amounts from nonfederal funds; (2) revise the improvement plan and memorandum of agreement with the Authority to include actions to ensure that the Authority



adequately segregates its accounts payable processes, provides adequate supervisory oversight of credit card purchases and travel advances, and complies with its procurement policies and federal procurement regulations; and (3) reevaluate the corrective actions at a later date to determine whether the actions were appropriate. (Audit Report: 2006-AT-1017)

### *Low -Rent Maintenance Program*

HUD OIG audited the Housing Authority of the City of McKeesport's, **McKeesport, PA**, management of its low-rent maintenance program. The Authority received operating subsidies for ineligible units and did not prevent conflict-of-interest situations with its vendors. Additionally, it did not provide adequate management oversight and control and did not implement adequate policies and procedures to ensure that its maintenance employees completed vacant work orders as required.

OIG recommended that the Authority (1) repay the program more than \$90,000 from nonfederal funds for the ineligible expenditures resulting from the prohibited conflict-of-interest situations with its vendors, (2) implement controls and procedures to prevent and resolve conflict-of-interest situations with its vendors, (3) provide adequate management oversight and control to ensure that maintenance employees document and complete vacant unit work orders in a timely manner, (4) bring its maintenance staffing levels in line with HUD guidelines or properly justify why the additional maintenance personnel are needed, (5) implement policies and procedures to justify hiring maintenance contractors to provide services that should be performed by the Authority's maintenance personnel, (6) repay HUD ineligible amounts from nonfederal funds after HUD recalculates the Authority's

operating subsidy to exclude ineligible units from April 1, 2003, to December 31, 2004, and (7) discontinue requesting subsidies for housing units that are not eligible. By implementing these recommendations, the Authority can put nearly \$1.9 million to better use over a 1-year period. (Audit Report: 2006-PH-1014)

### *Moving to Work (MTW) Demonstration Program*

HUD OIG audited the process HUD used to admit the Housing Authority of Baltimore City, **Baltimore, MD**, into its MTW Demonstration program to determine whether HUD followed applicable statutory requirements when it admitted the Authority into the program.

In violation of the statute, HUD executed an MTW agreement with the Authority without requiring it to provide for citizen participation through a public hearing or other means and by not requiring it to develop a plan that considered comments from the public hearing or any other public comments on the proposed program. In addition, HUD did not follow its normal award-making process because it allowed the Authority to submit its expression of interest 31 months past the HUD-established deadline and did not require it to demonstrate its ability to properly administer HUD funds.

OIG recommended that HUD obtain an opinion from its Office of General Counsel to determine whether it has sufficient legal grounds to nullify the Authority's MTW agreement and if so, nullify the agreement. If the agreement is nullified, OIG recommended that HUD reinstate recommendations from its prior audits of the Authority's Section 8 certificate and voucher programs, Audit Reports 2005-PH-1004 and 2001-PH-1003. HUD should recapture \$25.1 million from the Authority's Section 8 reserve account that the Authority carried

# U.S. AUDIT MAY CLIP AGENCY'S WINGS

City housing authority  
didn't comply, HUD says

BY JOHN FRITZE  
[SUN REPORTER]

Baltimore's public housing authority never should have been permitted to join a program to ease controls on its spending because officials failed to hold a required public hearing, a federal oversight agency has ruled in a scathing audit.

Since July, the Housing Authority of Baltimore City has been part of a federal pilot program called Moving to Work, which allows 27 city and state housing agencies to waive restrictions that dictate how millions in federal housing money must be spent.

In its audit, the U.S. Department of Housing and Urban Development's Office of Inspector General recommends voiding Baltimore's inclusion in the program because public input was not sought in advance and because the authority's application was "short and vague."

Though it is nonbinding, the audit could have implications for Baltimore's future as a Moving to Work site, damaging a years-long effort to convince the federal government the city was ready for looser regulations, which typically are extended only to high-performing agencies.

The audit also comes as Congress is considering an expansion of the program, championed by the Bush administration as a way to reduce bureaucracy. The House Financial Services Subcommittee on Housing and Community Opportunity advanced a bill last week that would expand the program to 40 cities.

For their part, officials with the Baltimore housing  
*[Please see HOUSING, 2B]*

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over to the MTW program. HUD should also establish policies and procedures requiring it to obtain a legal opinion from its Office of General Counsel when it does not follow the normal award-making process in approving housing agencies' participation in program initiatives. (Audit Report: **2006-PH-0002**)

## *Public Housing Operating Fund Program*

HUD OIG audited HUD's phase-down for demolition add-on funding calculations for the Public Housing Operating Fund program, based on results of a prior audit that indicated HUD did not always obtain adequate supporting documentation from PHAs before approving requests for phase-down funding. The objective was to determine whether HUD obtained and adequately reviewed the supporting documentation for the \$74.3 million in approved phase-down funding for FYs 2004 and 2005.

HUD did not always obtain and adequately review supporting documentation before approving \$42 million in phase-down funding. Each field office implemented its own procedures for the review of phase-down funding requests in the absence of formal guidance from HUD. Without this guidance, the field offices interpreted and applied phase-down for demolition regulations inconsistently. As a result, HUD funded more than \$15.1 million in unsupported and \$20.6 million in ineligible phase-down funding requests for FYs 2004 and 2005.

OIG recommended that HUD develop formal guidance and review procedures for approving requests for the phase-down for demolition funding, obtain and review support for the \$15.1 million in unsupported phase-down funding requests for FYs 2004 and 2005, determine the correct amount of phase-down funding received, recover the \$20.6 million in ineligible phase-down funding paid to public housing agencies in FYs 2004 and 2005, and obtain and review complete support for phase-down funding requests for FY 2006. (Audit Report: **2006-BO-0001**)

## *Conversion of Low-Rent Units to Housing Choice Voucher Program*

HUD OIG reviewed HUD's oversight of PHAs' compliance with the mandatory conversion of low-income housing units to the Section 8 Housing Choice Voucher program to determine whether HUD had adequate oversight to ensure that Section 202 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 was followed by PHAs regarding the mandatory conversion of low-income housing units.

Of the 28 public housing developments reviewed, all developments had either completed or were in the process of meeting the mandatory conversion requirements except for the Detroit Housing Commission's Frederick Douglass development. HUD approved the partial demolition of the development in July 2001 based in part on its high vacancy rate. As of March 22, 2006, partial demolition had occurred; however, the development was still not meeting the mandatory conversion requirements, and it had a vacancy rate of 43 percent.

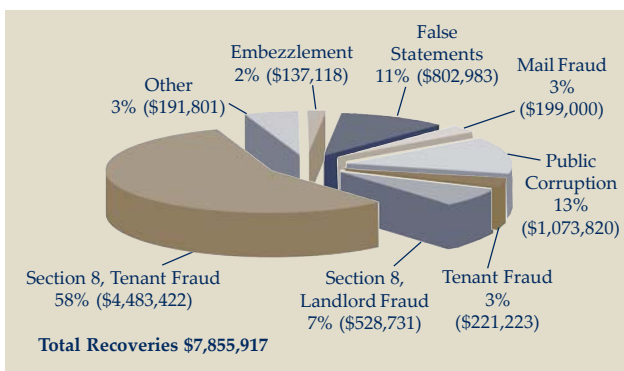
OIG recommended that HUD implement additional procedures and controls to ensure that all public housing authorities comply with Section 202 and HUD's regulations regarding the mandatory conversion of low-income housing units and initiate appropriate action to ensure that the Frederick Douglass development complies with Section 202's requirements and HUD's regulations regarding mandatory conversion. (Audit Report: **2006-CH-0002**)



# Investigations

During this reporting period, OIG opened 388 investigation cases and closed 361 cases in the Public and Indian housing program area. Judicial action taken on these cases during the period included \$7,855,917 in investigative recoveries, \$14,559,970 in funds put to better use, 516 indictments/informations, 298 convictions/pleas/pretrial diversions, 735 administrative actions, 10 civil actions, 7 personnel actions, and 1,798 arrests.

**Chart 3.2: Public and Indian Housing Recoveries**



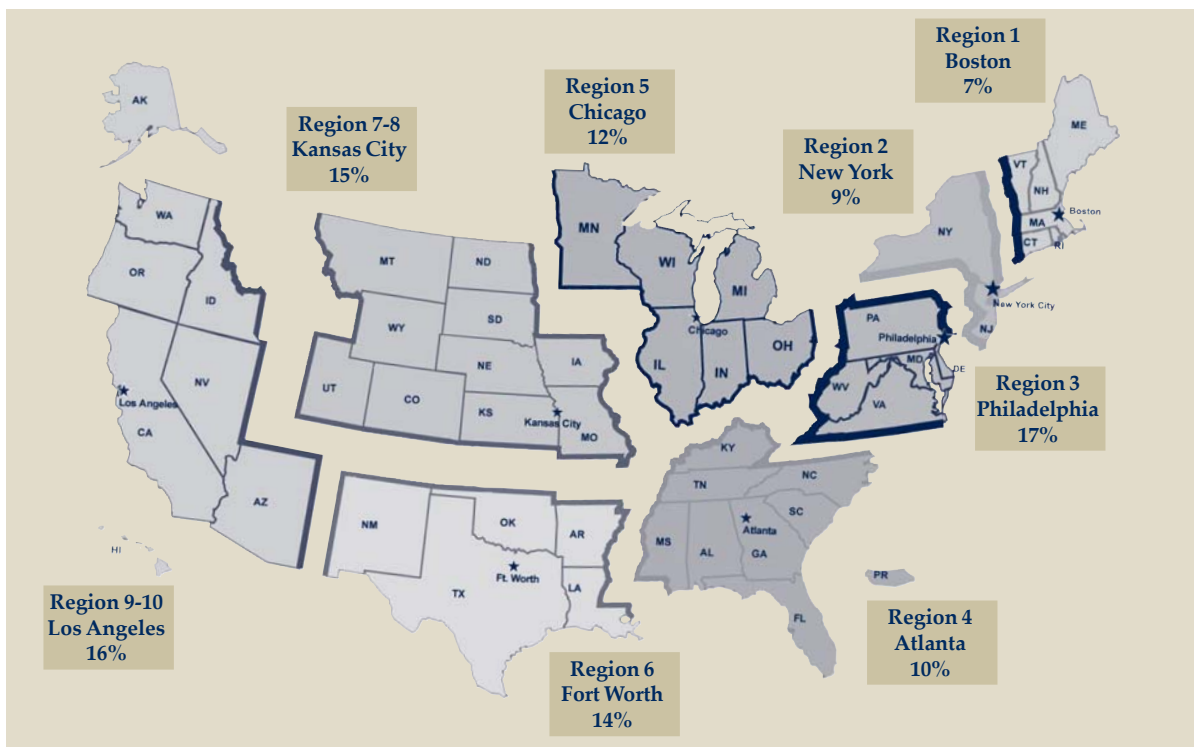
Some investigations discussed in this report were conducted by OIG or jointly with federal, state, and local law enforcement agencies. The results of various significant investigations are described below.

## Public Housing Authority Theft/Embezzlement

Raymond Asselin, Sr., the former executive director of Springfield Housing Authority (SHA); his wife Janet Asselin; his sons James Asselin, Raymond Asselin, Jr., Christopher P. Asselin (formerly 9<sup>th</sup> Hampden District Representative for the State of Massachusetts), and Joseph Asselin; Arthur G. Sotirion, the former deputy executive director of SHA; and former SHA contractors John Spano, doing business as Valley Floor Covering, Inc., and John P. Corcoran, doing business as Corcoran Plumbing, each pled guilty in U.S. District Court, **Springfield, MA**, to numerous charges including racketeering, filing false

### A Look Back for the Year

**Chart 3.3: Percentage of OIG Public and Indian Housing Closed Investigation Cases, Performed FY 06**







## Ex-lawmaker takes plea deal

### Asselin forfeiture to benefit Springfield housing agency

By **STEPHANIE BARRY**  
sbarry@repub.com

SPRINGFIELD - The Springfield Housing Authority will receive every nickel of \$4.4 million in pledged restitution from several defendants who admitted looting the agency to build and maintain homes and buy luxury items.

Under a plea deal in the long-running corruption case, four of 12 defendants have agreed to sign over six homes, an Aruba timeshare, a briefcase full of cash and other property to the government. The holdings will be sold off by the U.S. Marshals

Service asset forfeiture program.

The obvious next question: How will the authority use the money?

"Basically ... wherever the money was taken from, it will go back from whence it came," housing authority Director Elizabeth F. McCright said.

Raymond B. Asselin, 69, who ran the authority for more than 30 years, and former assistant director Arthur G. Sotirion, 57, both of Springfield, recently pleaded guilty to racketeering

Please see Assets, Page A12



File photo by MARK M. MURRAY

**Former state Rep. Christopher P. Asselin leaves the federal courthouse in Springfield following a hearing last week.**

Christopher P. Asselin faces a much shorter sentence than his father, who oversaw the housing authority for 33 years.

By **JACK FLYNN**  
jflynn@repub.com

SPRINGFIELD - Former state Rep. Christopher P. Asselin agreed to surrender homes in Springfield and Cape Cod and serve between 18 and 24 months in prison yesterday in a plea deal in the Springfield Housing Authority corruption scandal.

With his wife and mother sitting in the first row, Asselin became the fifth member of his family to plead guilty in U.S. District Court to the fleecing of \$2.5 million from the city housing authority. Four other Asselins, including Christopher's wife, Merylina, have also struck deals to avoid a trial scheduled for later this month.

Sounding composed and confident, the 37-year-old former legislator withdrew his innocent plea and admitted to conspiracy to commit federal bribery and receive illegal gratuities, conspiracy to commit theft against the government and mail fraud during a hearing before U.S. District Judge Michael A. Ponsor.

More than 20 other counts, including extortion and fraud, were dropped as part of a plea deal with federal prosecutors.

Sentencing is set for Dec. 18. During 75 minutes on the witness stand, Asselin betrayed no hint of the sometimes tempestuous behavior that marked his four-year political career. Wear-

ing a blue suit and bright, striped tie, Asselin offered brief answers to dozens of questions posed by Ponsor, even correcting the judge at one point on the title of Asselin's former voting district in Springfield and Chicopee.

"Thank you very much," Ponsor said, without apparent sarcasm.

Under the plea deal, Christopher Asselin faces a much shorter sentence than his father, Raymond B. Asselin, who oversaw the housing authority for 33 years. The elder Asselin and his former top lieutenant, Arthur G. Sotirion, both of Springfield, could receive up to 14 years in prison after admitting their roles as ringleaders in the decade-long swindle.

Please see Asselin, Page A12

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federal income tax returns, conspiracy to commit theft against the government, conspiracy to commit receipt of gratuity, conspiracy to commit theft, conspiracy to commit mail fraud/theft of honest services, conspiracy to commit federal bribery, conspiracy to commit wire fraud, and/or obstruction of justice. The above defendants and other conspirators assisted Raymond Asselin, Sr., the former executive director at SHA, in embezzling more than \$3.5 million from SHA for the personal benefit of himself, family members, and others. The SHA funds were embezzled in the form of money and items, including home improvements, household goods, construction work, automotive repairs, and contributions to Christopher Asselin's political campaign. As part of a settlement, 12 defendants agreed to collectively liquidate six properties, including a \$1.2 million house on Cape Cod, a time-share condo in Aruba, a 23-foot Chaparral boat, a BMW automobile, and \$243,650 in cash previously seized.



Eric Ackerman, President of Ackerman Mechanical Services, Inc., a plumbing

contractor for Buffalo Municipal Housing Authority (BMHA), was sentenced in U.S. District Court, **Buffalo, NY**, to 6 months home confinement and 18 months probation and fined \$10,000 for his earlier guilty plea to false statements to HUD. Mary K. Pedlow, also known as Mary Casey Ackerman, an employee of Ackerman Mechanical Services, Inc., pled guilty to one count of submitting false documents to HUD. Both Ackerman and Pedlow falsely certified their qualifications as a Minority Business Enterprise (MBE) and their utilization and distribution of contract work to an actual MBE company on BMHA projects. As a result, Ackerman illegally obtained approximately \$1.75 million in BMHA contracts.



LaToya Cotton, a former Michigan State Housing Development Authority (MSHDA) contractor, was sentenced in U.S. District Court, **Detroit, MI**, to 41 months incarceration and 3 years probation and ordered to pay MSHDA \$1,052,701 restitution for her earlier guilty plea to theft and embezzlement. Cotton, doing business as Washtenaw Payee Services, created false tenant files and inspections to

divert and personally use MSHDA funds for 10 years.



William Moorehead, doing business as William Moorehead and Associates (WMA), pled guilty in U.S. District Court, **Chicago, IL**, to one count of wire fraud. Moorehead, a property manager for many housing authorities and privately owned Section 8 developments, created fraudulent records and money transfers to hide embezzled and misused HUD funds. In addition, Moorehead directed former WMA employees Patricia Taylor and Brian Townsend to create false bank records and draw checks on bank accounts containing insufficient funds; both Taylor and Townsend previously pled guilty to one count of wire fraud. As a result of their actions, HUD realized losses of \$995,000.



Ronald McCoy, a Philadelphia Housing Authority (PHA) contractor doing business as ABC Construction, was sentenced in Philadelphia Court of Common Pleas, **Philadelphia, PA**, to 1 to 5 years in prison for his earlier guilty plea to theft by deception, bid rigging, and conspiracy. McCoy fraudulently billed PHA subsidiary Philadelphia Housing Development Corporation for rehabilitation work he failed to complete at a low-income shelter. As a result, HUD realized losses of \$156,000.



Eric Hurt, a former accounting manager at Hoboken Housing Authority (HHA), pled guilty in U.S. District Court, **Newark, NJ**, to theft concerning programs receiving federal funds and federal income tax violations. Hurt, while employed as the accounting manager at HHA, embezzled \$111,083 in HHA funds by issuing 34 checks from the HHA general operating fund to himself without authorization, deposited 31 HHA checks into his personal bank accounts, cashed the remaining three HHA checks, used the misappropriated HHA funds for personal expenditures, and failed

to report the stolen funds as income on his federal income tax returns.



Livia Alicea-Rios, the former executive manager of San Juan's Department of Housing and Community Development (SJDHCD) Section 8 Division; Jeffrey Font-Ruiz, a former SJDHCD landlord; and Shemika Ortiz-Aquino, a former SJDHCD Section 8 tenant, were indicted in U.S. District Court, **San Juan, PR**, on conspiracy to corruptly solicit monies concerning programs receiving federal funds, program fraud, and theft of government funds. In addition to the defendants above, Lorna Yeampierre-Adorno, Gladys Rosario-Santel, Teresa Fernandez-Maldonado, and 29 SJDHCD Section 8 voucher tenants were charged with one count of conspiracy to corruptly solicit monies concerning programs receiving federal funds. From March 2004 through March 2005, Alicea-Rios, Font-Ruiz, and Ortiz-Aquino allegedly orchestrated a fraud scheme using Yeampierre-Adorno, Rosario-Santel, and Fernandez-Maldonado as "runners" to receive payments from SJDHCD Section 8 applicants. The SJDHCD Section 8 applicants allegedly provided \$800 to \$1,500 to obtain SJDHCD Section 8 vouchers or move up on the SJDHCD Section 8 waiting list.



Marysol Morales, the former Avon Housing Authority (AHA) Section 8 coordinator, was sentenced in U.S. District Court, **Boston, MA**, to 70 months incarceration and 2 years supervised release and ordered to pay AHA and three victims \$194,100 restitution for her earlier conviction on false statements and corrupt receipt of payments by an agent of a federally funded local government entity. From January to December 2004, Morales accepted at least \$31,000 for selling more than 100 AHA Section 8 vouchers valued in excess of \$1.3 million. As a result, HUD realized losses of \$387,000.



Thomas Herrera, the former executive director of Pueblo de Cochita Housing Authority (PDCHA), was sentenced in U.S. District Court, **Albuquerque, NM**, to 3 years probation and ordered to pay PDCHA \$78,448 restitution for his earlier guilty plea to embezzlement from an Indian tribal organization. From February to November 2003, Herrera forged PDCHA board members' signatures on unauthorized PDCHA checks he issued to himself, endorsed and cashed the PDCHA checks, and used the embezzled PDCHA funds for personal expenses. As a result, HUD realized a loss of \$78,448.



Serena Parker, a former Greensboro Housing Authority (GHA) intake specialist, and Vivian Bailey, a fabricated GHA landlord, were sentenced in U.S. District Court, **Greensboro, NC**, for their earlier guilty pleas to mail fraud and aiding and abetting. Parker was sentenced to 1 month incarceration, 5 months home detention, and 3 years supervised release and ordered to pay GHA \$74,322 restitution; Bailey was sentenced to 4 months home detention and 4 years probation and ordered to pay GHA \$19,861 restitution. Parker accessed GHA's computer system, illegally added Bailey and previously indicted Teresa Thomas as GHA landlords, and caused the mailing of 48 fraudulent housing assistance payment checks valued at more than \$70,000 to Bailey and Thomas. As a result, HUD realized a loss of \$74,322.



Corey Newton and Gregory Webb, former employees of Housing Authority of New Haven (HANH) and doing business as Unlimited Horizons, each pled guilty in U.S. District Court, **New Haven, CT**, to conspiring to make false statements and misapplying money belonging to a local government entity receiving federal funds. Newton and Webb created a fictitious company, awarded themselves approximately \$54,000 in HANH maintenance and rehabilitation contracts,

# Housing employees indicted

By Andrew Bromage  
Register Staff

**NEW HAVEN** — Two former city Housing Authority employees were indicted on fraud and conspiracy charges Thursday for allegedly steering maintenance contracts to a firm they secretly controlled, said U.S. Attorney Kevin O'Connor.

Gregory L. Webb, 55, of West Hartford, a former asset manager for District One, and Corey L. Newton, 36, of New Haven, a Housing Authority mechanic, were each charged with one count of conspiracy, fraud and making false statements.

A federal grand jury sitting in New Haven returned a five-count indictment March 30, and U.S. Magistrate Donna F. Martinez ordered it unsealed Thursday.

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and used HANH employees to complete the contract work.



Barbara Rawls-Ivy, the former executive director of Alliance for Strong Communities (ASC), a Housing Authority for the City of New Haven (HANH) nonprofit organization providing social services to HANH public housing residents, pled guilty in U.S. District Court, **New Haven, CT**, to an information charging her with theft from a program receiving federal funds. From 2001 through 2003, while serving as the Police



Commissioner for the City of New Haven and holding an elected position on the New Haven Board of Aldermen, Rawls-Ivy prepared, endorsed, and negotiated ASC checks totaling more than \$49,000 for her personal use.



Carsereena Red Dog, a former accounting specialist with Opportunities, Inc., a nonprofit organization administering a HUD Section 8 housing program, and her husband Leslie Red Dog were sentenced in U.S. District Court, **Great Falls, MT**, for their earlier guilty pleas to false statements. Carsereena and Leslie Red Dog were each sentenced to 6 months home detention and 5 years probation and ordered to pay the Montana Department of Commerce \$32,455 restitution jointly and severally. Carsereena and Leslie Red Dog failed to report Leslie's income on housing certifications and obtained \$32,455 in housing assistance payments they were not entitled to receive.



Walter John, a former Virgin Island Housing Authority (VIHA) procurement specialist, and George Flemming, a former VIHA contractor and owner of Mr. G's Maintenance, were convicted in U.S. District Court, **St. Croix, VI**, of conspiracy, wire fraud, and federal program fraud. From June 1998 to September 1999, John received more than \$30,000 from Flemming for preferential treatment in securing a \$1.5 million VIHA public housing rehabilitation contract and expedited payments. As a result, HUD's loss is estimated at \$30,000.



Toni Hart, the former Lawrence County Housing Authority (LCHA) executive director, was indicted in U.S. District Court, **Lawrenceville, IL**, on two counts of embezzlement and one count each of wire fraud and false statements to a federal agent. Hart allegedly used a LCHA credit card to purchase clothing and jewelry, acquire cash through ATM withdrawals, and pay for

personal trips. HUD's loss is estimated at more than \$24,000.



Chris Emeka Ayoka, a former Minneapolis Public Housing Authority (MPHA) Section 8 inspector, was indicted in Hennepin County Court, **Minneapolis, MN**, on one count of theft by swindle. Ayoka allegedly worked as a baggage handler at the Minneapolis-St. Paul International Airport while claiming he conducted and received payment for MPHA Section 8 residential inspections. HUD's loss is estimated at \$15,000.



Waconda Nolan, a former Internal Revenue Service (IRS) employee, was sentenced in U.S. District Court, **Atlanta, GA**, to 5 years probation and 40 hours of community service and ordered to pay Atlanta Housing Authority (AHA) \$13,629 restitution for her previous guilty plea to false statements. Nolan provided false verifications of employment on behalf of others to AHA.



Frederick Demps, the former Housing Authority of the City of Austin (HACA) housing manager, was indicted in U.S. District Court, **Austin, TX**, on one count of theft from a federally funded program. Demps allegedly embezzled tenant rents and altered HACA accounting documents to hide missing HACA funds. As a result, HUD realized a loss of \$7,750.



Guy Dill Copes, the former executive director of Housing Authority of the Town of Beaufort (HATB), was arrested after a complaint was filed in Carteret County District Court, **Beaufort, NC**, charging him with embezzlement and larceny by an employee. Copes allegedly purchased tools and equipment with HATB funds for his personal use. HUD's loss is estimated to exceed \$5,000.





Daniel M. McNamee, a former Springfield Housing Authority (SHA) maintenance supervisor, was arrested after his indictment in U.S. District Court, **Springfield, MA**, on obstruction of due administration of justice and filing a false federal income tax return. McNamee allegedly caused SHA to purchase and pay \$1,720 for a boiler, hot water tank, and baseboard heating components installed in the Rhode Island residence of Francis Keough, the previously indicted former director of Friends of the Homeless, a HUD-funded nonprofit.



Benita James and Sean Gray, former Housing Authority of the City of New Haven (HANH) employees, were indicted in Superior Court, **New Haven, CT**, on charges of conspiracy to commit identity theft, larceny, conspiracy to commit larceny, and trafficking in personal identifying information. James, while employed at HANH, allegedly accessed HANH computer databases, obtained identifying information on another HANH employee/Section 8 landlord, and sold the identification information to Gray. Gray, using the stolen identification information he purchased from James, allegedly opened residential and cellular telephone accounts in the name of the victim. In addition to her indictment above, James was sentenced in U.S. District Court, **Bridgeport, CT**, to 6 months home confinement and 3 years probation and fined \$3,000 for her earlier guilty plea to federal program bribery. While employed at HANH, James accepted cash and stolen items in exchange for moving HANH Section 8 applicants to the top of the Section 8 waiting list.



Phyllis Marie Moor, director of Land Acquisitions for Lakeland Housing Authority (LHA), was charged in an information filed in Polk County Tenth Judicial Circuit Court, **Bartow, FL**, with one count each of forgery and uttering forged

instruments. Moor allegedly falsified her LHA employment application by using a Social Security number (SSN) assigned to another person to conceal her criminal history and obtain employment with LHA. Moor obtained LHA employment and an annual salary of \$74,880.



David Gomez Serena, the former executive director of Yolo County Housing Authority (YCHA), was indicted in County of Yolo Superior Court, **Woodland, CA**, on numerous counts of making false and fraudulent insurance claims, preparing false statements concerning insurance claims, and grand theft exceeding \$400. Serena allegedly claimed his girlfriend and her dependent children as his dependents to collect medical insurance benefits provided by YCHA.



Bertha G. Muniz, the former Bayard Housing Authority (BHA) executive director, was indicted in Grant County Court, **Silver City, NM**, on one count of embezzlement. Muniz allegedly authorized BHA maintenance personnel to purchase materials, build a covered porch and elevated walkway, and install security lights at her personal residence. HUD's loss is estimated at \$748.

### *Rental Assistance Fraud*

As a result of "Operation Eight," Eliminating Ineligible Grantees Housing Task Force (Phase II), 14 Chicago Housing Authority (CHA) or Cook County Housing Authority (CCHA) Housing Choice Voucher Program participants, and a CHA contractor were indicted in U.S. District Court, **Chicago, IL**, on various counts of false statements, mail fraud, wire fraud, and embezzlement. The above defendants allegedly failed to report ownership of more than \$1 million in real estate, omitted income on CHA/CCHA annual certifications, diverted fictitious landlord checks, or

## Feds charge 16 with housing-fund fraud

Some slapped with lawsuits as HUD tries to recover losses

BY NATASHA KORECKI  
Federal Courts Reporter

Federal law enforcement officials on Monday charged 16 people with lying on housing applications so they could wrongly win hundreds of thousands of dollars meant for the needy.

In addition to criminal charges, federal prosecutors and investigators with the U.S. Department of Housing and Urban Development brought lawsuits against seven defendants. The suits aim to reclaim up to three times the alleged fraud loss.

The 16 are accused of lying about their jobs, income or other criteria so they could get hun-

dreds of thousands of dollars. The money was meant for the Housing Choice Voucher program, once known as Section-8, and intended to provide rent subsidies for low-income families, elderly and the disabled.

### Insider among accused

Among those charged was Giovanna Mendez, 35, of Chicago. Mendez was an employee with CHAC Inc., a company the Chicago Housing Authority contracts to handle the Housing Choice Voucher program.

Mendez is accused of embezzling nearly \$50,000 by making up fake landlord and tenant accounts.

She is charged with one count of mail fraud, two counts of theft of government funds and three counts of forgery. Reached Monday, her lawyer declined to comment.

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collected housing assistance payments on property they did not own. In addition to criminal charges, federal civil complaints for false claims, payment by mistake, and unjust enrichment were filed against six of the above subjects. HUD's loss is estimated to exceed \$600,000.



As part of "Operation Deep Pockets," 19 Cuyahoga Metropolitan Housing Authority (CMHA) Section 8 tenants and four CMHA Section 8 landlords were indicted in Cuyahoga County Court, **Cleveland, OH**, on numerous violations of theft and fraud against the

CMHA. CMHA Section 8 tenants and landlords indicted allegedly failed to report proper annual income, tenants with ownership in Section 8 properties, and/or landlords residing in Section 8 units with tenants. HUD's loss is estimated at \$422,000.



Miami Dade Housing Agency (MDHA) Section 8 tenants Andrea Greene, Revenue Bien Aime, and Sheree Dozier were indicted in U.S. District Court, **Miami, FL**, on numerous counts of theft of government funds, false statements to HUD, or conspiracy to defraud HUD for allegedly failing to report income, true household composition, ownership of MDHA subsidized units, and/or receipt of housing assistance from other housing authorities on annual MDHA certifications. Delores Murat, Rosa Colon and her husband Luis Zayas, and Liliana Barranco each pled guilty to theft of government funds, conspiracy, and/or false statements for failing to report employment, income, or ownership of or unauthorized residency in MDHA subsidized units on MDHA certifications. Former MDHA tenants sentenced for their earlier guilty pleas to theft of government funds, false statements, and/or conspiracy include Quiana Adams, her spouse Anthony Boatwright, and Sharon Dixon. Adams was sentenced to 3 months incarceration and 7 months home confinement; Boatwright was sentenced to 6 months home confinement and ordered to pay HUD \$59,327 restitution, jointly with Adams; and Dixon was

## 23 accused of rent-subsidy scams at CMHA

Theft-fraud charges say \$422,000 taken

DAMIAN G. GUEVARA  
Plain Dealer Reporter

Sixto Gutierrez had a cozy relationship with the low-income tenant in his West 47th Street house, authorities said. She is his wife.

Gutierrez, 41, illegally received about \$670 a month in

rent subsidies by claiming his 50-year-old wife, Elena Garcia, as a tenant, Cuyahoga Metropolitan Housing Authority officials said Wednesday. The couple and her 23-year-old son Luis Santiago, who also lives in the house, illegally collected more than \$19,000, police said.

A Cuyahoga County grand jury indicted 23 people, including the West 47th trio, and accused them of scamming a total of \$422,000 in housing subsidies from CMHA.

A yearlong investigation by CMHA police netted 89 felony charges of theft and fraud against four landlords and 19 tenants from across the county. If convicted, the defendants face up to seven years in prison, CMHA Police Chief Anthony Jackson said. In addition, authorities will attempt to collect the \$422,000.

The accused either lied about their incomes or gave other false information to the agency, officials said. CMHA officials said

they now have the means to track income data for applicants seeking housing allotments. In the past, the agency relied on applicants to provide their income information.

More than a year ago, the agency started checking applicants' earned and supplemental income through state records.

Some of those indicted have well-paying jobs, officials said, saying that subsidy cheats take money from people who need it. There are currently about 5,000

people on the waiting list for money from the former Section 8 program, now called the Housing Choice Voucher Program.

CMHA police conducted a similar probe in 2003 that yielded 19 convictions. In that roundup, the scammers took more than \$300,000 in housing-subsidy money. Authorities recovered about \$60,000 from those cases.

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sentenced to 36 months supervised release with 6 months electronic monitoring and home confinement and ordered to pay HUD \$58,822 restitution. The above MDHA tenants obtained more than \$310,843 in MDHA housing assistance they were not entitled to receive.



In an "Operation Clean Sweep Phase II" press conference, HUD Secretary Alfonso Jackson announced that 49 individuals were indicted in Marion County Superior Court, **Indianapolis, IN**, on charges of welfare fraud and theft. Indianapolis Housing Authority (IHA) Section 8 leased and subleased tenants, landlords, and a housing manager were indicted for allegedly collecting housing

assistance payments on behalf of vacant units, failing to report income or disclose assets, subleasing units to unauthorized tenants, allowing illegal occupants with violent criminal histories to reside in leased units, and/or having landlords occupying subsidized units with tenants. HUD's losses are estimated to exceed \$500,000.



SLS Management, Inc. (SLS), an Indianapolis Housing Authority (IHA) Section 8 landlord, pled guilty in Marion County Superior Court, **Indianapolis, IN**, to one count of welfare fraud. Between April and October 2005, SLS Management leased apartments to new residents who were receiving Section 8 assistance. In doing so, SLS Management, Inc.

## Housing authority charges 51 in fraud investigation

By Kate Holloway  
kate.holloway@indystar.com

Fifty-one people have been charged with fraudulently siphoning off federal public housing dollars and services meant for low-income families, the Indianapolis Housing Agency announced Thursday.

Those charged could face two to eight years in prison if convicted. They were rounded up in an ongoing fraud crackdown that has resulted in charges against 231 people since 2001 and has allowed the government to identify \$2.1 million in fraudulent housing payments.

Beyond stopping the fraud, the crackdown removes ineligible people from housing set aside for the poor.

Authorities arrested the suspects early Monday morning. By Thursday, 31 were jailed and 13 remained fugitives, while warrants on the rest were yet to be issued.

Most face welfare fraud charges. Some will be prosecuted for stealing from the federal government, and one is accused of identity deception.

The housing authority has been investigating the cases for six months, said Executive Di-

rector Rufus "Bud" Myers.

Many of those charged are accused of letting convicted criminals reside illegally in their federally funded housing. People with criminal records aren't eligible for public housing dollars.

One of those charged, Shannon Winchester, 36, allegedly housed James Stewart, who is accused of molesting a child while he lived in her residence and later became a suspect in June's slayings of seven people in a house on the Near Eastside.

Desmond Turner, also charged in those slayings, apparently lived with his mother, Brenda K. Baymon, in assisted housing in 2005. Baymon also was charged in the fraud roundup.

The losses in those two cases, authorities said, amounted to about \$26,000. Total losses in all of the cases amounted to \$360,285.

The 51 charged individuals are just a small chunk of the housing fraud cases the housing authority has to crack, Myers said.

"We have a file cabinet full of, I would say, 1,000 investigations," he said, adding, "Frankly, because of budget cuts, we had

to slow down the process."

The Housing Agency established a fraud investigations unit in 2001, but federal budget cuts forced 18 officers in that unit to be cut in 2005. Now there are two.

Myers wants to rebuild the unit.

"I would like to see it not only up to the strength that it had previously, but even stronger," he said. "There is a criminal element that is going on within . . . the public housing program."

He said he hopes the federal Department of Housing and Urban Development will help by allowing the Housing Agency to keep all of the money it recovers from solved fraud cases. Right now, the agency splits the recovered money with HUD.

Myers said HUD Secretary Alphonso Jackson appears willing to waive HUD's portion, but no decision has been reached.

Jackson was present for Thursday's announcement. The Indianapolis Housing Agency "has been a model for focus in our long-term efforts of how to rid themselves of this fraud," he said.

★ Call Star reporter Kate Holloway at (317) 444-6303.

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falsely certified that the owner had not been barred from participating in any federally-funded housing program. As part of the plea agreement, SLS Management, Inc. agreed to relinquish any claim to IHA Section 8 payments, pay IHA \$327,640.00 and the Indianapolis Police Department \$3,480.00.



Sixteen public housing, Section 8 voucher, or HUD-funded project-based multifamily residents of either Freeport Housing Authority, Rockville Center Housing Authority, Hempstead Department of Urban Renewal, Nassau County Housing and Intergovernmental Affairs, or Woodsedge Apartments, Hempstead, NY, were arrested after complaints were filed in Nassau County Court, **Mineola, NY**, charging them with grand larceny and/or offering a false instrument for filing. The above defendants allegedly failed to accurately report their incomes on housing assistance certifications and HUD's loss is estimated at more than \$225,000.



Alonzo Freeman, Joey Hornback, Sheila O'Neal, Denneshia McCraw, Brenda McCoy, and Bridgette Peoples, Inglewood Housing Authority (IHA) Section 8 recipients, were charged in Superior Court, **Inglewood, CA**, with numerous counts of filing a false/forged instruments, obtaining money by false pretenses, grand theft, and/or fraud. The above defendants allegedly failed to disclose income or assets, prior criminal histories, and/or unauthorized tenants on annual IHA certifications. In addition, Geno Wilson, a former IHA Section 8 tenant was sentenced to 3 years incarceration and ordered to pay IHA \$49,434 restitution for failing to disclose his prior criminal history or conviction and registered sex offender status on IHA certifications. The above defendants obtained more than \$154,000 in IHA housing assistance they were not entitled to receive.



Twelve Nazareth Housing Authority (NHA) Section 8 recipients were charged in North Hampton County Court of Common Pleas, **Nazareth, PA**, with theft by deception or not sworn falsifications. The 12 defendants allegedly failed to report accurate sources or amounts of household income and allegedly obtained more than \$150,000 in NHA housing assistance benefits they were not entitled to receive.



As part of a Waukegan Housing Authority (WHA) Section 8 fraud initiative, 13 WHA Section 8 tenants were arrested and indicted in Lake County Circuit Court, **Waukegan, IL**, on numerous counts of theft, state benefits fraud, and forgery. The indicted WHA Section 8 tenants allegedly falsified annual WHA certifications by underreporting income. HUD's loss is estimated at more than \$140,000.



Donna James, Lyris Wolfe, Sheila Whittenberg, and Christine Carpenter, former Housing Authority of the County of San Mateo (HACSM) Housing Choice Voucher program participants, each pled guilty to informations filed in U.S. District Court, **San Francisco, CA**, charging them with one count of defrauding HUD. Celestine Gallegos, also a former HACSM Housing Choice Voucher program participant, was sentenced to 24 months probation and ordered to pay HUD \$13,285 restitution for her previous guilty plea to defrauding HUD. James, Wolfe, Whittenberg, Carpenter, and Gallegos each applied for and received HACSM housing assistance payments while living in San Francisco Housing Authority public housing units. As a result, the above defendants obtained \$132,124 in HACSM housing assistance they were not entitled to receive.



Cynthia Braxton, an IRS employee; Christine Hill, a U.S. Postal Service (USPS) employee, and seven additional



Montgomery County Housing Authority (MCHA) Housing Choice Voucher program recipients were indicted in U.S. District Court, **Philadelphia, PA**, on numerous counts of false statements in order to obtain federally subsidized housing benefits. Braxton, Hill, and the five additional MCHA tenants allegedly failed to report income, unauthorized residents, or assets on MCHA certifications. HUD's loss is estimated to exceed \$134,000.



Linda White and Corrina Arenas, former City of Ventura Housing Authority (CVHA) Section 8 tenants; Linda McClain, a former CVHA public housing resident; and Gloria De La Cruz, a former CVHA landlord, were each charged in Ventura County Superior Court, **Ventura, CA**, with one count of grand theft. The above defendants allegedly failed to report vacated CVHA subsidized units and/or employment, business, or rental income on CVHA certifications and obtained approximately \$93,390 in CVHA housing assistance they were not entitled to receive.



Previously indicted Kalsoum Berro, a Michigan State Housing Development Authority (MSHDA) Section 8 tenant, and Hassan Berro, an MSHDA Section 8 landlord, entered into a diversion program agreement in Wayne County Circuit Court, **Detroit, MI**. Terms of their agreement required a \$35,000 payment to MSHDA. From 1990, Kalsoum and Hassan Berro resided in the same subsidized housing unit but failed to claim their joint residency on MSHDA tenant and housing assistance payment contract certifications. As a result, HUD realized a loss of \$90,000.



Compton Housing Authority (CHA) Section 8 tenants Christine Shena Baker and Joseph Christianlee Haywood were indicted or pled guilty in U.S. District Court, **Los Angeles, CA**. Baker was indicted for making false statements to a government agency and fraud and false statements involving HUD for allegedly failing to disclose her criminal history and status as a registered sex offender on annual CHA certifications. Haywood, previously convicted of rape, auto theft, and assault with a deadly

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LOCAL

## Residents charged with defrauding HUD

By **KELLY DEVINE**  
Times Herald Staff

PHILADELPHIA — Nine Norristown residents have been charged by the federal government with defrauding the housing voucher program.

United States Attorney Pat Meehan announced Tuesday that the nine individuals made false statements to the Montgomery County Housing Authority to receive more federally subsidized housing benefits than they were entitled to.

The false statements involve the Housing Choice Voucher Program, administered by the Department of Housing and Urban Development through local public housing authorities. The HCV Program provides federal assistance to low-income families who are renting housing.

Under federal regulations, the local housing authority determines if a family is eligible for federal assistance and the amount of such assistance based on several factors, including family size and total income of all family members residing in the home.

The false statements at issue are one or more of the following: the person failed to declare certain income; the person failed to declare the income of other family members; and the person falsely certified that certain dependents still lived at home, according to an official release from the U.S. Department of Justice.

As a result of the alleged fraud, the total loss to the HUD program was more than \$134,000.

"This program operates on the integrity of the information being provided," said Meehan in an official statement. "The participants are very well versed in the requirements and must make regular disclosures about their finances. In this case, the defendants simply lied to collect a bigger benefit. When that happens, the entire program and other low income families ultimately suffer."

The defendants each face steep penalties if convicted, in addition to restitution to the Housing Authority:

- Grace Anthony, 36, of the 1200 block of Astor Street, is facing up to 20 years imprisonment; \$750,000 fine; \$300 special assessment; three years supervised release.
- Cynthia Braxton, 37, of the 800 block of Swede Street, could face 25 years imprisonment; \$1 million fine; \$400 special assessment; three years supervised release.
- Joyce Burrell, 26, 200 Block of Strawbridge Street, could face 20 years imprisonment; \$750,000 fine; \$300 special assessment; three years supervised release.
- Candice Hill, 29, of the 300 block of East Penn Street, is facing 30 years imprisonment; \$1.25 million fine; \$500 special assessment; three years supervised release.
- Christine Hill, 35, also of the 300 block of East Penn Street, is also facing 30 years imprisonment; \$1.25 million fine; \$500 special assessment; three years supervised release.
- Willie Jones, 43, of East Spruce Street, could get up to five years imprisonment; \$250,000 fine; \$100 special assessment; three years supervised release.
- Teresa Pearson, 37, of the 700 block of Kohn Street, is looking at 25 years imprisonment; \$1 million fine; \$400 special assessment; three years supervised release.
- Theresa Peticca, 36, of the 500 block of George Street, is facing 25 years imprisonment; \$1 million fine; \$400 special assessment; three years supervised release.
- Patricia Wise, 29, of the 1400 block of Arch Street, could get five years imprisonment; \$250,000 fine; \$100 special assessment; three years supervised release.

These cases were investigated by the HUD Office of Inspector General and have been assigned to Assistant United States Attorneys Anita Eve, Paul Gray and Paul Shapiro.

◆ **Norristown**

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weapon, pled guilty to an information charging him with one count of theft of government funds for failing to disclose his prior criminal history on annual CHA certifications. Baker and Haywood obtained more than \$88,000 in CHA housing assistance payments they were not entitled to receive. CHA terminated both Baker and Haywood from its rental assistance program.



Jerome Massey, a Detroit Housing Commission (DHC) Section 8 landlord and previously convicted felon, was charged in Wayne County Circuit Court, **Highland Park, MI**, with numerous counts of receiving monies under false pretenses, tax evasion, identity theft, delivery/manufacture of marijuana, and under the Habitual Offender Act. Massey allegedly used his son's SSN and collected \$84,000 as a DHC landlord while occupying a DHC subsidized unit with a DHC Section 8 tenant. Massey was arrested after marijuana plants, harvested marijuana, and materials for a continued marijuana operation were found in the DHC unit.



Clifford Chambers, a Montgomery County Housing Opportunities Commission (MCHOC) Section 8 recipient, was sentenced in U.S. District Court, **Greenbelt, MD**, to 18 months incarceration and 3 years supervised release and ordered to pay MCHOC \$80,912 restitution for his earlier guilty plea to trafficking in counterfeit goods and theft of government property. From 2000 to June 2004, Chambers owned and operated a business selling counterfeit marked goods out of his MCHOC subsidized unit and failed to report the business income on annual MCHOC certifications. As a result, Chambers obtained \$80,912 in MCHOC housing assistance he was not entitled to receive.



David Murray-McCarthy, a former Metropolitan Boston Housing Partnership

(MBHP) Section 8 tenant, pled guilty in U.S. District Court, **Boston, MA**, to an information charging him with false statements and defrauding the Social Security Administration (SSA). Murray-McCarthy assumed a false identity to obtain an SSN, federal student loans, and employment, while using his true identity to obtain MBHP housing assistance and Social Security Disability Insurance benefits. As a result, HUD realized a loss of \$72,606.



Barbara Singleton, a Rochester Housing Authority (RHA) Section 8 tenant, and Larry Pradia, a RHA landlord, were each charged in a superseding indictment filed in U.S. District Court, **Rochester, NY**, with conspiracy to commit HUD fraud, false statements, theft of government funds, and bankruptcy fraud. Singleton and Pradia allegedly conspired to collect more than \$70,000 in RHA Section 8 housing assistance payments when Singleton certified that Pradia was her landlord and resided elsewhere on annual RHA certification and leasing documents. In addition, Pradia filed bankruptcy in November 2005 and allegedly failed to claim RHA Section 8 income or his residency with Singleton on bankruptcy documents.



Deonna Degraffenreid, a former City of Las Vegas Housing Authority (LVHA) Section 8 tenant, pled guilty in Clark County Justice Court, **Las Vegas, NV**, to one count of conspiracy to commit unlawful acts concerning food stamps. Degraffenreid failed to accurately report her household income and composition on LVHA and Nevada welfare certifications and obtained \$65,823 in LVHA housing assistance she was not entitled to receive.



Tyeshia Borela, a former San Francisco Housing Authority (SFHA) Section 8 tenant, pled guilty in U.S. District Court, **San Francisco, CA**, to one count of making false

statements. Borela was sentenced to 1 month incarceration and 3 years probation and ordered to pay HUD \$63,042 restitution. From 2002 to 2005, Borela sublet her \$2,000 monthly SFHA subsidized unit to others, underreported her income, and falsely claimed a daughter on SFHA certifications.



Eugenia Cooks, a former Norwalk Housing Authority (NHA) Section 8 recipient, was charged in an information filed in U.S. District Court, **Los Angeles, CA**, of making false statements. From 1994 to 2003, Cooks allegedly failed to report income on annual NHA certifications and obtained more than \$60,000 in NHA housing assistance she was not entitled to receive.



Jennifer Stevanovich, a former Andover Section 8 tenant, pled guilty in Essex County Superior Court, **Salem, MA**, to larceny over \$250 and criminal perjury. Stevanovich was sentenced to 1 year house arrest and 15 years probation and ordered to pay \$59,765 to Community Teamwork, Inc., a Section 8 contract administrator, and \$57,790 to the Commonwealth of Massachusetts. Stevanovich, previously convicted of selling stolen "Victoria's Secret" merchandise from her subsidized housing unit, deposited approximately \$280,000 into eight bank accounts while receiving \$59,765 in housing benefits and \$57,790 in welfare benefits she was not entitled to receive.



Carrie Bailey, a former Isle of Wight Department of Social Services (IOW) Section 8 tenant, and her daughter Melinda Bailey were indicted in Isle of Wight Circuit Court, **Smithfield, VA**, on numerous counts of conspiracy, making false statements, and obtaining money by false pretenses from HUD, SSA, and the Virginia Department of Social Services. Carrie and Melinda Bailey allegedly conducted a 15-year scheme to receive housing assistance, Social Security benefits, food stamps, Medicaid, and other

social service benefits by falsifying household composition and income. Total loss to the government is estimated at \$250,000, including \$53,000 in HUD-funded housing assistance payments.



Esther Arias, her mother Esther Percel, and Gladys Cabrera, former Revere Housing Authority (RHA), Boston Housing Authority (BHA), and/or Metropolitan Boston Housing Partnership (MBHP) Section 8 tenants, and Edwin Gonzalez were indicted in U.S. District Court, **Boston, MA**, on numerous counts of conspiracy, mail fraud, theft and receipt of stolen mail, bank fraud, identity theft, conspiracy to file false claims for refunds, false and fraudulent statements, and/or theft of government property involving HUD benefits. Arias, Percel, and Cabrera allegedly conspired to engage in an ongoing criminal enterprise, including stealing U.S. mail, using stolen identification data to open credit card and bank accounts, altering stolen checks to obtain bank funds, depositing stolen credit card checks into bank accounts, and using various identities to fraudulently obtain RHA, BHA, or MBHP Section 8 housing units within the greater Boston area. In addition, from February 1999 to April 2004, Arias, Percel, and Gonzalez allegedly caused the filing of more than 45 fraudulent federal income tax returns to unlawfully collect federal and state tax refunds. As a result, HUD's loss is estimated at \$51,916.



Nasir Javaid, a former San Francisco Housing Authority (SFHA) Section 8 landlord, and Nancy Kharsa, a former SFHA Section 8 tenant, were each sentenced in U.S. District Court, **San Francisco, CA**, for their earlier guilty pleas to making false statements to HUD. Javaid was sentenced to 2 years probation and ordered to pay HUD \$51,717 restitution; Kharsa was sentenced to 2 years probation and ordered to pay HUD \$1,822 restitution, jointly and severally with Javaid. From 1998 to 2002,



# Feds indict two for welfare housing fraud

LYNN

By DAVID LISCIO  
THE DAILY ITEM

The Justice Department has charged two women with stealing credit card and bank account numbers from the U.S. mail, filling out stolen courtesy checks to make fraudulent deposits, and using phony identification to obtain welfare housing in Lynn and Revere.

Esther Arias, 28, of Malden, and Gladys Cabrera, 31, of Brockton, were indicted Wednesday by a federal grand jury in Boston on multiple counts related to the thefts,

according to U.S. Attorney Michael J. Sullivan.

The 47-count indictment charged Arias with 19 counts of mail fraud, seven counts of theft and receipt of stolen mail, two counts of bank fraud, one count of identity theft, and three counts of theft of government property involving U.S. Housing and Urban Development (HUD) benefits.

Cabrera was charged with conspiracy, six counts of mail fraud, 10 counts of theft and receipt of stolen mail, one count of bank fraud, and one count of theft involving HUD benefits.

Court documents indicate the pair began the crime spree

in 2003 and continued through Jan. 10, 2004. The women allegedly "stole mail and used information contained within to obtain personal checks of people living in Lynn, which they altered and used to get cash and to make deposits to their bank accounts, as well as bank accounts opened under fictitious identities," according to U.S. Attorney's Office spokesman Samantha Martin.

The women were also indicted for obtaining credit cards by fraud and charging purchases to those cards in the names of other people and without their knowledge. Prosecutors further charged Arias with obtaining a

bank automobile loan by using someone else's identity and without their knowledge, and with using stolen checks and credit cards to make the loan payments, Martin said.

HUD joined the investigation after learning that Arias allegedly had obtained federal housing benefits for three apartments simultaneously under different identities, and that Cabrera had participated in the scam related to the third apartment, according to court documents.

Lynn Housing Authority and Neighborhood Development (LHAND), the local agency that oversees federal public housing

in the city, had no record of either defendant under their real names, according to Barbara Morrison, supervisor of the authority's fraud unit. The aliases allegedly used by the women to obtain HUD Section 8 welfare apartments were unavailable.

If convicted on the conspiracy, mail fraud and theft charges, the defendants face up to five years behind bars, followed by three years of supervised release, and a \$250,000 fine on each charge. Each count of theft of government property carries a maximum of 10 years' imprisonment, six-figure fines and additional supervision

upon release. The bank fraud charges can lead to a 30-year jail term and \$1 million in fines.

Arias is currently in federal custody pending trial under a separate indictment, charging her with conspiracy in a scheme to file bogus federal and state tax returns in the name of other people, according to Martin.

The U.S. Postal Inspection Service, HUD, the U.S. Internal Revenue Service, U.S. Immigration and Customs Enforcement and the Lynn Police Department investigated the case, related to housing fraud and mail theft in Lynn and Revere.

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Javaid and Kharsa defrauded HUD's Section 8 program by using SFHA and/or HUD multifamily housing assistance payments received by Javaid, Kharsa, and Javaid's mother to purchase two properties located in El Cerrito and San Francisco. As a result of their actions, HUD realized losses of \$51,717.



In U.S. District Court, **Boston, MA**, a \$435,798 civil judgment was issued against Delia Baez, a former Boston Housing Authority (BHA) public housing tenant, for obtaining housing assistance, welfare benefits, food stamps, and Medicaid through false claims and fraud. Baez failed to report her ownership of a restaurant known as "Mi Tierra" and a multifamily property on BHA certifications. As a result, HUD's loss is estimated at \$51,038.



Shaunda Boulware, Nikki Robinson, Rose Long, and Silvia and Carlos Delgado, San Diego Housing Commission (SDHC) Section 8 recipients, were charged in San Diego County Superior Court, **San Diego, CA**, with making false statements and grand theft. Boulware, Robinson, Long, and Silvia and Carlos Delgado allegedly failed to report income and/or employment and/or claimed nonresident dependents on

SDHC applications and obtained \$50,911 in SDHC housing assistance they were not entitled to receive.



Shaneen Edwards and Manila McCloud, City of Miami Department of Community Development (MDCD) Section 8 tenants, each pled guilty in U.S. District Court, **Miami, FL**, to theft of government funds and/or making false statements. McCloud was sentenced to 60 months supervised release and 100 hours community service and ordered to pay HUD \$22,695 restitution. Edwards and McCloud failed to report income on MDCD certifications and obtained \$48,140 in MDCD housing assistance they were not entitled to receive.



Cassandra Samuels, a Housing Authority of Kansas City (HAKC) Section 8 tenant and IRS employee, and Connie Wooten, a HAKC Section 8 recipient, current employee of USPS, and former employee of IRS, were charged in Jackson County District Court, **Kansas City, MO**, with stealing by deceit. Samuels and Wooten allegedly failed to report employment income on HAKC certifications and obtained \$47,630 in HAKC housing assistance they were not entitled to receive.





Angel Smith, also known as Angel King; Gloria Dixon; and Catrinia Parker, former Tampa Housing Authority (THA) Section 8 tenants, were each charged in informations filed in Hillsborough County Thirteenth Judicial Court, **Tampa, FL**, with fraud for allegedly failing to report all household occupants, employment, income, or other government benefits they received on THA certifications. In addition, Jeanette Camille, a former THA Section 8 tenant, entered into a pretrial diversion agreement (PTDA) with the U.S. Attorney's Office in Tampa, FL, admitting to theft of government funds. The PTDA placed Camille on 12 months supervisory probation and ordered her to perform 60 hours of community service and pay THA \$5,048 restitution for failing to report income on THA certifications. Barbara Mack, also a former THA Section 8 tenant, was sentenced in U.S. District Court, Tampa, FL, to 5 months incarceration, 5 months home detention, and 36 months probation and ordered to pay HUD \$23,455 and SSA \$38,333 restitution for her earlier guilty plea to theft of government funds. Mack acquired and used two SSNs to obtain THA housing assistance, SSA disability benefits, and a Federal Housing Administration (FHA)-insured mortgage and to file bankruptcy, then failed to report employment income she earned to THA or THA housing assistance and SSA disability benefits to the bankruptcy court. As a result, Smith, Dixon, Parker, Camille, and Mack obtained approximately \$47,465 in THA housing assistance they were not entitled to receive.



Johnnie Mae Brooks, a Greensboro Housing Authority (GHA) Housing Choice Voucher program participant, pled guilty in U.S. District Court, **Greensboro, NC**, to making false statements to HUD. Brooks failed to report income from two daycare businesses she owned and operated on GHA Housing Choice Voucher program certifications. In addition, Blondine Yvonne Wynn, a former GHA Housing Choice Voucher program participant, was indicted

on two counts of making false statements to HUD. From February 2002 to May 2005, Wynn allegedly failed to report employment or income, and claimed a nonresident daughter on annual GHA certifications. As a result, HUD's loss is estimated at \$47,000.



Patricia Laverne Bryant, a former Housing Authority of Pittsburg (HAP) Section 8 tenant, was charged in a complaint filed in Contra Costa County Superior Court, **Walnut Creek, CA**, with grand theft, welfare fraud, and perjury. Bryant allegedly failed to report income or the residency of her boyfriend on annual HAP certifications and obtained \$46,000 in HAP housing assistance she was not entitled to receive.



Ernest Stevenson, a Duluth Housing Redevelopment Authority (DRHA) Section 8 landlord, and Paula Petruk, also known as Paula Stevenson, a DRHA Section 8 tenant, were each sentenced in U.S. District Court, **Duluth, MN**, to 3 years probation and 150 hours of community service and ordered to pay HUD \$45,441 restitution, jointly and severally, for their earlier guilty pleas to conspiracy. Stevenson and Petruk failed to disclose joint bank accounts, ownership of additional real estate, or their dual occupancy in a DRHA Section 8 unit on DRHA certifications. As a result, HUD realized losses of \$45,441.



Jalenska Cheatham, a Murfreesboro Housing Authority (MHA) Section 8 tenant, was indicted in the U.S. District Court, **Nashville, TN**, for making charges of false statements to HUD and theft of government funds for allegedly failing to report employment income or ownership of her MHA subsidized unit on MHA certifications. In addition, Marshall Graves, a former MHA Section 8 tenant, pled guilty to making false statements to HUD for failing to report income on MHA certifications. As a result, Cheatham and

Graves obtained \$43,326 in MHA housing assistance they were not entitled to receive.



Amy McPherson and Delilah Property, Inc., also known as Delilah Property Services, Inc., entered into a \$254,774 civil settlement with the New Hampshire United States Attorney's Office, **Concord, NH**, as a result of McPherson's previous guilty plea to making false statements. The consent decree and order of payment was entered on behalf of HUD, the U.S. Department of Health and Human Services (HHS), the U.S. Department of Agriculture (USDA), SSA, and DOJ. McPherson paid \$100,000, and a lien securing a Delilah Properties, Inc., property located in Waltham, MA, for the remainder of the settlement order was recorded. McPherson, a former Exeter Housing Authority (EHA) Section 8 recipient, received EHA Section 8 housing assistance on a residence she occupied and owned under the corporate name of Delilah Properties, Inc. As a result, HUD realized a loss of \$38,765.



Mary Martin, a former Saint Petersburg Housing Authority (SPHA) Section 8 tenant, was sentenced in U.S. District Court, **Tampa, FL**, to 5 years probation with 6 months home detention and ordered to pay HUD \$36,997 restitution for her earlier guilty plea to theft of government funds. Lamesha Ware, Martin's daughter and former Pinellas County Housing Authority (PCHA) Section 8 tenant, was indicted on one count of making false statements and possession of false papers. Martin failed to report her husband's income and claimed her daughter Lamesha Ware as a resident of her SPHA unit while Ware received Section 8 housing assistance from PCHA. As a result, Martin obtained approximately \$36,997 in SPHA housing assistance benefits she was not entitled to receive and aided Ware in defrauding PCHA of \$16,900.



Regina Williams, a former Alexandria Redevelopment and Housing Authority (ARHA) Housing Choice Voucher program recipient, pled guilty in U.S. District Court, **Alexandria, VA**, to an information charging her with making false statements. From 1996 through 2004, Williams, a Department of Defense (DoD) employee, falsified her income on annual ARHA certifications and misused the DoD seal on letterhead letter that she submitted. As a result, Williams obtained \$36,237 in ARHA housing assistance she was not entitled to receive, and ARHA terminated Williams from its rental assistance program.



Dena Battles, a former Clark County Housing Authority (CCHA) Section 8 recipient, and her mother Sandra Kay Battles, a CCHA landlord, were each sentenced in U.S. District Court, **Las Vegas, NV**, for their earlier guilty pleas to defrauding HUD and/or aiding and abetting. Dena Battles was sentenced to 6 months home confinement, 3 years probation, and 200 hours of community service; Sandra Kay Battles was sentenced to 6 months home confinement with electronic monitoring, 3 years probation, and 100 hours of community service. In addition, Dena and Sandra Battles entered into a settlement agreement pledging to repay CCHA \$36,201. From May 2002 through October 2005, Dena Battles failed to report her mother's ownership of her CCHA subsidized residence and claimed her out-of-state son as a resident on CCHA certifications. As a result of their actions, HUD realized a loss of \$36,201.



Robert Askew III, a former Oakland Housing Authority (OHA) Section 8 tenant, pled guilty in U.S. District Court, **Oakland, CA**, to one count of mail fraud. From 1998 to 2003, Askew III failed to report his employment income or ownership of two houses on OHA annual certifications. Under a plea agreement with the U. S. Attorney's

Office, Askew III agreed to pay HUD, SSA, and HHS \$140,380 restitution for housing and other social benefits he obtained but was not entitled to receive. HUD's loss is estimated at \$35,584.



Darlynn Cooper, a former Santa Monica Housing Authority (SMHA) Section 8 recipient, was charged in Superior Court, **Santa Monica, CA**, with grand theft and filing a false/forged instrument. From July 2005 to March 2006, Cooper allegedly failed to disclose income she earned on SMHA certifications and obtained \$34,493 in SMHA housing assistance she was not entitled to receive. SMHA terminated Cooper from its rental assistance program.



Diane McGuinness, a former Salem Housing Authority (SHA) Section 8 tenant, was found guilty in Salem District Court, **Salem MA**, on one count of larceny over \$250 and one count of uttering a false statement under oath. McGuinness was sentenced to 5 years probation, ordered to refrain from accepting federal and/or state funded housing subsidies during her probation, and directed to pay a \$1,000 fine. McGuinness failed to report the joint tenancy or income of her boyfriend on SHA certifications and obtained \$27,544 in SHA housing assistance she was not entitled to receive.



Prince Fianko, a Carroll County Housing Authority (CCHA) landlord, and his wife Rosemary Sekyere, a CCHA Housing Choice Voucher program recipient, were each charged in Carroll County Circuit Court, **Carroll County, MD**, with theft, msking false statements to a housing authority, and common law conspiracy. From May 2004 to January 2006, Fianko, allegedly using an alias, hid his ownership and residence in a CCHA unit leased to his wife. As a result, Fianko and Sekyere obtained about \$26,000 in CCHA housing

assistance they were not entitled to receive. CCHA removed Fianko and Sekyere from its rental assistance program.



Sonciera Dejarnette Bomar-Royal, a former Housing Authority of the City of Napa (HACN) Housing Choice Voucher program participant, was charged in Napa County Superior Court, **Napa, CA**, with perjury by false affirmation for aid, aid by misrepresentation over \$400, and grand theft of personal property. Bomar-Royal allegedly claimed her nonresident son on HACN certifications and obtained \$25,020 in HACN housing assistance she was not entitled to receive.



Elaine Bradfordt, also known as Robeana Ware, a Cuyahoga Metropolitan Housing Authority (CMHA) Section 8 landlord, and her son Samuel Dickerson, the former managing agent of Housing Choice Voucher program Properties, were indicted in U.S. District Court, **Cleveland, OH**, on numerous counts of theft of government funds, making false statements to SSA, and msking false statements to HUD. Bradfordt and Dickerson allegedly used a fictitious name and SSN to obtain SSA and HUD Section 8 benefits. In addition, Tonja Williams, also known as Latonya McKinley, also a former CMHA Section 8 landlord, pled guilty to misuse of an SSN, msaking false statements to HUD, mail fraud, and bank fraud. Williams used aliases and a false SSN to acquire credit cards, bank accounts, and an FHA-insured mortgage on property she leased to CMHA for a Section 8-eligible family member but used the CMHA subsidized property as her personal residence. As a result, HUD and SSA realized losses of \$25,000 and \$100,000, respectively.



Carlos Riosvalle, a former Portland Housing Authority (PHA) Section 8 tenant, was charged in Multnomah County Superior Court, **Portland, OR**, with numerous counts



of theft and attempted aggravated theft. From 1992 to 2005, Riosvalle allegedly failed to report his prior sex offense conviction on annual PHA certifications and obtained \$25,000 in PHA housing assistance he was not entitled to receive.



Dorothy Hansen, a former Vermont State Housing Authority (VSHA) Section 8 tenant, pled guilty in U.S. District Court, **Burlington, VT**, to an information charging her with making false statements and theft of government funds. Hansen failed to report employment income on VSHA certifications and obtained \$24,552 in VSHA housing assistance benefits she was not entitled to receive. VSHA terminated Hansen from its rental assistance program.



Raquel Bonifacio, a former Broward County Housing Authority (BCHA) Section 8 tenant, was indicted in U.S. District Court, **Miami, FL**, on theft of government funds and making false statements to HUD. From January 2003 through December 2005, Bonifacio, a support services technician for the Federal Bureau of Investigation (FBI), allegedly failed to report her FBI employment or income on BCHA certifications and obtained \$24,320 in BCHA housing assistance she was not entitled to receive.



Brothers Brian and Robert Booker, purported Cook County Housing Authority (CCHA) Section 8 tenant and landlord, were

indicted in Cook County Circuit Court, **Chicago, IL**, on various counts of theft and benefits fraud. Brian Booker allegedly fabricated a fictional landlord to accept CCHA housing assistance payments for a property he owned and occupied. Robert Booker allegedly used his name as a straw CCHA Section 8 tenant, never resided in the CCHA subsidized unit, and signed annual CCHA certifications allowing Brian Booker to obtain \$24,000 in CCHA housing assistance payments he was not entitled to receive.



Latisia Upshaw, a former Knoxville Community Development Corporation (KCDC) public housing tenant, was indicted in Knox County State Court, **Knoxville, TN**, for unlawfully and intentionally obtaining public housing, utility, and other services valued at \$10,000 or more. Upshaw allegedly failed to report household income on KCDC annual certifications. As a result, Upshaw allegedly obtained \$22,671 in KCDC housing assistance she was not entitled to receive.



Shelly Duffina, a former New Hampshire Housing Finance Authority (NHHFA) Section 8 tenant, and Bruce McLaughlin, an unauthorized tenant residing with Duffina, were indicted in Hillsborough County Court, **Nashua, NH**. Duffina was charged with theft by deception, and McLaughlin was charged with criminal liability for the conduct of another; theft by deception. Duffina

## FBI worker accused of housing fraud

Davie woman charged with obtaining federal subsidies

BY VANESSA BLUM  
STAFF WRITER

Prosecutors say Raquel Bonifacio of Davie received valuable housing subsidies from the federal government for three years by lying about her income.

That she may have gotten

away with it until recently is particularly surprising given her place of employment—the FBI. Bonifacio, 29, was arrested Tuesday on charges she stole money from taxpayers by collecting almost \$25,000 in Section 8 housing assistance that she was not entitled to receive.

Bonifacio, who earned between \$40,000 and \$50,000 in 2005 as an administrative assistant, did not report her job at the FBI nor her full income when she applied for Section 8 assistance through the Broward County Housing Authority, the indictment states.

Before the housing authority discovered her true employment and cut off her payments, Bonifacio received from \$430 to \$794 a month in aid for three

years, authorities said.

The FBI suspended Bonifacio without pay and revoked her top-secret security clearance as a result of the criminal charges, FBI spokeswoman Judith Orihuela said.

Bonifacio has worked for the FBI for approximately three years. When she applied for Section 8 assistance, Bonifacio stated that she worked at the Davie preschool attended by one of her two children, said

Broward housing authority inspector James Vigliotti.

Vigliotti said Bonifacio's landlord tipped off the agency to the potential fraud after a dispute with her.

Section 8 subsidies are funded by the Department of Housing and Urban Development and distributed through local agencies. The program provides partial rent payments on behalf of low-income families, senior citizens and disabled or

handicapped individuals.

Gay Georgevich, Section 8 director for the Broward housing authority, said it dispersed \$46 million in Section 8 funds to 5,500 families in the year that ended Sept. 30, 2005. The agency currently has 1,400 individuals on its waiting list.

Fraud and administrative errors in the Section 8 program cost taxpayers roughly \$1.2 billion in 2005, according to a HUD report.

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allegedly failed to report McLaughlin's residency and income on NHHFA certifications and obtained an estimated \$21,000 in NHHFA housing assistance she was not entitled to receive.



Sharon Smith, a former Elizabeth Housing Authority (EHA) Section 8 tenant and Superior Court Judicial Clerk in Union, NJ, was sentenced in U. S. District Court, **Newark, NJ**, to 2 years probation and ordered to pay HUD \$20,714 restitution for her earlier guilty plea to theft of government funds. From January 2002 to September 2005, Smith caused fraudulent employment verification forms to be submitted to EHA and obtained \$20,714 in EHA housing assistance she was not entitled to receive.



Toria Woods, a former Inglewood Housing Authority (IHA) Section 8 tenant, was convicted in Los Angeles County Superior Court, **Beverly Hills, CA**, on two counts of filing a false/forged instrument and one count of grand theft. Woods was sentenced to 2 years in prison and ordered to pay IHA \$20,612 restitution. Woods, a participant in an interstate identity theft ring, failed to report income she received from the criminal activity on annual IHA housing certifications. IHA terminated Woods from its Section 8 program.



James Bell, owner of The Thomas Clinic in Clayton, MO, pled guilty to an information filed in U.S. District Court, **St. Louis, MO**, charging him with making false statements. From 1999 to 2004, Bell failed to disclose income or his business ownership to numerous agencies, including St. Louis Missouri Housing Authority (SLMHA) and SSA. As a result, Bell obtained about \$753,810 in SSA disability, Medicaid, food stamps, and SLMHA housing assistance benefits he was not entitled to receive. HUD's loss is estimated at \$20,590.



Kenneth R. Christenot, a Billings Housing Authority (BHA) Section 8 landlord, and Ramona Lee Emmett, a BHA Section 8 tenant, were both found guilty in U.S. District Court, **Billings, MT**, of making false statements and theft of federal funds. Emmett claimed absent children as occupants, and failed to declare property ownership or the residency of Christenot on BHA certifications; Christenot failed to claim his residency with Emmett on BHA documents. As a result, HUD realized losses of \$19,382.



Linda Virginia McClain, a former Housing Authority of the City of San Buenaventura (HACSB) public housing recipient, was found guilty in Ventura County Superior Court, **Ventura, CA**, of grand theft. McClain failed to report rental income she received on HACSB certifications and obtained \$19,170 in HACSB housing benefits she was not entitled to receive.



Gabriela Garcia, a Homestead Housing Authority (HHA) Housing Choice Voucher program participant, pled guilty in U.S. District Court, **Miami, FL**, to theft of government funds and making false statements. Garcia was sentenced to 60 months supervised release and 50 hours community service and ordered to pay HUD \$18,622 restitution. Garcia concealed the existence, residency, and income of her spouse on HHA certifications and obtained \$18,622 in HHA housing assistance she was not entitled to receive.



Adam Doyle, an Omaha Housing Authority (OHA) Section 8 landlord, pled no contest in Douglas County District Court, **Omaha, NE**, to earlier charges of theft by deceit. Doyle resided with an OHA tenant at his OHA Section 8 leased property. As a result, HUD realized a loss estimated at \$18,000.



Angelina Lyles, a former DuPage Housing Authority (DPHA) Section 8 tenant, was sentenced in U.S. District Court, **Chicago, IL**, to 3 months incarceration, 3 months home confinement, and 3 years supervised release and ordered to pay HUD \$17,901 restitution for her previous conviction for providing false income and family composition statements to DPHA. In addition, Lyles and her landlord/brother-in-law Lance Phillips were named in a four-count civil complaint under the False Claims Act for allegedly failing to disclose their relationship on DPHA payment contracts.



Kimberly Madrigal, a former Central Oregon Regional Housing Authority (CORHA) Section 8 tenant, was convicted in Deschutes County Superior Court, **Bend, OR**, on one count of theft by deception. Madrigal was sentenced to 36 months probation, and ordered to pay CORHA \$17,071 restitution. Madrigal failed to report Social Security benefits she received on behalf of her dependent children on annual CORHA certifications.



Rita Mae Hodge, also known as Patricia Jackson, pled guilty in U.S. District Court, **Columbus, OH**, to making false statements and SSA fraud. Hodge used a fictitious name and SSN to simultaneously obtain Columbus Metro Housing Authority (CMHA) Section 8 tenant housing assistance payments, CMHA Section 8 landlord payments on four CMHA subsidized units, and SSA benefits. As a result, HUD and SSA realized losses of \$17,000 and \$96,000, respectively.



Catherine Rouse Herrin, an Aiken Housing Authority (AHA) Section 8 tenant, and Elmira Whatley, an AHA Section 8 and Augusta Housing Authority (AGHA) public housing tenant, were indicted in U.S. District Court, **Augusta, GA**, for making false statements to HUD. Herrin allegedly failed

to report household income on annual AHA certifications, and Whatley allegedly failed to report to AHA that she received public housing assistance from AGHA. As a result, Herrin and Whatley allegedly obtained \$16,813 in AHA housing assistance they were not entitled to receive.



Janet Buckner, a St. Louis County Housing Authority (SLCHA) Section 8 recipient and USDA employee, was indicted in U.S. District Court, **St. Louis, MO**, on eight counts of making false statements to HUD, USDA, and SSA. Buckner allegedly failed to report income and obtained more than \$16,000 in SLCHA housing assistance and \$109,000 in USDA and SSA benefits she was not entitled to receive.



Monique Murrell, a former Johnson County Human Services and Aging Section 8 recipient, was charged in Johnson County District Court, **Leawood, KS**, with one count of theft and three counts of making false writings. From September 2003 to May 2006, Murrell allegedly failed to disclose her employment and/or income on federal housing certifications. As a result, HUD realized a loss of \$16,170.



Theresa Gray, a former Portland Housing Authority (PHA) Section 8 tenant, was sentenced in Cumberland County Superior Court, **Portland, ME**, to 14 days incarceration and ordered to participate in a diversion and rehabilitative program and pay PHA \$5,000 restitution for her earlier guilty plea to theft by unlawful taking or transfer. From July 2001 through December 2004, Gray failed to report employment income on PHA certifications and obtained \$16,000 in PHA housing assistance she was not entitled to receive. PHA terminated Gray from its rental assistance program.



Joanne Mallett, a former Massachusetts Department of Housing and Community Development (MADHCD) Section 8 landlord, pled guilty in Winchendon District Court, **Winchendon, MA**, to larceny over \$250 by false pretense. Mallett was sentenced to 36 months probation and ordered to pay RCAP, Inc., a MADHCD Section 8 contract administrator, \$14,532 restitution. From May 2001 through October 2003, Mallett leased a MADHCD Section 8 unit to her sister and falsely certified that she was not related to her. As a result, Mallett obtained \$14,532 in MADHCD housing assistance contract payments she was not entitled to receive.



Kamilah Rainey, a former Lakeland Housing Authority (LHA) Section 8 tenant, pled guilty in Tenth Judicial Circuit Court, **Bartow, FL**, to public assistance fraud for failing to disclose earned income on LHA annual certifications. Rainey was sentenced to 5 years probation and ordered to pay LHA \$11,460 restitution.



Sherry White, a Fairfield Housing Authority (FHA) Housing Choice Voucher program participant, and Arthur White, an FHA landlord, were each indicted in U.S. District Court, **Fairfield, AL**, on theft of HUD funds. From May 2003 to May 2004, Sherry and Arthur White allegedly provided false documentation and failed to report their father/daughter relationship to FHA. As a result, Sherry White allegedly obtained \$9,876 in FHA housing assistance she was not entitled to receive.



Antonia Medina, a South Gate Housing Authority (SGHA) Section 8 recipient, was charged in Los Angeles County Superior Court, **Downey, CA**, with obtaining money by false pretenses. Medina allegedly failed to disclose the unauthorized tenancy of her daughter or notify SGHA of her relocation and residency in Chula Vista, CA. As a

result, Medina allegedly obtained more than \$9,000 in SGHA housing assistance payments she was not entitled to receive.



Gerard Hernandez, a Goodhue County Housing Authority (GCHA) landlord, and Robin Denise Gard, also known as Denise Hernandez, a GCHA Section 8 tenant, were charged in a criminal complaint filed in Goodhue County Court, **Goodhue County, MN**, with three counts of felony theft by swindle. Hernandez and Gard allegedly created fictitious documents, claiming that Hernandez owned property and leased the property to GCHA Section 8 tenant Gard. Hernandez allegedly rented the property from a market rent landlord and then jointly occupied the unit as husband and wife with Gard. HUD's loss is estimated at \$8,000.



Yadiris Dela Rosa, a former Maine State Housing Authority (MSHA) Section 8 tenant, pled guilty in Skowhegan District Court, **Skowhegan, ME**, to theft by deception. Dela Rosa was sentenced to serve 364 days in prison (9 months and 1 day suspended) and 2 years probation and ordered to pay PropSys, an MSHA Section 8 contractor administrator, \$7,520 restitution. From July 2004 to October 2005, Dela Rosa lived in Massachusetts and New York while receiving MSHA housing assistance in Skowhegan, ME. As a result, Dela Rosa obtained \$7,520 in housing assistance she was not entitled to receive.



Abel Vilcapoma, a former Worcester Housing Authority (WHA) Section 8 landlord, pled guilty in Worcester District Court, **Worcester, MA**, to making false claims to a government agency and conspiracy. Vilcapoma was sentenced to 6 months probation and ordered to pay the court \$376; Vilcapoma previously agreed to repay WHA \$6,320. Vilcapoma, the owner of rental property leased to a WHA Section 8 tenant, sold the property and conspired

with the new owner to continue collecting housing assistance contract payments from WHA. As a result, Vilcapoma obtained \$7,070 in WHA housing assistance contract payments he was not entitled to receive.



Diane Schauman, a former City of Mesa (CM) Housing Choice Voucher program participant, was indicted in Maricopa County Superior Court, **Phoenix, AZ**, for theft. Schauman allegedly failed to report wages from full-time employment on CM certifications and obtained more than \$7,000 in CM housing assistance she was not entitled to receive. CM terminated Schauman from its rental assistance program.



Norlene Smith, a former Eustis Housing Authority (EHA) public housing tenant, was arrested after an information was filed in Lake County Fifth Judicial Circuit Court, **Lake County, FL**, charging her with one count of public assistance fraud. From August 2004 to June 2005, Smith allegedly failed to disclose true household income on EHA annual certifications and obtained \$5,172 in housing assistance she was not entitled to receive.



Dean P. Proffitt, Orbin Dale May, Ernest A. White, Howard E. Schneider, Osamn Abdulluhl, Elias Mohamed, Ahmed Muhidin Sharif, Hiram Chebar Olover, Abdulfatah Osman Farah, Adil Majlovic, Merud Kajtazovic, Abdirizak Abdi Mohamed, Abdiwahab Mohamud Mohamed, Yusuf Kalmole, and Samir Hasanovic were arrested after their indictments in U.S. District Court, **Kansas City, MO**, on conspiracy to commit fraud in obtaining commercial drivers' licenses through the state of Missouri. The above defendants allegedly participated in a food stamp and Section 8 housing assistance fraud scheme by obtaining cash for their food stamp cards and failing to disclose employment, income, or business

ownership on housing assistance applications.

## *Fugitive Felon Initiatives*

Section 903 of Public Law 104-193 is entitled "Elimination of Housing Assistance with Respect to Fugitive Felons and Probation and Parole Violators." Signed into law in 1996, it allows for an immediate tenancy termination of public housing tenants who flee to avoid prosecution or confinement after conviction of a felony or when felons violate parole or probation conditions imposed under federal or state laws. This law also authorizes law enforcement agencies to exchange information and perform data matches.

HUD assists approximately 4.8 million households through public housing and rental assistance including Section 8 and Housing Choice Voucher programs. Reducing overpaid rent subsidies is one of HUD's management improvement goals as stated in the President's Management Agenda, as well as an OIG goal as stated in our strategic plan. The identification and termination of fugitive felons fleeing felony prosecution or probation and parole violators, may impact HUD's housing assistance subsidies.

The Office of Investigation (OI) continues to increase Fugitive Felon Initiatives (FFI) by matching HUD housing assistance information with crime data from the National Crime Information Center, U.S. Marshals Service (USMS), and/or participating states. Since the inception of OI's FFI, hundreds of cases have been opened and closed, resulting in more than 5,600 arrests. In addition, OI provides tenant records matching USMS wanted persons lists and participates in "Operation FALCON," a USMS operation designed to apprehend fugitive felons living in public and assisted housing.



# 1,102 Sex Offenders Rounded Up in 27-State Dragnet

Associated Press

More than 1,100 people wanted in connection with violent sex crimes were among 9,037 fugitives arrested in a weeklong roundup, top law enforcement officials said yesterday.

The arrests were made as part of "Operation Falcon II," a 27-state dragnet led by the U.S. Marshals Service and timed to coincide with National Crime Victims' Rights Week.

This year's focus was on sex offenders, a group that Attorney General Alberto R. Gonzales has made a priority. The operation "targeted the worst of the worst," Gonzales

said at the Justice Department.

During the week of April 17 to 23, federal, state and local authorities arrested 1,102 people wanted for violent sex crimes or for failing to register as a sex offender after a prior conviction for sexual assault.

It was the largest number of sex offenders ever captured in a single law enforcement operation, the department said. The arrests were made mainly in states west of the Mississippi River, as well as in Guam and the Northern Mariana Islands.

Among those caught was William Wisham, who failed to register as a sex offender when he moved to a motel in Victorville, Calif., author-

ities said. Investigators found letters to children, notes explaining why he enjoys sex with children, child pornography, candy and methamphetamines, authorities said. Police are working to locate children listed in Wisham's diary-style notes.

In Oahu, Hawaii, police arrested Herbert Damwijk, who is wanted in Washington state on two counts of child rape and molestations of 8-year-old girls, the department said. He was arrested April 17 at his father's residence and awaits extradition to Washington.

The Marshals Service spent \$531,000 on the weeklong exercise, most of it to pay overtime to local and state police, said David Dim-

mitt, chief deputy U.S. marshal. More than 2,100 officers from 786 federal, state and local law enforcement agencies took part. A second phase, targeting the eastern United States, will be launched in the coming months, Gonzales said.

Last year's operation rounded up more than 10,000 fugitives, 10 times the weekly average, but just 1 percent of the 1 million fugitives in the FBI's national database. Marshals Service Director John F. Clark said there are a "few million fugitives" in the United States, most of them wanted on state and local charges.

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Operation **FALCON** (Federal and Local Cops Organized Nationally), a nationwide fugitive felon apprehension operation coordinated by USMS, combines federal, state, city, and county law enforcement resources in a joint effort to locate and apprehend criminals wanted for violent crimes. Conducted in most major cities throughout the United States and its territories, Operation **FALCON** places a strong emphasis on violent crimes involving gangs, weapons, homicides, and sexual assaults, along with crimes against children and the elderly. HUD OIG strongly supports Operation **FALCON** in an effort to make HUD-assisted housing a safe place for families to live.

HUD OIG participated in "Operation **FALCON II**," a USMS action initiated to identify, locate, and apprehend violent fugitives, particularly those charged with sex crimes. As a result, 3,647 individuals were arrested on outstanding felony warrants in **East St. Louis, IL**, and **St. Louis, MO**; **Kansas City metropolitan area**; **Colorado**; **Utah**; **Montana**; **Los Angeles, San Francisco, Richmond, Salinas, San Jose, Sacramento, and Marysville, CA**; **Phoenix, AZ**; **Las Vegas, NV**; **Houston, Dallas, Fort Worth, and San Antonio, TX**; **Oklahoma City, OK**; **Chicago, IL**; and **Minneapolis, MN metropolitan areas**. HUD OIG arrested 719 individuals; 172 of

those arrested resided in HUD-assisted housing.



The Dallas Fort Worth Fugitive Apprehension Strike Team, representing law enforcement personnel from USMS; the U.S. Department of Veterans Affairs (VA) OIG; SSA OIG; the Texas Department of Public Safety Rangers and Criminal Intelligence Divisions; the Dallas, Fort Worth, Commerce, and Greenville Police Departments; the Dallas County, Tarrant County, Hunt County, and Johnson County Sheriff's Departments; and HUD OIG arrested 66 individuals on outstanding warrants at Turner Courts and Rhoads Terrace, Dallas Housing Authority public housing units in **Dallas, TX**, and numerous HUD-assisted units located in southeast **Fort Worth, TX**, on various charges including murder, attempted murder, possession of controlled substances, sexual assault, aggravated sexual assault, child endangerment, and/or robbery. Thirty-nine of the subjects arrested received HUD housing assistance, and 41 individuals were referred for termination from HUD's rental assistance program.



As part of a national FFI involving law enforcement personnel from USMS; the Bureau of Alcohol, Tobacco, Firearms, and

Explosives (ATFE); Immigration and Customs Enforcement (ICE); the FBI; the Hartford Police Department Vice, Narcotics, and Intelligence Divisions; the Waterbury Police Department; the State of Connecticut Adult Probation and Parole Departments; the Connecticut State Police; and HUD OIG, 47 individuals were arrested in **Hartford, CT**, and 33 individuals were arrested in **Waterbury, CT**, on various charges including possession of narcotics with intent to distribute, illegal possession of narcotics in a school zone, sexual assault, forgery, robbery, burglary, assault, assault of a police officer, escape of custody, grand larceny, and/or probation violations.



HUD OIG's Newark field office participated in a USMS FFI in Hoboken Housing Authority (HHA) housing developments located on Jackson Street, Harrison Street, and Marshall Drive in **Hoboken, NJ**. The USMS operation focused on the cooperative efforts of law enforcement and HHA to dismantle a suspected drug distribution ring and arrest/evict fugitive felons from HHA housing projects. During the initiative, 34 individuals were arrested on outstanding warrants for sex crimes; assaults; and narcotics, parole, child support, and/or traffic violations. In addition, a heroin and cocaine distribution ring was dismantled.



U.S. Attorney Kenneth L. Wainstein announced the indictments and/or arrests of 24 individuals on numerous charges including unlawful distribution of a controlled substance, conspiracy, possession of firearms without a license, and/or unlawful possession of ammunition after a 5-month District of Columbia (DC) Public Housing Safety Initiative (PHSI) operation at Woodland Terrace Apartments, a DC Housing Authority (DCHA) housing development in **Washington, DC**. During this operation, the DC PHSI task force, consisting of law enforcement personnel from the DC Metropolitan Police, DCHA Police, and HUD OIG, seized illegal drugs, including PCP, cocaine, marijuana, and ecstasy, along with two vehicles and firearms. As a result, DCHA initiated three eviction proceedings against resident violators arrested.



In **Worcester, MA**, 21 individuals, including five Worcester Housing Authority (WHA) Section 8 and/or public housing tenants, were arrested at a WHA public housing development on outstanding warrants. The arrests resulted from a Worcester Police Department "ruse," which lured the subjects, believing they were to receive cash from the State of Massachusetts, Massachusetts Department of Transitional Adjustment, to the WHA public housing site.



## Police sting nets 21 on warrants

By Scott J. Croteau  
TELEGRAM & GAZETTE STAFF

### Fake 'official' voucher promised instant cash payout

**WORCESTER** — Twenty-one people were hoodwinked Tuesday when they showed up to collect what they thought was cash from a class action lawsuit, but instead were arrested by local authorities on outstanding warrants.

Roughly 200 letters were sent

out to people with outstanding warrants that said they all had been awarded cash from a class action settlement involving the state and another organization.

The bottom of the letters had a voucher with different cash amounts, for example: \$350.24. To collect the cash, the letter re-

ipients had to bring the voucher to 425 Pleasant St. on Tuesday, between 9 a.m. and 5 p.m.

"In the class action suit of the Commonwealth of Massachusetts vs. Barrette, the people living in Class 3 urban communities receiving government as-

sistance had Federal funds withheld from them inequitably," the letter states. "Please find the attached voucher that is to be redeemed at these satellite locations listed below."

The letter recipients were

Turn to **Vouchers/Back Page**

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The Philadelphia PHSI task force, consisting of law enforcement personnel from ATFE, the Drug Enforcement Agency (DEA), USMS, the Philadelphia District Attorney’s Office, the Philadelphia Police Department, Philadelphia Housing Authority (PHA) Police, the Eastern District of Pennsylvania U.S. Attorney’s Office, and HUD OIG arrested six individuals on outstanding warrants for possession of crack cocaine, producing and distributing marijuana, and/or driving under the influence (DUI) violations in or near Paschall housing development, a PHA subsidized housing complex in **Philadelphia, PA**. In addition, two subjects living next to PHA Section 8 program participants were arrested for constructing and operating a marijuana “grow house,” complete with an elaborate tube ventilation system, lighting, and drying production facilities, and supplying the controlled substance to individuals around Paschall housing units. As a result of this operation, one PHA resident was arrested.



Sheila L. Williams, Sebrina D. Long, Sarah L. Brooks, and Andrea Holmes, Greensboro Housing Authority (GHA) and/or Housing Authority of Winston-Salem (HAWS) Section 8 or public housing tenants, were arrested at their GHA/HAWS subsidized units in **Greensboro and Winston-Salem, NC**, for probation violations relating to their earlier convictions on embezzlement, assault with a deadly weapon, and narcotics violations. GHA and HAWS terminated Williams, Long, and Brooks from their rental assistance programs.



Julio Pizzaro, a previously convicted sex offender and resident of a New York City Housing Authority (NYCHA) Section 8 unit, was arrested on an outstanding warrant for parole violations by the New York/New Jersey Regional Fugitive Task Force (NY/NJ RFTF) in **New York, NY**.



Danilo Rico, a former East Hartford Housing Authority (EHHA) Section 8 tenant, pled guilty in U.S. District Court, **Hartford, CT**, to one count of possession of a firearm by a convicted felon. Rico was in possession of a 9 millimeter handgun seized during execution of a federal search warrant at his EHHA Section 8 unit. EHHA terminated Rico from its rental assistance program.

### *Other Fraud/Crimes*

Kevin Timochenko, a Reading City Housing Authority (RCHA) landlord and owner of Metropolitan Management Corporation, was charged in an information filed in U.S. District Court, **Reading, PA**, with one count of theft from an interstate pipeline. Timochenko, representing that he paid tenant utilities in his RCHA housing assistance payment contract, allegedly directed his maintenance staff to install bypass devices on utility meters and pilfered natural gas valued at approximately \$1 million from UGI Utilities, Inc.



Michael Ciarcia, owner of Ciarcia Construction, LLC, was sentenced in U.S. District Court, **Hartford, CT**, to two concurrent 13-month prison sentences and two concurrent 2-year probation terms for his earlier conviction on money laundering and conspiracy to commit money laundering charges. Ciarcia, a rehabilitation contractor with the Housing Authority of the City of New Britain (HANB), certified a ghost employee, previously indicted Luis Santiago, on HANB certifications to facilitate laundering Santiago’s illicit drug sales proceeds through Ciarcia Construction, LLC’s payroll.



Billy Nsubuga, a former Malden Massachusetts Housing Authority (MMHA) Section 8 tenant, was sentenced in U.S. District Court, **Boston, MA**, to 13 months incarceration and 36 months supervised



# Money Launderer Sentenced

## Courant Staff Reports

NEW BRITAIN — A former New Britain contractor convicted of helping a drug dealer launder drug profits was sentenced

## CONNECTICUT

Friday to 13 months in prison followed by two years of supervised release, officials said.

A jury convicted Michael Ciarcia, 42, the former owner of Ciarcia Construction LLC, in 2005 of money laundering and conspiracy to commit money laundering. His sentencing was continued several times because

of various motions Ciarcia filed after the verdict.

His co-defendant, Luis Santiago, pleaded guilty in 2004 to one charge of conspiracy to launder money and was eventually sentenced to 33 months in prison. At the time, he was already serving a nine-year term in federal prison after pleading guilty in 2003 to conspiracy to distribute cocaine.

"Money laundering is a very serious crime in that its commission allows drug dealers to conceal the proceeds of their unlawful activities," said U.S. Attorney Kevin J. O'Connor.

The New Britain Housing Authority hired Ciarcia Con-

struction to rehabilitate residential units in the Pinnacle Heights housing complex. According to evidence presented during Ciarcia's trial last year, Ciarcia laundered the drug money by pretending Santiago worked on the project.

Santiago gave Ciarcia \$31,000 in drug profits and Ciarcia gave it back to him in weekly employee paychecks. Ciarcia Construction certified to the New Britain Housing Authority that Santiago worked 40 hours in December 2001 on the project. But Santiago did not work for the company to earn the money.

Santiago is in federal prison in Pennsylvania.

*"Money Launderer Sentenced" by Courant Staff Reports, published 7/6/06:  
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release and ordered to pay two financial institutions \$107,401 restitution and is also subject to deportation for her previous guilty plea to numerous counts of bank fraud, mail fraud, identity theft, and identity document fraud. Nsubuga opened bank accounts in Massachusetts, New York, and Connecticut with cash deposits in the names of others, using altered passports from Uganda, The Republic of Congo, and South Africa, along with bogus identification documents from California. Nsubuga received more than \$100,000, which was not reported to MMHA,

before her detection by New York and Connecticut banks.



Samuel Lewis, a former Worcester Housing Authority (WHA) public housing tenant, was convicted in U.S. District Court, **Worcester, MA**, on 15 counts of making false statements to procure firearms. Lewis provided a false address on documents he used to purchase firearms while residing in a WHA public housing unit.









## **Chapter 4**

# **HUD's Multifamily Housing Programs**

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

## Audits

During this period, the Office of Inspector General (OIG) issued eight external reports in the multifamily housing program area. These reports disclosed almost \$4.9 million in questioned costs and almost \$5.3 million in recommendations that funds be put to better use.

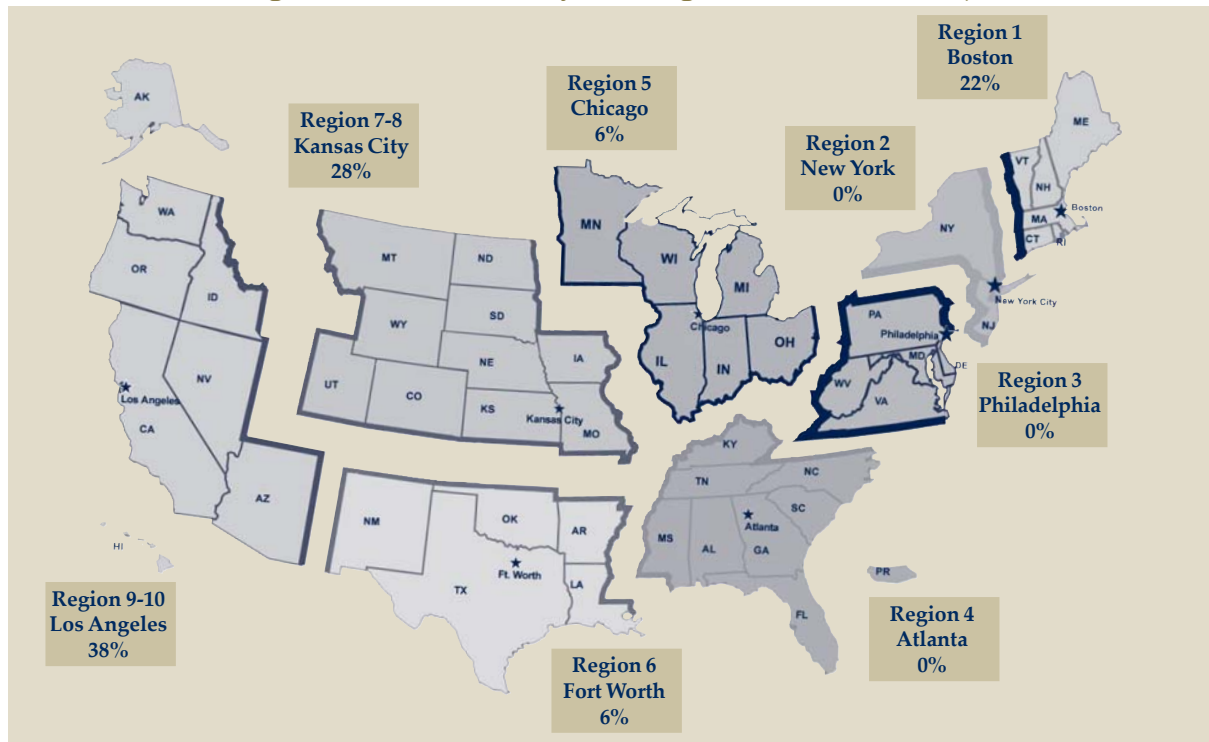
## Owner and Management Agent Operations

Over the past 6 months, OIG has audited owner and management agent operations with an emphasis on combating equity skimming. While our objectives varied by auditee, the majority of the reviews were to determine whether the owner and/or management agent used the project funds in compliance with the regulatory agreement and HUD requirements. The results of OIG's more significant audits are described below.

At the request of HUD, OIG audited the Rhode Island Housing and Mortgage Finance Corporation, a state housing agency located in **Providence, RI**. The Corporation incorrectly processed Section 8 housing assistance payment contract renewals for eight developments. It included debt service at incorrect levels and failed to reduce Section 8 contract rents, resulting in more

### A Look Back for the Year

Chart 4.1: Percentage of OIG Multifamily Housing Closed Audit Cases, Performed FY 06



than \$1.8 million in Section 8 subsidy overpayments to the development owners. The Corporation did not recover the overpayments. It also violated federal regulations when it allowed two developments to use more than \$900,000 in restricted residual receipts to pay financing fees to the Corporation, the Corporation's affiliated Affordability Housing Trust, and one development owner.

OIG recommended that HUD require the Corporation to (1) actively pursue and recover just under \$1.2 million in Section 8 subsidy overpayments from six development owners, (2) confirm that it returned more than \$657,000 in overpayments collected from two development owners to the appropriate accounts, (3) develop and implement procedures to ensure that HUD requirements governing the renewal of expiring Section 8 housing assistance payment contracts are followed, and (4) clarify its procedures to ensure that residual receipts are restricted to authorized uses. Further, OIG recommended that HUD confirm that the Corporation returned more than \$945,000 to the appropriate restricted accounts. (Audit Report: **2006-BO-1009**)



In response to a referral from HUD, OIG audited two projects owned and managed by Juniper Communities. One of the projects, Wellspring at Aurora, made unauthorized cash distributions totaling more than \$165,000, prematurely withdrew more than \$912,000, and had loans outstanding from other Federal Housing Administration (FHA)-insured projects totaling more than \$127,000 as of December 31, 2005. In addition, Juniper accrued unallowable asset management fees totaling almost \$130,000 and improperly allocated corporate expenses to Wellspring at Aurora.

OIG recommended that HUD require Juniper to repay Wellspring at Aurora for the unauthorized cash distributions, develop

and implement management controls to ensure that unauthorized cash distributions do not recur, repay Wellspring at Aurora for the unauthorized loans to other projects, develop and implement management controls to ensure that unauthorized loans do not recur, eliminate all asset management fee accrual accounts, develop and implement management controls to ensure that expenses accrued and/or charged to projects are legitimate project-related expenses, and properly allocate its corporate expenses. (Audit Report: **2006-DE-1004**)



HUD OIG audited Sundial Care Center located in **Modesto, CA**. OIG found that the owner used almost \$660,000 in project funds for nonproject (ineligible) and undocumented costs and could not account for more than \$407,000 in project revenue receipts. The owner's noncompliance caused a default on the insured mortgage and HUD's \$3.6 million loss on the subsequent sale of the mortgage note.

OIG recommended that HUD require the owner to repay HUD's FHA insurance fund almost \$1.1 million, pursue double damages remedies against the owner, and take administrative actions against the owner and its principals/officers. (Audit Report: **2006-LA-1011**)



HUD OIG reviewed Wellston Townhouses, a 63-unit project located in **St. Louis County, MO**. Wellston Townhouses' managing owner did not use project funds in compliance with the regulatory agreement and violated several other terms of the agreement. These violations, totaling almost \$305,000, adversely affected the project's financial stability.

OIG recommended that HUD take appropriate actions to correct deficiencies and ensure that these violations will not recur. (Audit Report: **2006-KC-1011**)





HUD OIG reviewed HDC Retirement Village, a 48-unit project located in **St. Louis, MO**. HDC Retirement Village’s managing owner did not use project funds in compliance with the regulatory agreement and also violated several other terms of the agreement. These violations, totaling almost \$210,000, adversely affected the project’s financial stability.

OIG recommended that HUD take appropriate actions to correct deficiencies and ensure that these violations will not recur. (Audit Report: **2006-KC-1012**)



HUD OIG audited the Utah Non Profit Housing Corporation, **Salt Lake City, UT**, a management agent for nine properties assisted by HUD. Utah Non Profit did not ensure that seven properties generated sufficient funds to meet their financial obligations. It deferred payments to itself to pay the projects’ other expenses. It also improperly charged salary costs to properties based on an arbitrary, unsupported rate and billed properties for more than \$49,000 in supervisor salaries that its management fee should have covered. In addition, it paid more than \$21,000 for unnecessary expenses and may be paying more than \$31,000 annually more than necessary for services.

OIG recommended that HUD require the project owners to ensure that Utah Non Profit submits rent increases in a timely manner to reduce operating deficits and pay the accrued management fees, implements an acceptable allocation plan, reimburses the properties for ineligible salaries and unnecessary costs, and develops and implements adequate management controls to ensure compliance with HUD requirements. (Audit Report: **2006-DE-1005**)



HUD OIG conducted a review of Deer Creek Apartments (project), a Section 221(d)(4)-insured multifamily housing project in **Houston, TX**. The project’s owner generally complied with the regulatory agreement and HUD regulations; however, the previous management agent paid itself more than \$24,000 for unsupported expenses.

OIG recommended that HUD require the project’s owner or its prior management agent to either provide documentation to show that the charges were for actual work performed and that the fees charged were reasonable and necessary or repay the expenses to the project. HUD should also determine whether the prior management agent charged other HUD-insured projects for these unsupported fees and if so, require that the same documentation be provided or the fees be repaid for those projects as well. (Audit Report: **2006-FW-1010**)

### *Section 202 Supportive Housing for the Elderly*

HUD OIG audited the **Bridgeport, CT**, project Hall Commons, Inc.’s, administration of its Section 202 Supportive Housing for the Elderly capital advance construction funds to determine whether Hall Commons administered the Section 202 funds advanced for construction in accordance with federal requirements.

Hall Commons failed to maintain adequate and essential financial records to accurately account for project financial transactions and safeguard project assets. It also made unauthorized disbursements and allowed required insurance policies to lapse due to nonpayment of premiums. As a result, more than \$2 million in capital advances and payments to vendors and contractors was not properly recorded, more than \$199,000 in project funds was disbursed in violation of the governing project agreements, the project was not always

covered by builder's risk or crime insurance, and real estate taxes were delinquent.

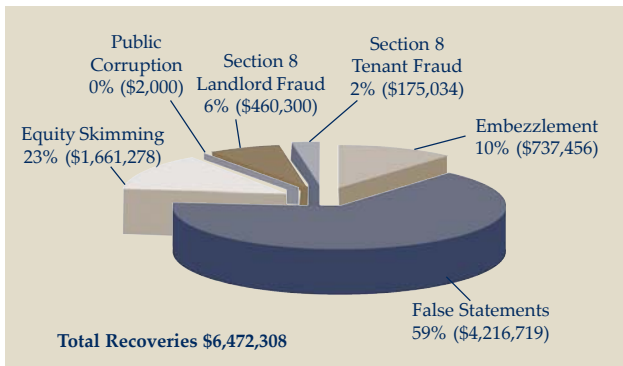
OIG recommended that HUD (1) pursue applicable sanctions available under the regulatory agreement to protect its \$4 million investment, including issuing a notice of default and if the violations are not corrected within 30 days of declaring a default, taking possession of the project, foreclosing on the mortgage, or requiring a transfer of physical assets to a HUD-approved nonprofit corporation, and (2) require Hall Commons, Inc., to support and/or repay the more than \$199,000 in project funds that were disbursed in violation of the governing project agreements. If Hall Commons is allowed to remain the owner, HUD should require it to establish a financial accounting system and maintain current and accurate books and accounts and a functioning board of directors to provide adequate oversight of project operations. (Audit Report: **2006-BO-1008**)



# Investigations

During this reporting period, OIG opened 54 investigation cases and closed 60 cases in the multifamily housing program area. Judicial action taken on these cases during the period included \$6,472,308 in investigative recoveries, \$3,211,285 in funds put to better use, 59 indictments/informations, 43 convictions/pleas/pretrial diversions, 120 administrative actions, 1 personnel action, and 97 arrests.

**Chart 4.2: Multifamily Housing Recoveries**



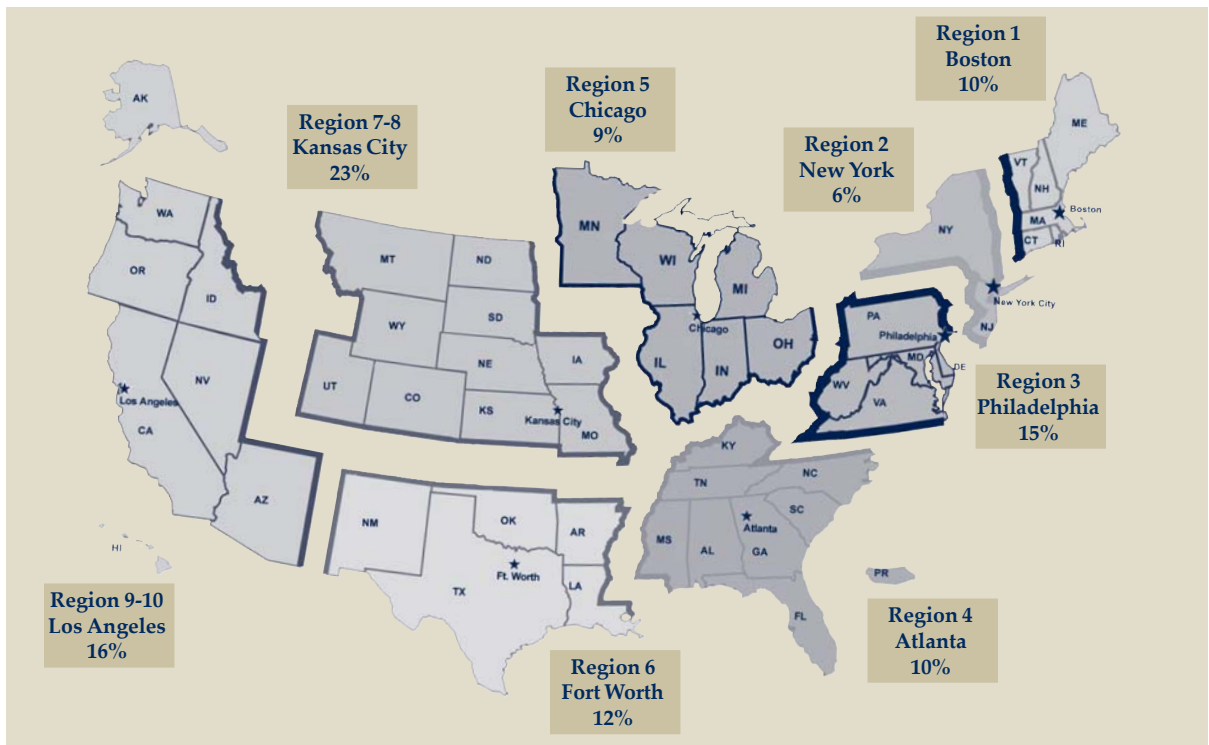
Some investigations discussed in this report were conducted by OIG or jointly with federal, state, and local law enforcement agencies. The results of various significant investigations are described below.

## Theft/Embezzlement

Jill M. Trayner, the former executive director of United Methodist Retirement Center of Tampa, Inc. (UMRCT), also known as Methodist Place, a HUD-funded multifamily elderly housing complex, was sentenced in U.S. District Court, **Tampa, FL**, to 1 year and 1 day in prison, mandatory attendance in a mental health program during her incarceration, and 36 months supervised released; fined \$5,000; and ordered to pay UMRCT \$366,228 restitution for her previous guilty plea to theft of federal program funds. Trayner used her position to divert UMRCT program funds and used the funds for personal expenses including gambling, loan payments, credit card debt, and club memberships.

## A Look Back for the Year

**Chart 4.3: Percentage of OIG Multifamily Housing Closed Investigation Cases, Performed FY 06**



## LAW & ORDER

### HILLSBOROUGH

#### Ex-Retirement Center Director Is Sentenced

**TAMPA** — The former director of Methodist Place Retirement Center was sentenced Monday to a year and a day in federal prison for embezzling \$366,000 in federal housing funds, the U.S. attorney's office said.

Jill Marie Trayner also was ordered by U.S. District Judge James Whittemore to pay \$366,000 in restitution and a \$5,000 fine. She is to serve three years of probation after her release from prison.

Trayner pleaded guilty in February to theft from a program receiving federal funds. According to her plea agreement, Trayner took the money in 2003.

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submitted inflated and false invoices for security services. As a result, HUD paid approximately \$260,431 for services not provided.



Wanda Mercado, a former Peabody Properties manager at Schoolhouse 77, a HUD-subsidized multifamily complex, pled guilty in U.S. District Court, **Boston, MA**, to five counts of bribery. Mercado solicited and received more than \$34,000 in bribes from 10 Section 8 applicants for HUD-assisted housing units at Schoolhouse 77. As a result, HUD realized losses exceeding \$151,478 when housing assistance payments were paid on behalf of 10 unqualified tenants.



Charles Sitter, a property manager at East Main Street Apartments, a HUD-funded multifamily elderly housing complex, was arrested and charged in Seneca County District Court, **Waterloo, NY**, with grand larceny. Sitter allegedly extorted \$60,000 from an elderly tenant by threatening eviction if the payment was not made.



Jorge Hernandez Cruz, a former manager at Casa De Las Hermanitas (CDLH), a HUD-subsidized multifamily complex, was arrested after a complaint was filed in Los Angeles County Superior Court, **Los Angeles, CA**, charging him with commercial bribery and theft. Cruz allegedly solicited and received payments from nine elderly families for placement into CDLH housing units, illegally bypassing other applicants on the CDLH waiting list. In addition, Cruz allegedly demanded additional monies from applicants reaching the top of the waiting list before assigning CDLH housing units.



Jerri Kirby, the former property manager at College Hill Apartments, a HUD-subsidized



Larry Lippman, a managing agent for Republic Management at Eastwood Terrace Apartments (ETA), a HUD-funded multifamily apartment complex in Nacogdoches, TX, was indicted in U.S. District Court, **Beaumont, TX**, on three counts of embezzlement. From August 2000 to June 2003, Lippman allegedly paid himself an unauthorized annual salary of \$60,000 and hid the salary payments by manipulating ETA accounts under his control. As a result, HUD's loss is estimated at \$300,000.



On Guard Security Services, Inc. (OGSS), a security contractor for HUD Multifamily Mortgagee-In-Possession properties located in Kentucky and Tennessee, pled guilty to an information filed in U.S. District Court, **Spartanburg, SC**, charging it with making false, fictitious, or fraudulent claims and general provision crimes. For approximately 2 years, OGSS



multifamily housing complex, pled guilty in Clermont County Municipal Court, **Columbus, OH**, to one count of theft for personally using tenant rents she collected. Kirby was sentenced to 3 months incarceration and 2 years probation and ordered to pay College Hill Apartments \$4,100 restitution.

## *Rental Assistance Fraud*

Olandria Williams, a former Shoreview Apartments Section 8 tenant, was sentenced in U.S. District Court, **San Francisco, CA**, to 1 year probation and ordered to pay HUD \$45,072 restitution for her earlier guilty plea to making false statements to HUD. Williams falsified reported income, failed to reside in her subsidized unit, and obtained \$45,072 in housing assistance she was not entitled to receive.



Rosalyn Tillery, a former La Salle Apartments Section 8 tenant, was sentenced in U.S. District Court, **San Francisco, CA**, to 2 years probation and 25 hours of community service and ordered to pay HUD \$35,759 restitution for her previous guilty plea to making false statements to HUD. Tillery failed to report income or property she jointly owned with her spouse on Section 8 certifications.



Donald Pierce, a former Maine State Housing Authority (MSHA) Section 8 tenant at William Woods Apartments in Rockland, ME, pled guilty in U.S. District Court, **Portland, ME**, to making false statements. Pierce failed to disclose income and assets, including \$165,000 in certificates of deposit, more than \$80,000 in an investment account, and/or \$145,000 in cash seized by the State of Maine, on MSHA housing assistance certifications. As a result, Pierce obtained \$26,987 in MSHA housing assistance he was not entitled to receive. Pierce remains in state custody for his earlier conviction on narcotics violations.



Tamyra T. Nelson, a Maryland state correctional officer, was indicted in Wicomico County District Court, **Salisbury, MD**, on theft and making false statements. Deniece Davis, a Wicomico County Detention Center correctional officer, pled guilty to making false statements. Nelson and Davis, former Section 8 tenants at Pemberton Manor Apartments, a HUD-subsidized multifamily complex, allegedly failed to report income on annual housing certifications and allegedly obtained approximately \$20,000 in housing assistance they were not entitled to receive.



Pia Benjamin, a HUD multifamily Section 8 tenant and New York Police Department (NYPD) school safety officer, was charged in a criminal complaint filed in Brooklyn Criminal Court, **Brooklyn, NY**, with grand larceny, falsifying business records, and offering a false instrument for filing. Benjamin allegedly failed to report her NYPD employment or income on housing certifications and obtained approximately \$19,282 in housing assistance she was not entitled to receive.



Elsa Ondina Herrera-Martinez, a former Section 8 tenant at High Point Village, a HUD-subsidized multifamily complex, was indicted in U.S. District Court, **Boston, MA**, on theft of government funds, aggravated identity theft, and illegally obtaining a Social Security number (SSN). Herrera-Martinez allegedly used the identity of another person to obtain more than \$15,000 in Section 8 housing assistance payments.



Paulita Brigham, an Internal Revenue Service (IRS) employee and Section 8 tenant of Friendship Village, a HUD-funded multifamily housing complex, entered into a plea agreement in Jackson County Circuit Court, **Kansas City, MO**, and was sentenced to 12 months probation and 40 hours of community service for stealing government

funds. Brigham failed to disclose her IRS employment and/or income on annual HUD certifications and obtained \$4,766 in housing assistance she was not entitled to receive.



Mikael Best, a previously convicted sex offender and Section 8 tenant at Harlen Houses in **New York City, NY**, was arrested on an outstanding warrant for parole violations. The New York/New Jersey Regional Fugitive Task Force arrested Best.



Candace Allen, Brenda Serrato, and Lawrence Valdez, Weber County Section 8 tenants, were arrested in **Salt Lake City, UT**, on outstanding warrants for various charges including lewdness, theft, and drugs.

### *Other Fraud/Crimes*

Antonio Giordano, owner of Suburban Mortgage and four HUD-insured nursing homes located in Rhode Island and known as Coventry Health Center (CHC), Mount St. Francis Health Center (MSFC), Edmunds Place (EP), and Hillside Health Center (HHC), and John Montecalvo, administrator of the above nursing homes, were sentenced in U.S. District Court, **Providence, RI**, for their earlier guilty pleas to equity skimming. Giordano was sentenced to 30 months incarceration and 24 months supervised release, ordered to pay the U.S. Treasury Department \$780,539 restitution jointly and severally with Montecalvo, and fined \$100,000. Montecalvo was sentenced to 24 months incarceration and 24 months supervised release. Giordano, Montecalvo, and others illegally diverted income or funds from the nursing homes to themselves

or My Place, Inc., Antonio Giordano, Inc., Construction Software, Inc., Consultants, Inc., Simon and Windsor, Inc., Gregory Building Company, Management Realty Services, and/or Sterling Health Care Management Company, identity-of-interest companies authorizing payments for unwarranted services while the properties were in a non-surplus-cash position, a violation of their HUD regulatory agreement. Giordano and Montecalvo were further indicted in Rhode Island Superior Court on 45 counts of conspiracy to embezzle, money laundering, conspiracy to commit money laundering, Medicaid fraud, and conspiracy to commit Medicaid fraud in connection with HHC operations. Montecalvo was charged with additional counts of patient neglect for his role at HHC. As a result of their actions, HUD realized a loss of \$14 million when Giordano defaulted on both the CHC and EP HUD-insured mortgages. HUD continues litigation over the now defunct HHC \$13 million insurance

## Ex-nursing home head gets 2½ years in jail

Antonio L. Giordano is also fined \$100,000 for diverting money from the three nursing homes he owned. Co-defendant John J. Montecalvo is sentenced to two years but is not fined.

**BY FELICE J. FREYER**  
JOURNAL MEDICAL WRITER

PROVIDENCE — A federal judge yesterday sentenced former nursing home owner Antonio L. Giordano to 2½ years in prison — 6 months more than the prosecution recommended — for diverting money from three nursing homes to his daughter's business.

U.S. District Judge Mary M. Lisi also fined Giordano \$100,000 — the prosecution had

recommended \$500,000 — and required him to pay \$780,539 in restitution. He will be on probation for two years after his release.



**GIORDANO**

Lisi called Giordano "more culpable" than his codefendant, John J. Montecalvo, the chief financial officer, whom she sentenced to two years in prison on the same charges, the sentence recommended by the prosecution. She did not fine

SEE **GIORDANO, A2**

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payment, and MSF, with a \$9.7 million HUD-insured mortgage, continues operations while listed for sale. In addition, the Suburban Mortgage portfolio contains approximately 57 HUD-insured loans estimated at \$314.3 million, all of which are considered at risk. HUD's Office of General Counsel announced the suspension of Giordano, Montecalvo, and 17 affiliates.



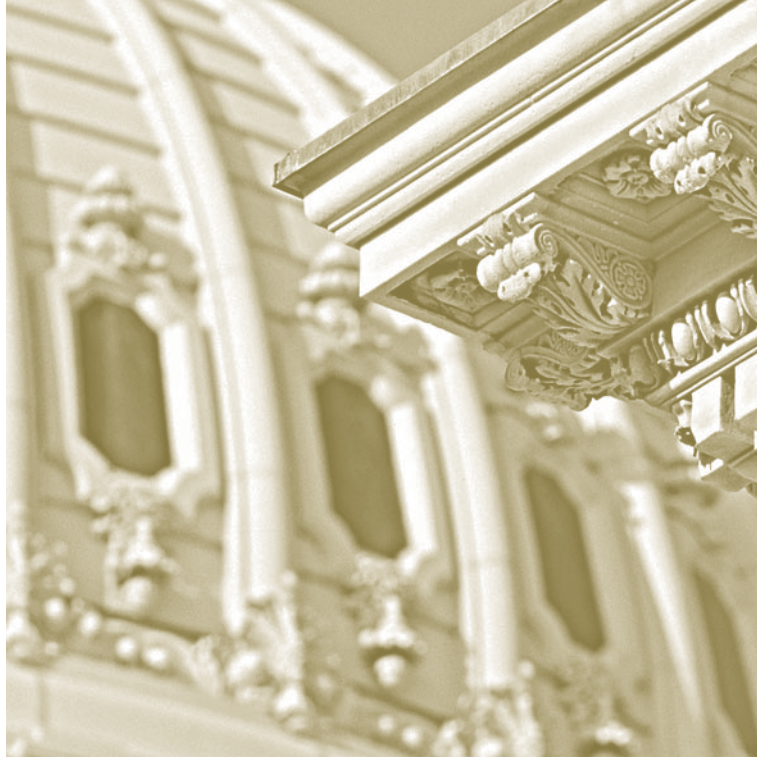
Kevin Rice and Jimmy Keel, contractors for Burchwood Harbor Apartments (BHA), a HUD-insured multifamily project, signed pretrial diversion agreements of 6 months deferred adjudication in U.S. District Court, **Hot Springs, AR**. Rice and Keel admitted to bankruptcy fraud and conspiracy when they perjured themselves during a BHA Bankruptcy Rule 2004 examination. Rice and Keel admitted that Rodney Myers, owner of BHA, and others induced their perjury in their Bankruptcy Rule 2004 examinations by convincing them to falsely state that they received BHA funds for work they performed. Myers previously pled guilty to bankruptcy fraud, money

laundering, and perjury for diverting more than \$110,000 in BHA project rents and other funds while BHA'S HUD-insured mortgage was in default and during BHA'S Chapter 11 bankruptcy. As a result, HUD realized losses in exceeding \$1.6 million.



Longley-Jones Management Corporation (LJMC), a manager of commercial and residential properties, was sentenced in U.S. District Court, **Syracuse, NY**, to a \$4 million fine for its earlier guilty plea to conspiracy to violate the Clean Air Act and mail fraud. The sentencing orders LJMC to use \$3 million for proper asbestos abatement and implementation of an environmental compliance plan and remit the remaining \$1 million to the U.S. Government. Between 1990 and November 2005, at HUD-insured and other properties, LJMC, through its supervisory employees, knowingly stripped, bagged, removed, and disposed of regulated asbestos material in a manner that did not comply with the Clean Air Act work practice standards.





## **Chapter 5**

# **HUD's Community Planning and Development Programs**



The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector.

auditee, the majority of the reviews were to determine whether the grant funds were administered for eligible activities and that they met overall agreements. The following section illustrates the audits conducted in the CPD area.

## Community Development Block Grant Program

### Audits

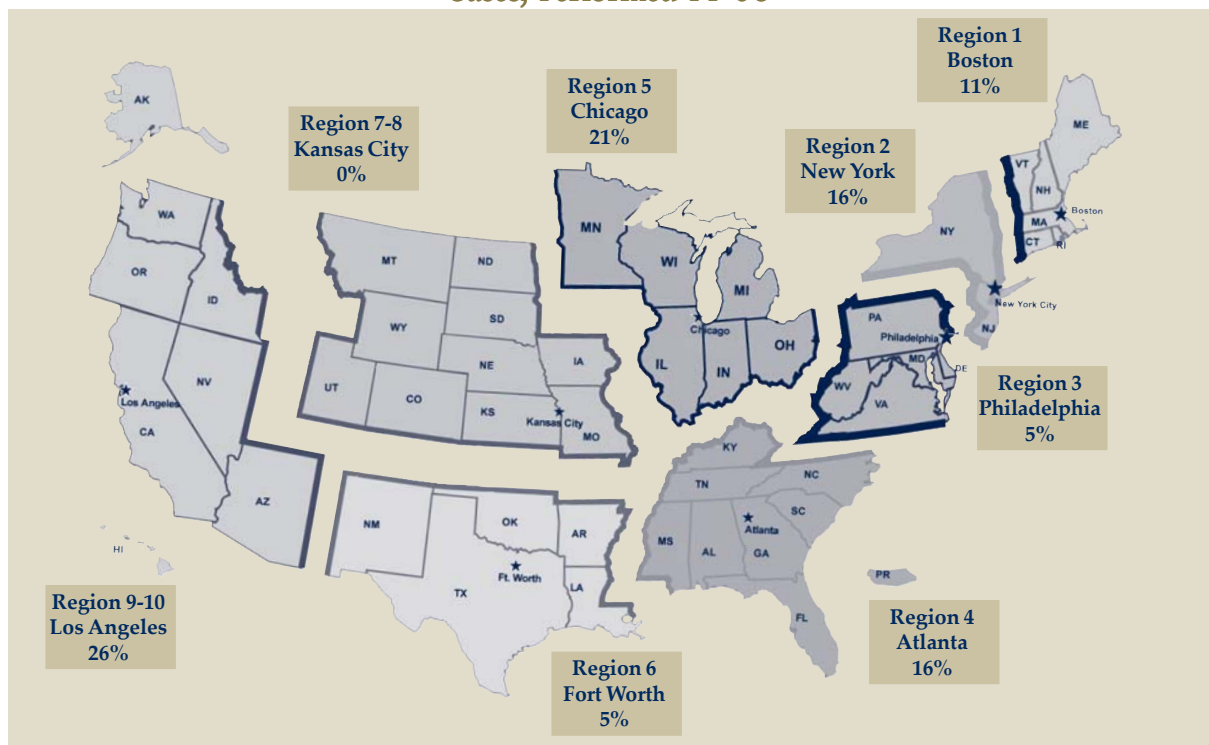
During this reporting period, OIG issued 1 internal and 10 external audit reports in the CPD program area. These reports disclosed more than \$11 million in questioned costs and nearly \$4 million in recommendations that funds be put to better use.

OIG audits the Community Development Block Grant (CDBG) program, Supportive Housing Program Grant, HOME, and Special Purpose Grants program. While OIG's objectives varied by

HUD OIG audited the Municipality of Toa Baja's, **Toa Baja, PR**, Section 108 Loan Guarantee Assistance program. The Municipality did not manage two program activities in an economical, efficient, and effective manner. It paid more than \$4.8 million for two activities in which the intended benefits and compliance with CDBG national objectives were not met and paid more than \$70,000 for unreasonable/unnecessary expenditures. In addition, the Municipality did not maintain adequate records to demonstrate that it complied with environmental review procedures associated with the construction of the Toa

### A Look Back for the Year

**Chart 5.1: Percentage of OIG Community Planning and Development Closed Audit Cases, Performed FY 06**





*Picture of the front of the public library. The library is beneath a deteriorated water tower and has no parking facility.*

Baja public library. As a result, HUD has no assurance that requirements were met or whether potential findings or concerns were properly addressed.

OIG recommended that HUD require the Municipality to (1) develop and implement a corrective action plan to eliminate safety hazards and ensure that the public library meets a national objective or repay \$3.8 million used for its construction, (2) provide all supporting documentation showing that it obtained HUD approval to change the purpose and scope of the Candelaria multipurpose center or repay \$1 million used for its construction, (3) repay more than \$70,000 in unreasonable/unnecessary cost for repairs at the public library, (4) develop and implement an internal control plan to ensure that the Loan Guarantee Assistance program has procedures that ensure funded activities provide the intended benefits to the community and meet at least one of the CDBG national objectives and environmental review procedures that ensure funded activities are properly

assessed and supported. (Audit Report: 2006-AT-1019)



HUD OIG audited the Municipality of Humacao's, **Humacao, PR**, CDBG program. The Municipality's financial management system did not properly identify the application of more than \$1.2 million in program income, did not properly allocate almost \$316,000 in administrative salaries, allowed the use of almost \$67,000 for ineligible expenditures, and could not account for nearly \$80,000 in CDBG receipts. In addition, the Municipality awarded 12 contracts without following HUD procurement requirements, did not support the reasonableness of \$1.9 million in CDBG contracts, and paid almost \$103,000 for excessive or unnecessary expenditures. Further, the Municipality did not maintain adequate records to demonstrate that activities met at least one of the three CDBG national objectives. Therefore, the intended benefits and compliance with the CDBG national objectives and related expenditures totaling nearly \$212,000 are unsupported.

OIG recommended that HUD require the Municipality to repay almost \$103,000 in excessive costs and nearly \$67,000 in ineligible operating expenditures; provide all supporting documentation showing the appropriateness and eligibility of \$3.8 million in CDBG disbursements; develop and implement an internal control plan to ensure that the CDBG program has (1) a financial management system that complies with HUD requirements, (2) procurement procedures that ensure goods and services are obtained at the most advantageous terms and in a manner providing full and open competition, and (3) procedures that ensure funded activities meet at least one of the CDBG national objectives; and ensure that CDBG expenditures are properly accounted for, reconciled with HUD's disbursement system, and in compliance with HUD requirements. (Audit Report: 2006-AT-1016)



HUD OIG is conducting ongoing audits of the Lower Manhattan Development Corporation's administration of the CDBG Disaster Recovery Assistance funds, which were provided to the State of New York as a result of the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The Corporation disbursed \$129.7 million of these funds during the audit period of October 1, 2005, through March 31, 2006.

The Corporation generally disbursed Disaster Recovery Assistance funds in accordance with the HUD-approved action plans. The Corporation also expended the funds for eligible planning and administrative expenses in accordance with applicable laws and regulations and maintained a financial management system that adequately safeguarded the funds. However, weaknesses in the Corporation's control procedures permitted nearly \$187,000 to be misclassified in HUD's Line of Credit Control system, resulting in charges to the wrong programs. In addition, a consultant was reimbursed at incorrect rates, resulting in a \$3,000 overpayment.

OIG recommended that HUD require the Corporation to (1) reclassify costs totaling nearly \$187,000 to the appropriate HUD Line of Credit Control System budget line item, (2) reimburse more than \$3,000 to the World Trade Center Memorial and Cultural program, and (3) strengthen controls to ensure that consultants are reimbursed in accordance with the terms of agreements. (Audit Report: **2006-NY-1013**)



HUD OIG audited the HOME and CDBG programs of the Snohomish County Office of Housing and Community Development in **Everett, WA**. Snohomish County generally administered its CDBG and HOME Investment Partnerships Program grants in accordance with HUD requirements. However, the County charged more than \$67,000 in ineligible administrative expenses to its CDBG. The

County also extended the payoff date for two CDBG float-funded activities without properly identifying the loan extensions as a new activity as required.

OIG recommended that HUD require the County to (1) reimburse its CDBG and/or repay HUD from nonfederal funds for more than \$67,000 in expenses related to ineligible administrative activities, (2) establish and implement adequate procedures for charging administrative costs that meet federal requirements, and (3) establish and implement adequate procedures for its float loan program. (Audit Report: **2006-SE-1003**)



HUD OIG audited the City of Modesto's, **Modesto, CA**, Park, Recreation, and Neighborhood Services Division. The City did not adequately administer its grant. OIG recommended that HUD require the City to (1) reduce the loan balances for loan recipients who were charged nearly \$65,000 for unreasonable and unnecessary rehabilitation costs; (2) review all additional loans related to rehabilitation work carried out after June 2005 to determine the reasonableness of costs charged for the work and reduce the recipient loan balances for any identified overcharges; (3) implement a procurement system that meets federal requirements, (4) develop an adequate quality control system to ensure proper monitoring of contractor charges, rehabilitation work, and work progress; and (5) provide evidence that it now complies with its own underwriting requirements regarding verification of income and assistance eligibility for loan applicants. (Audit Report: **2006-LA-1019**)



HUD OIG audited the 2004 CDBG Disaster Recovery Assistance funds provided to the State of **Florida**. The State awarded and disbursed the 2004 CDBG Disaster Recovery Assistance funds in accordance with HUD requirements. However, program files lacked evidence that



the State verified whether recipients used the funds for activities reimbursed by the Federal Emergency Management Agency (FEMA), Small Business Administration (SBA), or other sources. As a result, the opportunity existed for a recipient to receive funding for the same activity from several sources.

OIG recommended that HUD require the State to develop and implement procedures to ensure that CDBG disaster recovery funds will not be used for activities reimbursed by FEMA, SBA, or any other program or source and maintain supporting documentation in its files. (Audit Report: 2006-AT-1014)

### *Special Purpose Grants*

HUD OIG audited HUD's oversight of Economic Development Initiative – Special Purpose Grants appropriated for fiscal years 2002 through 2005 to determine the adequacy of HUD's application and award processing and monitoring of the Grants.

HUD did not require grantees to place liens on assisted properties' titles to protect HUD's interests. It also did not ensure that grantees placed covenants on assisted properties' titles assuring nondiscrimination and that Grant funds were appropriately used according to its agreements with grantees. Of 105 Grants reviewed, HUD did not ensure that 71 grantees submitted required forms and documentation for appropriate monitoring and nine grantees properly completed and submitted required application and award forms and documentation. HUD could not support that four grantees submitted required semiannual progress reports and three grantees submitted certifications regarding lobbying and that it approved two grantees' environmental release of funds before disbursing Grant funds.

OIG recommended that HUD improve its existing procedures and controls to

ensure that (1) grantees receiving Grant funds above a HUD-established minimum threshold record liens showing HUD's interest in assisted properties, (2) grantees place covenants on properties' titles assuring nondiscrimination, (3) grantees properly complete required application forms and documentation for Grant awards, (4) Grant funds are appropriately used, and (5) Grant funds are properly disbursed. OIG also recommended that HUD strengthen existing procedures and controls over the Grant agreement template review to ensure that citations to requirements are accurate. (Audit Report: 2006-CH-0003)

### *Supportive Housing Program Grant*

HUD OIG audited the Institute for Urban Research and Development, located in **El Monte, CA**, in response to a citizen's complaint. The objective of the audit was to determine whether the complainant's allegations had merit and whether the Institute administered its Supportive Housing Program grants in accordance with pertinent requirements.

The Institute claimed to have spent almost \$109,000 in grant funds for allocated supportive housing and corporate office expenses that were not documented. In addition, it could not provide support for more than \$181,000 in required matching funds for three of the grants.

OIG recommended that HUD require the grantees to (1) provide adequate supporting documentation for almost \$109,000 in unsupported expenses or repay it from nonfederal funds and (2) provide adequate supporting documentation that more than \$181,000 in required matching funds was provided or repay the \$1.1 million balance of grant funds expended. (Audit Report: 2006-LA-1015)



## *HOME*

HUD OIG audited the Commonwealth of Virginia's HOME Investment Partnerships program to determine whether the Commonwealth's Department of Housing and Community Development properly administered its HOME program.

The Commonwealth did not always comply with federal regulations and/or its own requirements in its disbursements and administration of HOME funds for various purposes. As a result, HOME funds totaling almost \$184,000 were used for ineligible expenses or activities, and more than \$527,000 in expenses were unsupported. The Commonwealth also accumulated more than \$3.2 million in administrative funds that should have been used to improve its administration of its HOME program and to fund additional eligible HOME projects.

OIG recommended that HUD require the Commonwealth to (1) recover almost \$184,000 it spent on ineligible expenses and provide support for more than \$527,000 in expenses or repay that amount to the HOME program, (2) use the accumulated \$3.2 million in administrative funds to improve its monitoring program and recommit any excess funds to eligible HOME projects, and (3) create and implement procedures to ensure that HOME funds are disbursed and used in compliance with applicable regulations. (Audit Report: **2006-PH-1013**)



# Investigations

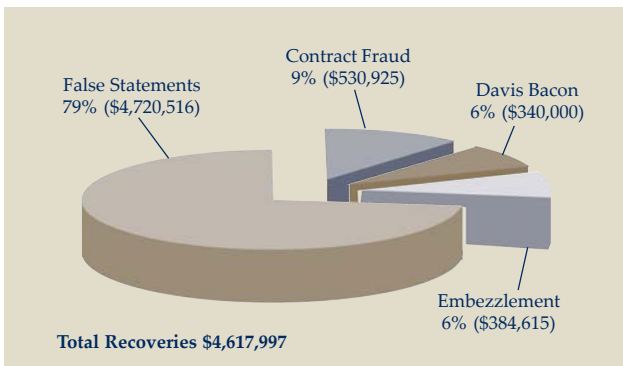
During this reporting period, OIG opened 42 investigative cases and closed 31 cases in the CPD program area. Judicial action taken on these cases during the period included \$4,617,997 in investigative recoveries, \$7,025,433 in funds put to better use, 23 indictments/informations, 25 convictions/pleas/pretrial diversions, 17 administrative actions, 1 civil action, 2 personnel actions, and 17 arrests.

Some investigations discussed in this report were conducted by the OIG or jointly with federal, state, and local law enforcement agencies. The results of our more significant investigations are described below.

## Theft/Embezzlement

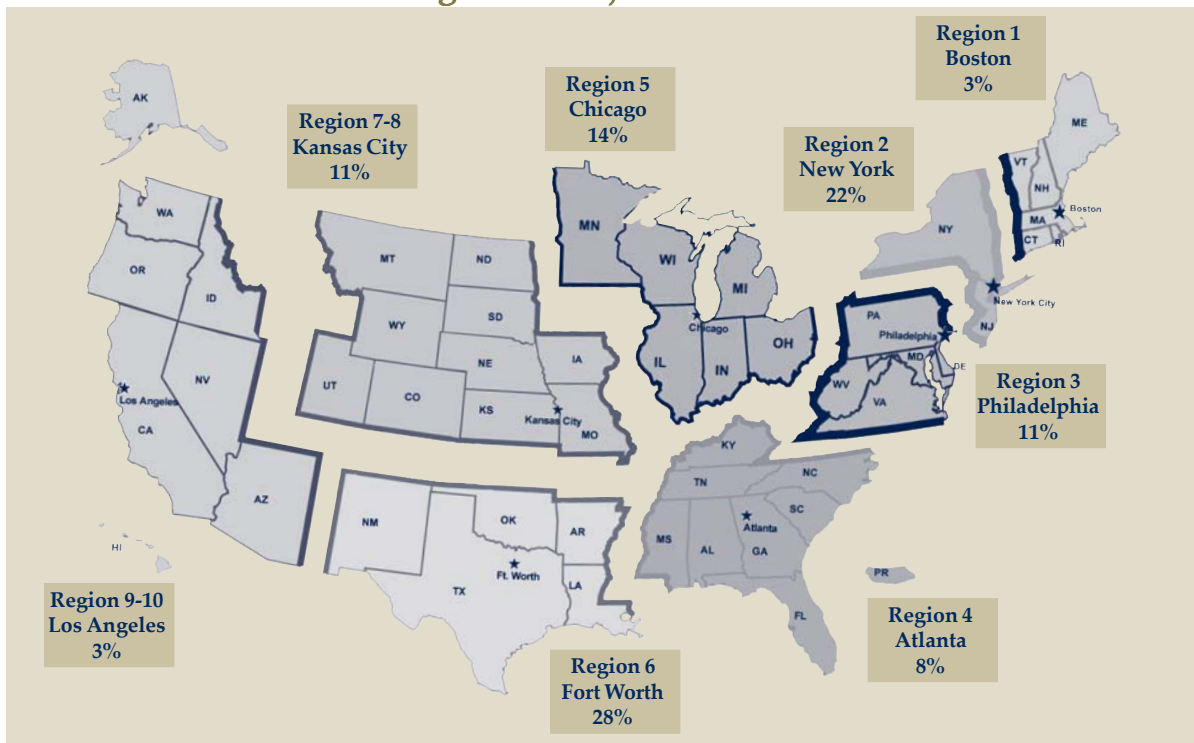
Gary Jojuana Meeks, executive director for HUD-funded Gary Urban Enterprise Association (GUEA), and Charmaine Pratchett, fiscal director for GUEA, were each charged in U.S. District Court, Gary, IN, with embezzlement, conspiracy, and mail fraud. Meeks and Pratchett allegedly embezzled more than \$750,000 in GUEA funds by misusing the GUEA credit card, receiving excessive wages, and diverting GUEA funds to a personal bank account and used GUEA funds for real estate, automobiles, clothing, home furniture, restaurants, vacations, and personal expenses.

**Chart 5.2: Community Planning and Development Recoveries**



## A Look Back for the Year

**Chart 5.3: Percentage of OIG Community Planning and Development Closed Investigation Cases, Performed FY 06**



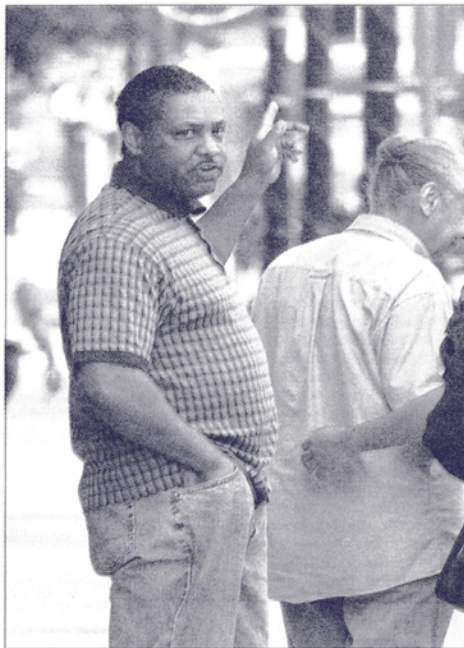
Carol Arango, the former executive director of D. Edward Wells Federal Credit Union (DEWFCU), along with her spouse and son, Alphonso and Douglas Smith, were indicted in U.S. District Court, **Springfield, MA**, on conspiracy, embezzlement, bank fraud, federal program fraud, and various tax code violations. Arango and Alphonso and Douglas Smith allegedly embezzled more than \$1.18 million from DEWFCU, including more than \$65,000 from Walnut Street Apartments, a HUD-insured multifamily project; allegedly submitted fraudulent bids to secure \$522,340 from the City of Springfield HUD HOME program; allegedly embezzled more than \$10,000 from the City of Springfield HUD HOME program through D.A.T. Construction, a company owned by Alphonso and Douglas Smith; and allegedly embezzled HUD-insured mortgage funds by failing to pay mortgage loans on properties securing new Federal Housing Administration (FHA)-insured mortgages. The indictment also contains a forfeiture count for all property

and cash obtained through fraudulent acts alleged in the indictment. In addition to the above defendants, Mary Spruell, former treasurer of DEWFCU and owner/manager of Walnut Street Apartments, pled guilty to an information charging her with embezzlement of monies and funds, aiding and abetting, and subscribing to false federal income tax returns. Spruell embezzled more than \$109,000 from DEWFCU, including more than \$65,000 from Walnut Street Apartments. Terms of her plea agreement include the forced sale of Walnut Street Apartments to repay HUD for unauthorized distributions, excessive management fees, and court ordered restitution. As a result of their actions, HUD's losses are estimated at \$360,000.



Leroy Brown, a former Salvation Army financial manager, pled guilty in U.S. District Court, **Newark, NJ**, to conspiracy for theft from an organization receiving federal benefits and federal income tax

## Ex-credit union chief arrested



The indictments and arrests follow a 3-year investigation that began when the Springfield credit union was closed by the federal government.

By **MARCIA BLOMBERG**  
mbloomberg@repub.com

SPRINGFIELD — Carol Arango, the outspoken former head of the failed D. Edward Wells Federal Credit Union, her husband and one son were arrested at their homes yesterday morning and charged with embezzling money from the tiny credit union.

Federal agents arrested Arango, 65, and her husband, Alphonso Smith, 67, at their home at 2303 Wilbraham Road at about 7:30 a.m., while agents in Chicopee were arresting their son, Douglas L. Smith, 46, at his home at 277 E. Main St., Chicopee.



Carol Arango

The trio pleaded innocent lat-

Douglas L. Smith and his mother, Carol Arango, in left photo, and father, Alphonso Smith, right, are seen after their appearance yesterday in U.S. District Court in Springfield, where the three were charged with embezzlement and other charges related to the failed D. Edward Wells Federal Credit Union in Springfield.

Please see Arango, Page A8

Staff photos by MICHAEL S. GORDON

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evasion. Susan Bigelow, a City of Newark Department of Finance employee, was sentenced to 10 months incarceration and 2 years probation and ordered to pay the Salvation Army \$385,760 for her previous guilty plea to conspiracy to steal federal program funds. Brown, while working at a Newark branch of the Salvation Army, embezzled \$385,760 from a Salvation Army bank account, funded in part with HUD Housing Opportunities for Persons with AIDS (HOPWA) program funds, by creating fraudulent client files, check request forms, and court documents to support the issuance of bogus landlord payments to Bigelow. Bigelow received payments from Brown for cashing more than \$300,000 in federal program checks, including checks from FEMA and HUD's HOPWA program.



Herbert Bagley, an insurance broker for Howard and Stuart Associates, Inc., pled guilty in U.S. District Court, **Norristown, PA**, to numerous counts of mail fraud, bribery, conspiracy, bank fraud, filing a false federal income tax return, and honest service mail fraud. From 2002 through 2005, Bagley paid bribes to Theodore LeBlanc, the previously convicted former mayor of Norristown, PA, to obtain Norristown Borough's insurance contracts and other payments financed with HUD CDBG program funds. As a result, HUD realized losses of \$200,000.



Malik Blackmon, former minority AIDS initiative coordinator for Positive Voices, a nonprofit corporation and subgrantee of federal funds administered by Arkansas Department of Health (ADH), entered into a pretrial diversion agreement in U. S. District Court, **Little Rock, AR**. Blackmon admitted to theft of federal grant money and in return for 12 months deferred adjudication, agreed to perform 60 hours of community service and forfeit a diamond ring seized by the government. Blackmon and his wife, formerly indicted Lola

Thrower, ADH HIV Services program administrator, established a nonprofit corporation called B'MON, Inc. Blackmon and Thrower directed others to write checks from numerous HUD-funded subgrantee accounts to B'MON, created phony invoices and receipts, and used pilfered federal funds for personal expenses, to include the purchase of a \$5,000 diamond ring.



Mark Marcucilli, Assistant Director of Housing Management for New York State Division of Housing and Community Renewal; Fred Marcucilli, father of Mark Marcucilli; and Carmine Carpinone each pled guilty in U.S. District Court, **New York, NY**, to numerous counts of conspiracy to commit mail fraud and theft of government funds. Mark Marcucilli, Fred Marcucilli, and Carpinone conspired to obtain Lower Manhattan Development Corporation funds by falsely claiming residences in the lower Manhattan World Trade Center area. HUD provided \$2.7 billion for the Corporation, an organization created to coordinate the rebuilding and revitalization of lower Manhattan after the September 11, 2001, terrorist attacks.



Terry Lynn Miller, the former executive director of Suffolk Shelter for the Homeless (SSH), a HUD-funded organization, was sentenced in U.S. District Court, **Norfolk, VA**, to 6 months home detention and 3 years probation and ordered to pay SSH \$20,117 restitution for her previous guilty plea to federal program fraud. Miller used SSH funds and credit to personally obtain a laptop computer, computer software, digital camera, medical lift chair, YMCA family membership, and gasoline and to pay \$17,238 in wages to her daughter, although her daughter was not an SSH employee. As a result, HUD realized a loss of \$23,889; Miller paid the court \$20,117 restitution as ordered.



## Other Fraud/Crimes

Following a “Qui Tam” complaint, a \$2 million settlement agreement was reached between the United States Attorney’s Office, **Indianapolis, IN**, and Phoenix Fabricators and Erectors, Inc. Phoenix received HUD CPD and U.S. Department of Agriculture (USDA) program funds to weld steel water storage tanks throughout the United States. In 1996, Phoenix began generating false testing records to show that installed tanks met contractual standards, causing the submission of false claims to HUD and USDA for payments. According to the consent judgment, the U.S. Department of Justice (DOJ) and the “Qui Tam Realtor” will receive \$1.75 million, with the remaining \$250,000 designated for mandatory extended warranties on all tanks constructed during the relevant period.



Anthony and Teresa Auyer each pled guilty in U.S. District Court, **Chattanooga, TN**, to conspiracy, bank fraud, and mail fraud charges. Anthony and Teresa Auyer received a HUD CDBG loan through Tennessee Department of Economic and Community Development to purchase lumber mill equipment. The Auyers submitted phony invoices, showing lumber mill equipment purchases, but never purchased lumber mill equipment and failed to repay the CDBG loan. As a result, HUD realized a loss of \$458,821.



HUD OIG received and probed allegations of unfair grant distributions by Empire State Development Corporation (ESDC), **New York, NY**, a HUD-funded nonprofit created to administer and distribute Small Firm Attraction and Retention Grants (SFARG) and Business Recovery Grants (BRG) for redevelopment of lower Manhattan after the September 11, 2001, terrorist attacks. As a result, Dart Courier Service, the recipient of SFARG and BRG

funds totaling \$692,500 and \$300,000, respectively, returned \$422,425 in SFARG funds to ESDC.



Chang Sheng Yu, a Chinese national and president of American McKinley Venture Management, Inc., pled guilty during his trial in U.S. District Court, **New York, NY**, to theft of government funds, mail fraud, and submission of false Social Security numbers (SSN) for his role in a scheme to defraud HUD and Empire State Development Corporation (ESDC) of \$118,876 in federal grant money. Yu falsely obtained a BRG and attempted to obtain an SFARG through ESDC. ESDC, a HUD-funded nonprofit established to provide assistance to businesses in lower Manhattan after the September 11, 2001, terrorist attacks, established BRG and SFARG programs after receiving a \$700 million appropriation from HUD.



Roderick Caston, a former member of the City of Shreveport Zoning and Appeals Board, was sentenced in U.S. District Court, **Shreveport, LA**, to 12 months confinement and 3 years supervised release and ordered to pay City of Shreveport Department of Community Development (SDCD) \$107,000 restitution for his earlier guilty plea to theft of government funds. Caston applied for and received HUD CDBG funds through the SDCCD Small Business Loan Program to construct a carwash business in downtown Shreveport, then diverted loan proceeds at closing through two vendors. The vendors funneled back to Caston most of the borrowed money, which he used for personal expenses. As a result, HUD realized a loss of \$107,144.



John J. Walsh, doing business as J. Walsh and Sons Building and Remodeling, was sentenced in U.S. District Court, **Springfield, MA**, to 6 months confinement at a community corrections center, 6 months house arrest with electronic monitoring, 3

years probation, and 200 hours of community service for his previous conviction on false statements to a federal agent and perjury charges. Walsh provided false statements to a federal grand jury and federal agents when questioned about his role in the laundering through his business of HUD CDBG funds earmarked for the Façade program, a program providing funding for renovations at specific restaurants in Springfield, MA.



Harry Diaz pled no contest in Seventh Judicial Circuit Court, **Deland, FL**, to charges of grand theft. Diaz was placed on 36 months probation and ordered to pay \$1,400 restitution to Health Planning Council of Northeast Florida (HPCNEF), a nonprofit organization and subrecipient contracted to administer HUD HOPWA funding. Diaz used the identity of another incarcerated but active participant in the HOPWA program, forged his signature on a HPCNEF rental assistance contract agreement and checks issued by HPCNEF, and deposited HPCNEF checks totaling \$1,400 into his personal account.



Lori Thompson, also known as Lori Hyman; Lori Gribbin; Christine Hyman; Suzanne O'Leary; and/or April Atkinson, a former Shelter Plus Care Section 8 tenant through Shalom House, a HUD CPD-funded housing assistance program, pled guilty in Cumberland County Court, **Portland, ME**, to theft by deception and aggravated forgery. Thompson was sentenced to 10 years incarceration (5 years suspended) and 3 years supervised probation for defrauding HUD and State of Maine Health and Human Services by creating false identities, failing to report tenants and income, creating identifies for

fictitious children, and receiving additional benefits for children not in her custody. In addition to the above charges, Thompson pled guilty to previous charges of theft by deception and was sentenced to an additional 3 years incarceration (to be served concurrently with her above imprisonment) for fraudulently receiving \$105,121 in state and/or federal funds and benefits. As a result of her actions, HUD realized a loss of \$23,069.



James Thomas Jr., owner of Thomas Wrecking, was sentenced in U.S. District Court, **St. Louis, MO**, to 60 days home confinement and 3 years probation for his earlier guilty plea to tax evasion. Thomas admitted using his company as a "front" for Spiritas Wrecking to satisfy St. Louis Community Development (SLCD) regulations regarding minority business participation in the \$8 million renovation of the old St. Louis City Hospital. Thomas funneled Spiritas Wrecking payroll checks through Thomas Wrecking to create the façade that a minority contractor participated in the SLCD project as certified.



Michael Caridi, president and owner of SRC Industries, pled guilty in Rockland County Court, **New City, NY**, to falsifying business records and offering false instruments for filing. Joseph Rotonde, vice president of SRC, and Orry Osinga, a subcontractor for SRC, each pled guilty to charges of offering false instruments for filing. SRC, a general contractor for Jawanio, a HUD-funded nonprofit created to build housing for developmentally disabled adults, falsified payrolls submitted to HUD and failed to pay employees Davis-Bacon wages as agreed.







## **Chapter 6**

# **Hurricane Relief Oversight**



## HUD Authorized CPD Funds to Gulf Coast Region



**Alabama**  
**\$95.6 Million**



**Florida**  
**\$182 Million**



**Mississippi**  
**\$5.481 Billion**



**Louisiana**  
**\$10.41 Billion**



**Texas**  
**\$503 Million**



*“We learned from our 9-11 efforts that to be effective, your teams on the ground and at headquarters must be proactive rather than reactive. Although a basic concept, it is one that is key to the ability to make a real impact. This proactive posture extends to collaboration. Rebuilding and redevelopment must happen cooperatively with state agencies that know their communities and citizens’ needs.”*

Remarks made by Inspector General Kenneth M. Donohue testifying before the United States House of Representatives on May 10, 2006, in Washington, DC.

## ***Introduction and Background***

During the Office of Inspector General’s (OIG) last semiannual reporting period, Congress approved \$11.5 billion to the U.S. Department of Housing and Urban Development (HUD) to assist five Gulf Coast states with restoration and recovery from the 2005 hurricane season, and an additional \$390 million for housing

vouchers. During the current reporting period ending September 30, 2006, Congress approved an additional \$5.2 billion to the HUD Community Development Block Grant (CDBG) program for the five Gulf Coast states for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most

impacted and distressed areas related to the consequences of Hurricanes Katrina, Rita, and Wilma. As requested by President Bush, HUD allocated the State of Louisiana the statutory maximum \$4.2 billion, making \$973 million available to address the disaster recovery needs of Alabama, Florida, Mississippi, and Texas.

HUD conducted panel meetings with the other Gulf Coast states to discuss allocation requests and unmet needs. Secretary Jackson announced emergency CDBG funding allocations for the remaining four Gulf States as follows: Texas - \$428 million, Mississippi - \$423 million, Alabama - \$21 million, and Florida - \$100 million. In addition, HUD opened 20 new homes in the old Fischer development in the New Orleans area and has worked to redevelop other public housing developments to accommodate returning residents. HUD also contributed \$500,000 to the New Orleans' Neighborhoods Rebuilding Plan or "charrette" process, which is a community-driven effort to help guide the revitalization of the city's neighborhoods that addresses each community's priorities and plans.

The following list provides updates on Federal Emergency Management Agency (FEMA) disaster relief, mission assignments, and CDBG funding to the five Gulf Coast states:

#### **HUD Public and Indian Housing, Katrina Disaster Housing Assistance Program (KDHAP)**

- \$79 million funded to HUD by FEMA to relocate almost 102,000 families in Presidential Declared Disaster Area (PDDA).
  - Evacuees relocated by public housing agencies in 44 states.
  - 14,000 families relocated by the Housing Authority of New Orleans (HANO).

- 119 housing choice vouchers and 1,721 disaster vouchers issued by HANO.
- KDHAP transitioned by HUD to Disaster Voucher Program (DVP).

#### **HUD Single-Family Real Estate Owned (REO) Properties**

- \$29 million advanced to HUD-contracted management and marketing firms.
  - 6,500 houses taken off the market for rehabilitation and use by evacuees in 11 states.
  - 2,600 houses readied for evacuee housing.
  - REO properties offered for sale to evacuees at a discount.

#### **HUD Public and Indian Housing Disaster Voucher Program**

- \$390,299,500 funded directly to HUD.
  - Portable Section 8 vouchers.
  - Program to expire September 30, 2007.

#### **Synopsis of Approved Plans for Gulf Coast States' CDBG Disaster Recovery Assistance**

- Louisiana
  - \$10.410 billion in total Disaster Recovery Assistance funding.
  - Primary administering agencies: Louisiana Recovery Authority (LRA) and State of Louisiana, Office of Community Development (OCD).
  - The Road Home Housing Program - \$8.062 billion.;



- \$6.347 billion earmarked for the Homeowner Assistance Program.
  - Additional HUD approved action plans:
    - Restoration of homeless housing shelter capacity - \$26 million.
    - Workforce and Affordable Rental Housing Program - \$1.536 billion.
    - Other developer incentives - \$21 million.
    - Local Government Code Enforcement Program - \$11 million.
    - Economic development programs - \$332.5 million.
    - Administration - \$189.9 million.
  - Additional action plans are under development by the state.
- Mississippi
  - \$5,481,036,059 in Disaster Recovery Assistance funding.
  - Primary administering agency: Mississippi Development Authority (MDA)
  - Additional HUD approved action plans:
    - Homeowner Assistance Grant Program - \$3.26 billion.
    - Public Housing Program - \$105 million.
- Ratepayer and Wind Pool Mitigation Programs - \$410 million.
- Gulf Coast Regional Infrastructure Program - \$500 million.
- Economic Development and Community Revitalization Program - \$300 million, under discussion with HUD.
- Additional action plans are under development by the state.
- Texas
  - \$503,194,849 in Disaster Recovery Assistance funding.
  - Primary administering agencies: Texas Department of Housing and Community Affairs (TDHCA) and Office of Rural Community Affairs (ORCA).
  - Housing, infrastructure, public service, and public facility - \$74.5 million.
  - Additional action plans are under development by the state.
- Florida
  - \$182,970,518 in Disaster Recovery Assistance funding.
  - Primary administering agency: Florida Department of Community Affairs, Division of Housing and Community Development.
  - Housing, infrastructure, and durable construction - \$82.9 million.



- Additional action plans are under development by the state.
- Alabama
  - \$95,613,574 in Disaster Recovery Assistance funding.
  - Primary administering agency: Alabama Department of Economic and Community Affairs (ADECA).
  - Housing, infrastructure, and economic development - \$74.4 million.
  - Additional action plans are under development by the state.

## Audits

During this period, OIG issued two external reports and one internal report on the Gulf Coast disaster area. These reports disclosed more than \$97,000 in questioned costs and made recommendations to ensure that HUD maintains complete and compliant contract files.

The HUD OIG Office of Audit responded quickly to establish an office for Hurricane Katrina oversight to prepare for the long process of recovery. The Office of Audit and HUD are not generally first responders; however, the Office of Audit established an office, developed an audit plan, and begun some reviews in the disaster areas. Currently, the *Hurricane Recovery Audit Operations Division* in New Orleans is staffed by five permanent employees and five additional auditors are detailed from other HUD OIG regional offices. In addition, the Office of Audit is in the process of hiring six more auditors to be located in Louisiana and Mississippi.

The Office of Audit's initial assignment was to evaluate HUD's use of REO properties to house disaster evacuees. It also has performed an audit of the more than \$17 million in contracts issued for disaster-related procurement activities. The *Hurricane Recovery Audit Operations Division* is now starting reviews of Mississippi's and Louisiana's homeowners programs. These programs are funded from HUD's emergency supplemental appropriations of approximately \$17 billion. These reviews are timely and will assist in establishing a presence and acting as a real-time deterrent to waste and abuse in HUD's activities. The results of OIG's completed Gulf Coast disaster area audits are described below.

## *Final Audit Products*

### *Southwest Alliance of Asset Managers, LLC, Addison, Texas, Did Not Effectively Enforce the Lease Terms over Payment of Property Utilities*

HUD OIG audited Southwest Alliance of Asset Managers, LLC, a management and marketing contractor (M&M) for HUD REO properties held off market for disaster victims. The audit was initiated in conjunction with the President's Council on Integrity and Efficiency (PCIE), as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. OIG's objective was to determine whether Southwest Alliance complied with HUD's regulations, procedures, and instructions in the management of HUD's REO properties held off market for disaster victims.

Southwest Alliance generally complied with the terms of its M&M contract, with one exception. It did not effectively ensure that the disaster victims transferred the billing of property utility services into their names within 7 days of occupancy, as required by the lease agreements. As a result, after occupancy by tenants, HUD paid more than \$79,000 in utility costs for 636 leased properties during the period September 2, 2005, through April 25, 2006.

OIG recommended that HUD instruct Southwest Alliance to take appropriate action against the tenants who do not comply with the lease requirements over utility payments and require Southwest Alliance to initiate collection actions against tenants to recover the more than \$79,000 HUD paid for utility costs. (Audit Report: **2006-AO-1001**)



### *Cityside Management Corporation, Hammond, Louisiana, Did Not Enforce the Lease Terms over Payment of Property Utilities*

HUD OIG audited Cityside Management Corporation, an M&M contractor for HUD REO properties held off market for disaster victims. The audit was initiated in conjunction with PCIE, as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. OIG's objective was to determine whether Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's REO properties held off market for disaster victims.

Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's REO properties held off market to house disaster victims, with one exception. It did not ensure that all disaster victims transferred the billing of property utility services into their names and paid charges for utility services in full, as required by the lease agreements. Instead, Cityside used almost \$18,000 in HUD funds to pay the monthly billings on 133 leased properties during the period October 13, 2005, through March 31, 2006.

OIG recommended that HUD take appropriate action against the tenants who do not comply with the instruction and requirements regarding utility payments and require Cityside to initiate collection actions against tenants to recover almost \$18,000 that HUD paid for utility costs and any additional costs HUD incurred after March 31, 2006. (Audit Report: **2006-AO-1002**)



*The Departments Did Not Maintain Complete Contract Files; Washington, DC*

HUD OIG audited HUD’s emergency response contract award process as part of the OIG annual audit plan, along with efforts to monitor Hurricanes Katrina and Rita disaster relief efforts. The objective was to evaluate the economy, efficiency, and effectiveness in the award of the contract funds for hurricane relief and recovery efforts.

HUD did not maintain complete files for contract actions that were awarded in response to disaster-related relief efforts. In 11 of the 13 contract files reviewed, information was either missing or not prepared in accordance with applicable regulations, policies, and procedures. As a result, HUD cannot be assured that contract files related to emergency contract actions were complete and in compliance with applicable regulations, policies, and procedures.

OIG recommended that HUD develop and implement internal controls to ensure that the contract files are complete and in accordance with applicable regulations, policies, and procedures for contracts awarded in response to disaster-related events. (Audit Report: 2006-AT-0001)

*Ongoing Audits*

*CDBG Disaster Funding*

Auditors are reviewing the system of controls over the homeowners program that is funding through the issuance of block grant funds for the States of Mississippi and Louisiana.

*KDHAP Vouchers*

HUD OIG has obtained access to FEMA data relating KDHAP funds and is conducting a review of the issuance of the funds.



*Coordination with State Auditors*

HUD OIG initially held meetings with the state auditors for the five states within the Gulf Coast region to discuss plans on how to coordinate the various audit efforts. Currently HUD OIG auditors are working with Louisiana and Mississippi auditors on coordination efforts.



## Investigations

The HUD OIG Office of Investigation established the Disaster Relief Oversight Division (DROD) to assist with oversight responsibilities in the detection and prevention of waste, fraud, and abuse of HUD CDBG disaster recovery assistance funding available to five affected Gulf Coast States. OIG also created the Hurricane Recovery Task Force, located in New Orleans, LA, combining forces with the U.S. Department of Justice (DOJ), Federal Bureau of Investigation (FBI), Department of Homeland Security (DHS) OIG, Social Security Administration (SSA) OIG, U.S. Postal Inspection Service (USPIS), and other federal agencies to jointly address allegations of fraud and public corruption through active participation in the Hurricane Katrina Fraud Task Forces (HKFTF) located in Baton Rouge, LA; Jackson, MS; and Houston, TX.

DROD is primarily responsible for liaison; research, analysis, and recommendations; monitoring, reporting, and dissemination; and strategic planning and implementation of HUD OIG OI directives and initiatives associated with disaster assistance and recovery. DROD developed and participates in a far-reaching fraud prevention program in the affected states of the Gulf Coast region. DROD sponsored disaster recovery funding workshops for prosecutors and law enforcement, as well as state agencies' personnel in the States of Louisiana and Mississippi. These disaster recovery funding training workshops were designed to educate their state agencies, as well as federal, state, and local law enforcement, in identifying fraud in the HUD Community Planning and Development (CPD) grant programs. During this reporting period, OI senior investigative management, DROD, and the Hurricane Recovery Task Force in New Orleans devoted significant efforts to prevention and deterrence activities. This included liaison with state agencies and

their contractors, conferring with HUD program officials and industry groups, and hosting and participating in law enforcement meetings and conferences in the Gulf Coast Region.

During this reporting period, OIG opened 66 investigative cases in the Disaster Relief program areas. Judicial action taken on these cases during the period included \$4380 in investigative recoveries, 13 indictments/informations, 5 convictions/pleas/pretrial diversions, 3 administrative actions, and 13 arrests.

Some investigations discussed in this report were conducted jointly with Federal, state, and local law enforcement agencies. The results of various significant investigations are described below.

### *Hurricane-Related Benefit Fraud*

Carolyn Richard and her husband George Davis III, Lancaster City Housing Authority (LCHA) Section 8 applicants, were sentenced in U.S. District Court, **Harrisburg, PA**, for their earlier guilty pleas to providing LCHA false information. Richard was sentenced to 6 months home confinement and 2 years supervised probation and fined \$250; Davis III was sentenced to 2 years supervised probation and fined \$450. Richard and Davis III, Hurricane Katrina evacuees from New Orleans, LA, who relocated to Columbia, PA, submitted an application for emergency housing through LCHA but failed to report their criminal histories, including Richard's release from a New Orleans jail as a result of hurricane flood waters.



Sheila Davis pled guilty in U.S. District Court, **Harrisburg, PA**, to making false statements to HUD. Davis submitted a false application for emergency housing assistance to the Housing Authority of the



County of Dauphin when she claimed to be a Hurricane Katrina evacuee forced to relocate to Harrisburg, PA, but actually resided in Harrisburg, PA, and was facing eviction from her Harrisburg, PA apartment at the time.



Tequila Marleen Davis, a Housing Authority of the County of Los Angeles (HACoLA) Section 8 recipient, and Ruby Mae Jones, a Housing Authority of the City of Los Angeles (HACLA) Section 8 recipient, were each charged in Los Angeles County Superior Court, **Los Angeles, CA**, with grand theft and cheating and defrauding FEMA. Davis and Jones, while receiving housing assistance from HACoLA and HACLA, allegedly claimed to be victims of Hurricane Katrina and filed fraudulent claims with FEMA, and each received \$2,000 U.S. Treasury checks based on their claims.



Tina Marie Gilmore, a Saint Clair Housing Authority, Belleville, IL, Section 8 applicant, was indicted in U.S. District Court, **East St. Louis, IL**, on making false statements to HUD, FEMA, and SSA. Gilmore allegedly filed false HUD, FEMA, and SSA applications stating she lost her home and two children during Hurricane Katrina flooding in New Orleans, LA, but Gilmore never had children and resided with her spouse in Belleville, IL during the hurricane.



Della Lee, also known as Darby Orange, a Gainesville Housing Authority Section 8 tenant, was indicted in U.S. District Court, **Plano, TX**, on false statements and agreed to a pretrial diversion. Lee allegedly misrepresented herself as a Hurricane Katrina victim and displaced Mississippi resident but lived in Gainesville, TX, when Hurricane Katrina struck and was incorrectly listed by FEMA as a person eligible for KDHAP. As a result, Lee received \$4,380 in KDHAP benefits she was

not entitled to receive and agreed to pay restitution as a condition of her pretrial diversion.



Rashieda Hollins, a Houston Housing Authority Section 8 recipient, was indicted in U.S. District Court, **Houston, TX**, on three counts of making false claims. Hollins allegedly filed three false FEMA applications claiming she was a Hurricane Katrina evacuee from New Orleans, LA, and received \$4,550 in FEMA assistance to which she was not entitled to receive. Hollins was terminated from HUD's Rental Assistance Program for abandoning her subsidized unit.



Quanetha Joseph, an Indianapolis Housing Authority (IHA) Section 8 tenant, and her mother Penny Joseph were charged in Marion County Superior Court, **Indianapolis, IN**, with multiple counts of welfare fraud and theft. Quanetha Joseph allegedly claimed she lived in a New Orleans, LA, public housing unit during Hurricane Katrina when she applied for IHA housing assistance. After receiving an IHA public housing unit, Quanetha Joseph allegedly relocated to Houston, TX, failed to notify IHA of her relocation, and allowed her mother Penny Joseph to reside in her IHA public housing unit. Penny Joseph allegedly claimed she also was a victim of Hurricane Katrina but actually had lived in the Indianapolis area since January 2005. Quanetha Joseph filed for and obtained FEMA funding, Red Cross Assistance, and approximately \$5,800 in IHA housing assistance she was not entitled to receive; Penny Joseph filed multiple false damage claims, but all claims were denied. Quanetha and Penny Joseph were terminated from HUD's Rental Assistance Program.



Bridgette N. Toney, a Section 8 tenant at Scotland Square Apartments, a HUD-funded multifamily housing complex, was indicted in

U.S. District Court, **Baton Rouge, LA**, on one count of making false claims and two counts of making false statements. Toney allegedly filed a claim with FEMA requesting \$2,000 in FEMA funds as a result of Hurricane Katrina damages to her personal property and evacuation from her HUD-subsidized housing unit, but Scotland Square Apartments suffered no structural damage, and residents were not forced to evacuate during either Hurricanes Katrina or Rita.



Amanda Rettig, a Section 8 tenant of Lyman Manor Apartments, a HUD-subsidized multifamily housing complex, was indicted in U.S. District Court, **Gulfport, MS**, on numerous counts of making a false claim, false statements, theft of public money, and mail fraud. Rettig allegedly filed a FEMA application claiming damages to her primary residence and personal property in Saucier, MS, received \$22,253 in FEMA assistance, but resided in a HUD-subsidized housing unit in Gulfport, MS, during Hurricane Katrina.



Roosevelt Ingram, a LaFouche Parish Housing Authority Section 8 tenant, pled guilty in St. Charles Parish District Court, **Des Allemands, LA**, to battery and criminal damage to property. Ingram was sentenced to 6 months confinement (suspended) and 2 years active probation. Ingram, a fugitive felon with an outstanding warrant was arrested and removed from a barricaded temporary housing trailer during HUD OIG Operation Falcon II, and terminated from HUD's Rental Assistance Program.

## *Hurricane-Related Inspections*

HUD OIG is using forensic auditors located in the Gulf Coast region to review and evaluate the following:

- M&M firms, which received advance payments from HUD to

rehabilitate and repair REO properties for use by disaster victims.

### Hooks Van Holm

This M&M contractor's contract with HUD was increased more than \$15 million to provide repairs to single-family properties set aside for Hurricane Katrina victims. A review was performed to determine whether the contractor properly accounted for and made the necessary repairs as specified. Interviews, reviews of documentation, and property inspections showed that the repair work was adequate and the contractor maintained proper documentation for the repairs.

- Public housing authorities – Ensure adequate procedures and controls are in place to safeguard CDBG disaster recovery funding used to repair and replace public housing units in New Orleans and elsewhere and to verify that costs and expenses are proper and documented.

### HANO

This is an ongoing review of the Authority's contract to include all contracts awarded post-Hurricane Katrina. Also reviewing the Authority's homeownership program.

- Multifamily properties – Review HUD recertification and housing assistance payments procedures for selected multifamily properties located in the Gulf Coast states.

### Sunlight Manor Apartments

This is an ongoing review of the property's contracting to repair damage sustained by Hurricane Rita and the property's housing assistance

payment procedures to ensure that payments were accounted for properly.

- MDA – Determine whether MDA and/or its contractor(s) used “suspicious activity reports” or similar reports designed to detect fraud during the homeowner assistance grant application process.

This is an ongoing review of the homeowner application process from reports supplied by MDA’s contractor. These reports identify homeowners that potentially made multiple applications on the same property. These reports also identify homeowners that potentially submitted multiple applications on more than one property.

- HKFTF – Louisiana State University (LSU)

This is an ongoing review of complaints received by the HKFTF to determine whether they warrant investigation or review by HUD OIG, including an analysis of HUD Section 8 tenants using the National Emergency Management Information System (NEMIS) to determine which tenants received funding through FEMA.

## ***Hurricane-Related OIG Hotline***

During this reporting period, the Hotline received and processed 45 complaints related to Hurricanes Katrina, Rita, and Wilma.

## ***Hurricane-Related Outreach***

### ***Louisiana Outreach***

HUD Inspector General Kenneth M. Donohue chaired an hour-long panel discussion on administrative and civil fraud enforcement remedies in **New Orleans, LA**. United States Attorney General Alberto Gonzales and the Department of Justice hosted this event to commemorate the one-year anniversary of Hurricane Katrina.



Louisiana Attorney General Charles Foti hosted a press conference for the “Louisiana Road Home Zero Tolerance Program” in **Baton Rouge, LA**. Speakers at the press conference included Roy A. Bernardi, Deputy Secretary of HUD, Kenneth M. Donohue, HUD Inspector General, David Dugas, Donald Washington and James Letten, U.S. Attorneys representing three



*Speakers at the “Louisiana ‘Road Home’ Zero Tolerance Program” from left to right: Robbie Tighe, Compliance Officer, Road Home Program, ICF International; Mike Byrne, Chief Program Officer, Road Home Program ICF International; Roy Bernardi, HUD Deputy Secretary; Charles Foti, Attorney General, State of Louisiana; David Dugas, United States Attorney, Middle District of Louisiana; Donald Washington, United States Attorney, Western District of Louisiana; Jim Letten, United States Attorney, Eastern District of Louisiana; Kenneth M. Donohue, HUD Inspector General; and Sharon B. Robinson, Inspector General, State of Louisiana.*



Louisiana judicial districts, and Mike Byrne, CEO of ICF International, the “The Road Home” program contractor. The press conference described a “Zero Tolerance” policy relating to the detection, prevention, and Federal or state prosecution of all fraudulent activity as Louisiana begins the distribution of nearly \$6 billion to homeowners affected by Hurricanes Katrina and Rita.



Deputy Assistant Inspector General for Inspections and Evaluations (DAIGI) John McCarty, Acting Special Agent in Charge (SAC) Thomas Luke, and Special Agent (SA) Robert Anderson, provided a tour of the devastation caused by Hurricane Katrina in **New Orleans, LA**, and **Mississippi** to Gale Burton, Maggie Owens, and Bruce Friedland, three staff members of the U.S. House of Representatives Appropriations Committee, Sub-Committee on Surveys and Investigations. The Louisiana tour included Orleans Parish, St. Bernard Parish, and St. Tammany Parish, and focused on public housing and multifamily locations. A tour of New Orleans included three public housing projects set for demolition as a result of Hurricane Katrina, two HOPE VI developments destroyed by Hurricane Katrina, and one completely reoccupied and two partially reoccupied housing developments. The Mississippi tour included Gulfport and Biloxi areas, and concentrated on neighborhoods that held a high percentage of Federal Housing Administration (FHA)-insured single-family residences, multifamily properties, and public housing units destroyed by Hurricane Katrina.



SAC Larry Amaker presented training on Disaster Recovery Funding to prosecutors and law enforcement personnel at the State House in **Baton Rouge, LA**. The Disaster Recovery Funding workshop was designed to educate law enforcement

personnel on the nuances of HUD’s annual CDBG and Disaster Supplemental CDBG funding. Hosted by Louisiana Attorney General Charles Foti and the Louisiana Recovery Authority (LRA), guest speakers included Mr. Leroy Frazer, Bureau Chief of the Special Prosecutions Bureau, Manhattan District Attorney’s Office; SAC Ruth Ritzema, HUD OIG New York field office; SA Jenell Clark, Small Business Administration (SBA) OIG; David Dugas, U.S. Attorney, Middle District of Louisiana; Richard McClintock, Director, KPMG LLP, and Mike Byrne, CEO, ICF International. HUD OIG Management Analyst Desiree Johnson facilitated the training workshop attended by approximately 50 Federal, state, and local law enforcement personnel.



*SAC Larry Amaker presenting information at the HUD Disaster Recovery Funding workshop in Baton Rouge, LA in September 2006.*



*SAC Ruth Ritzema briefing on “Lesson Learned New York Disaster Recovery” at the HUD Disaster Recovery Funding workshop held in Baton Rouge, LA.*





Acting SAC Thomas Luke, Senior Forensic Auditor (SFA) Windell Durant, and Assistant Regional Inspector General for Audit (ARIGA) Rose Capalungan participated in an initial meeting of the Louisiana Road Home Fraud Prevention and Investigations Task Force hosted by the State of Louisiana Attorney General in **Baton Rouge, LA**. Other task force members include the Louisiana Attorney General's Office, ICF International and KPMG, two contractors hired by the State of Louisiana to administer the *Road Home Program*, Louisiana State Office of Legislative Audit, and three United States Attorneys' Offices in Louisiana. HUD OIG presented the current and future efforts in the State of Mississippi, and discussed numerous issues surfacing in administering the Mississippi Development Authority (MDA) plan of action. A lengthy review of future fraud prevention measures in Louisiana undertaken by HUD OIG and the United States Attorneys' Offices followed.



Acting SAC Thomas Luke, SFA Windell Durant, and HUD OIG Hotline Director Robert Ashworth attended a Louisiana State Attorney General's Hurricane Katrina Fraud Task Force (HKFTF) working group meeting in **Baton Rouge, LA**. The HKFTF working group met to discuss methods necessary to insure valid fraud complaints or mismanagement of CDBG funds are entered into a Department of Justice database. Hotline Director Ashworth provided suggestions and guidance to two contractors administering Hurricane Katrina CDBG funds, ICF International and KPMG, when establishing the Louisiana "Road Home" hotline. In addition, discussions were held relating to "Road Home" hotline public service announcements. Officials from Department of Justice, Louisiana State Attorney General's Office, Louisiana Office of Economic Development, ICF International, KPMG LLP, and Governor Blanco's office attended.



Acting SAC Thomas Luke provided a briefing on the current condition of the Housing Authority of New Orleans (HANO), HANO refurbishment/rebuilding contracts, the present stage of housing developments off-line, the status of out-of-state evacuees, and an overview of assistance available through the Hurricane Katrina Fraud Task Force (HKFTF) located in Baton Rouge, LA, to members of the Project Safe Neighborhood (PSN) Executive Council in **New Orleans, LA**. The PSN Executive Counsel consists of personnel from the U.S. Attorney Office for the Eastern District of Louisiana; Assistant U.S. Attorneys prosecuting violent, gun, drug, and fraud crimes; Federal agents from FBI, Drug Enforcement Agency (DEA), U.S. Marshals Service (USMS) and Alcohol, Tobacco, Firearms, and Explosives (ATFE); staff from New Orleans District Attorney Office; and law enforcement personnel from New Orleans and Jefferson, Orleans and St. Bernard Parishes. HUD OIG agreed to coordinate efforts between PSN members and HANO.



Acting SAC Thomas Luke provided a briefing on the Louisiana Recovery Authority (LRA), the Mississippi Development Authority (MDA), and the relationship between these state agencies and HUD OIG Office of Investigations to staff members from the House Appropriations Committee, Surveys and Investigations office in **New Orleans, LA**. In addition, Acting SAC Luke provided an overview of the relationship between HUD OIG and the Hurricane Katrina Fraud Task Force, how LRA and MDA interact on issues of suspected fraud, and current efforts for proactive fraud prevention. Deputy Assistant Inspector General for Audit (DAIGA) Robert Gwin and members of the New Orleans Audit staff provided an overview of audit functions involving both LRA and MDA. At the completion of the briefings, SA Robert Anderson provided the House staff members with a tour of New

Orleans' low-income and public housing neighborhoods.



SA Robert Anderson provided a fraud awareness briefing at the Louisiana Housing Council conference held in **Baton Rouge, LA**. SA Anderson provided information on HUD OIG roles and responsibilities to approximately 75 Louisiana Public Housing Authorities executives in attendance.

### Mississippi Outreach

DAIGI John McCarty, Acting SAC Thomas Luke, ARIGA Rose Capalungan, and SFA Windell Durant conducted a briefing and overview of the Mississippi Development Authority (MDA) action plan to Dunn Lampton, U.S. Attorney, Southern District of Mississippi, members of the FBI, auditors from Mississippi State Auditor Office, and District Attorneys representing four affected counties in Southern Mississippi at a meeting held in **Jackson, MS**. The briefing provided a synopsis of funding, an explanation on how MDA will withdraw funds, and covered topics including Federal and state prosecutions, construction working groups, Memoranda of Understanding (MOU) between Federal and state agencies, and additional training for prosecutors and local law enforcement.



SAC Larry Amaker and Acting SAC Thomas Luke sponsored a Disaster Recovery Funding Workshop on the campus of the University of Southern Mississippi located in **Hattiesburg, MS**. Mississippi State Auditor Phil Bryant made a guest appearance to kick off the start of the HUD OIG workshop, and other guest speakers included SAC Ruth Ritzema, SAC Peter Emerzian, and SA Jenell Clark, Small Business Administration (SBA) OIG. Those in attendance included David Dugas, U.S. Attorney, Middle District of Louisiana; Dunn Lampton, U.S. Attorney, Southern



*State Auditor Phil Bryant addressing law enforcement personnel attending the HUD OIG sponsored Disaster Recovery Funding Workshop in Hattiesburg, MS in July 2006.*

District of Mississippi; John Dowdy, Assistant U.S. Attorney, Southern District of Mississippi; numerous District Attorneys and their representatives, as well as audit personnel from the Mississippi Office of the State Auditor. Representing HUD OIG was ARIGA Rose Capalungan, SSA Sandra Hackworth, and SAs Robert Anderson, William Bathke, and Michael Gibson. Approximately 50 law enforcement agents and personnel attended the workshop. The Disaster Recovery Funding Workshop was designed to train law enforcement personnel on the nuances found in the HUD Annual CDBG funding and Disaster Supplemental CDBG funding.



Acting SAC Thomas Luke and Supervisory Forensic Auditor (SFA) Windell Durant provided multiple fraud awareness briefings to employees of the Reznick Group and Allied American Adjusting in **Gulfport, Gautier, and Bay St. Louis, MS**. The Mississippi Development Authority contracted with the Reznick Group to administer their homeowner assistance grant program, and Allied American Adjusting to conduct appraisals of single-family homes damaged or destroyed during Hurricane Katrina.



Acting SAC Thomas Luke provided remarks at a press conference held at the Mississippi Gulf Coast Convention Center in **Biloxi, MS**. Hosted by Phil Bryant, State Auditor for Mississippi, the press conference was called to announce the formation of the Katrina Fraud Prevention and Detection Unit. Speeches given by Mississippi Governor Haley Barbour and Dunn Lampton, U. S. Attorney, Southern District of Mississippi, highlighted the conference. Others in attendance included Congressman Gene Taylor’s representative, U.S. Marshal Nehemiah Flowers, Federal Bureau of Investigation (FBI) SAC John Rucci, HUD OIG Assistant Regional Inspector General for Audit (ARIGA) Rose Capalungan, and District Attorneys and Sheriffs from four Mississippi counties affected by the hurricanes.



*Acting SAC Thomas Luke (right) conversing with United States Attorney, Dunn Lampton (left) and State Auditor Phil Bryant (center) in Hattiesburg, MS at the HUD OIG sponsored Disaster Recovery Funding Workshop.*

Acting SAC Thomas Luke, SFA Windell Durant, and HUD OIG Hotline Director Robert Ashworth attended a Mississippi fraud working group meeting held at the U.S. Attorney’s Office in **Gulfport, MS**. Deputy Attorney General Alice Fischer provided an overview of Department of Justice efforts to assist local District Attorneys and law enforcement personnel, and Southern District of Mississippi U.S.

Attorney Dunn Lampton and Assistant U.S. Attorney John Dowdy, Chief of the Criminal Division, provided an update on current investigations. Mississippi Attorney General Jim Hood and local District Attorneys provided an overview of issues they faced, and described current contractor fraud investigations and consumer protection violations. Representatives from FBI, Department of Homeland Security Office of Inspector General, Mississippi State Auditors Office, Mississippi Bureau of Investigations, and numerous southern Mississippi District Attorney offices and law enforcement personnel attended.

Acting SAC Thomas Luke and SA’s Michael Gibson and Toni Zavala participated in a “Contractor Fraud Working Group” (CFWG) hosted by Southern District of Mississippi U.S. Attorney Dunn Lampton and Assistant U.S. Attorney John Dowdy, Chief of the Criminal Division in **Gulfport, MS**. U.S. Attorney Lampton, in conjunction with the State of Mississippi Attorney General’s Office, formed the CFWG and includes representatives from the FBI, District Attorneys’ Offices, Sheriff’s Offices, and Police Departments from seven localities along the gulf coast affected by Hurricane Katrina, MS State Auditors Office, and MS State Police. The CFWG met to develop a standard operating procedure for recording, investigating, and prosecuting homeowner complaints involving contractors. U.S. Attorney Lampton provided an overview of the procedures for prosecuting complaints, a briefing on the Hurricane Katrina Fraud Task Force (HKFTF) process of recording complaints, and described assistance available to local law enforcement from HKFTF task force members.

Acting SAC Luke accompanied Congressional staff members from the House Appropriations Committee to the MDA Service Center in **Gulfport, MS**. At the MDA Center, representatives from the



Reznick Group provided a briefing on the Mississippi Housing Assistance Program, a walkthrough of the intake procedure, and an observation of an actual applicant progressing through the CDBG grant application process. After the MDA Service Center visit, staff members were provided with a tour of single-family neighborhoods in both Gulfport and Biloxi before a fraud referral briefing by Mississippi State Auditors in Hattiesburg.

### Other Outreach

HUD OIG Deputy Inspector General (DIG) Michael Stephens, DAIGI John McCarty, SAC Larry Amaker, Senior Special Agent (SSA) Hackworth, and HUD OIG Auditors Christine Begola and Patrick Bannon attended the President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE) Homeland Security roundtable meeting for OIG Hurricane Katrina Oversight in **Washington, D.C.** Topics of discussion included legislative updates, government reform initiatives, Gulf Coast small business contracting issues, GAO updates on Gulf Coast initiatives, and updates on the operations of the Hurricane Katrina Fraud Task Force.



DAIGI John McCarty, ARIGA Rose Capalungan, and Region 6 ASAC Michael Wilson met with representatives of HUD and Texas Department of Housing and Community Affairs (TDHCA) in **Austin, Texas.** DAIGI McCarty presented the role and responsibilities of HUD OIG in the hurricane recovery process, and offered HUD OIG assistance in program development. Officials in attendance included Katie Worsham, Director of HUD Office of Community Planning and Development (CPD), Fort Worth, Texas, Jennifer Molinari, TDHCA, Oralia Cardenas, Texas’ Office of Rural Community Affairs (TXORC), and representatives and staff of

TDHCA, TXORC, and four Councils of Governments overseeing Hurricane Rita recovery efforts in their communities.



SAC Larry Amaker and Assistant Director for Technical Planning & Oversight Christine Begola met with Florida Department of Community Affairs (FDCA) officials in **Tallahassee, FL.** SAC Amaker provided the role and responsibilities of HUD OIG in overseeing HUD CDBG funding to the State of Florida. Anne Kittrell, Inspector General for the State of Florida, FDCA Chief of Staff Janice Browning, FDCA Ted Court, and HUD OIG Region 4 SAC William Creel and ASAC Timothy Mowery also attended.



SSA Sandra Hackworth and SA Michael Gibson provided a presentation at the Alabama Department of Economic and Community Affairs (ADECA) training workshop held at the Mitchell Center on the University of Alabama campus in **Mobile, AL.** ADECA is the state agency administering funding provided to Alabama for its recovery from the effects of Hurricane Katrina. SSA Hackworth and SA Gibson’s presentation, an integral part of ADECA’S workshop, focused on HUD’S Community Development Block Grant (CDBG) disaster recovery funding program and contract fraud awareness. SSA Hackworth and SA Gibson also hosted a question and answer session following their presentation. Approximately 50 ADECA grantees and sub-grantees attended.





## Pictures of HUD OIG's Hurricane Relief and Recovery Efforts



*HOPE VI project, Abundance Square, 9th Ward, New Orleans, LA.*



*Lake Pontchartrain as seen from Carr Drive in Slidell, LA.*



*Frenchman's Wharf, HUD multifamily location, New Orleans East.*



*DAIGI John McCarty and SA Robert Anderson briefing congressional staffer Bruce Friedland at Frenchman's Wharf located in New Orleans East.*



*Acting SAC Thomas Luke leading congressional staffers on a tour of Abundance Square located in the 9th Ward, New Orleans, LA.*



*Flood-damaged home in Lakeview neighborhood, New Orleans, LA.*



*DAIGI John McCarty and Acting SAC Thomas Luke conferring with congressional staffers at the Industrial Canal breach, Lower 9th Ward, New Orleans, LA.*



*Hurricane-damaged structure along the Mississippi Gulf Coast.*



*Hurricane-damaged structure along the Mississippi Gulf Coast.*







## **Chapter 7**

# **Other Significant HUD Audits and Investigations/OIG Hotline**



## Audit

During this reporting period, the Office of Inspector General (OIG) issued one external and three internal reports involving areas of U.S. Department of Housing and Urban Development (HUD) operations that do not fall under major HUD programs reported in previous chapters. These reports disclosed more than \$930,000 in questioned costs and over \$470,000 in funds put to better use.

OIG's more significant audits are discussed below.

### *HUD Information Technology Contingency Planning and Preparedness Compliance with Federal Requirements*

HUD OIG audited HUD's information technology contingency planning and preparedness compliance with federal requirements and its ability to recover in the event of interruption or disaster in a timely manner.

The following areas of concern were identified: (1) the information contingency planning process does not fully use the planning process as recommended by the National Institute of Standards and Technology, (2) there is no assurance that the alternate data recovery facilities have the capability to restore HUD's mission-critical and major applications within the required timeframes, and (3) HUD's information technology contingency and disaster recovery plans are not documented and maintained to reflect current conditions.

OIG recommended that HUD (1) request that program officials complete the business impact analysis and risk assessments and ensure that they are

incorporated into HUD's contingency and disaster recovery plans and that the documents reflect current conditions and incorporate corrective actions identified, (2) ensure that the Lockheed Martin Network Operating Center develops a memorandum of understanding with its alternate recovery sites to ensure that the facilities have the capability to restore HUD applications within the required timeframes, and (3) evaluate the Electronic Data Systems and SunGard "no priority of service" provisions to determine whether conflicting priorities impact the recovery time objectives. (Audit Report: 2006-DP-0005)

### *HUD Information Technology Compliance with OMB M-06-16 "Protection of Sensitive Agency Information"*

HUD OIG completed a limited scope assessment of HUD's compliance with Office of Management and Budget (OMB) Memorandum M-06-16, "Protection of Sensitive Agency Information." The memorandum stresses that federal agencies take all necessary and reasonable measures to eliminate significant vulnerabilities to the sensitive information entrusted to them. Agencies are required to (1) implement National Institute of Standards and Technology-recommended security controls and take specific actions by August 7, 2006, and (2) answer questions related to personally identifiable information and the extent to which specific controls and actions required by the memorandum were designed and implemented. Additionally, the Inspectors General community is required to assess compliance with the memorandum. OIG has determined that the contents of this memorandum would not be appropriate for public disclosure. Therefore, it has limited its distribution to selected HUD officials. (Audit Report: 2006-DP-0802)

## *Federal Information Security Management Act of 2002*

The Federal Information Security Management Act of 2002 (FISMA) directs HUD OIG to perform an annual independent evaluation of HUD's information security program and practices. OIG has determined that the contents of this memorandum would not be appropriate for public disclosure and has, therefore, limited its distribution to selected officials. (Audit Report: 2006-DP-0803)

## *Healthy Homes Initiative Grant*

HUD OIG audited the Child Abuse Prevention Council of Sacramento, located in **North Highlands, CA**, in response to a referral from HUD. The objectives were to determine whether the Council administered its Supportive Housing Program grant in accordance with HUD requirements and its grant agreement.

The Council did not adequately administer its Healthy Homes Initiative grant. As a result, nearly \$937,000 of the more than \$1 million in payment (reimbursement) requests submitted to HUD was for ineligible and unsupported costs.

OIG recommended that HUD require the Council to repay it from nonfederal sources for ineligible and unsupported expenses (for which reimbursement was previously received from HUD); not pay the Council for outstanding reimbursement requests, consisting of ineligible and unsupported expenses, unless it can provide adequate supporting documentation; deobligate all remaining grant funds including ineligible costs, any unsupported costs that cannot be documented, and the almost \$473,000 unused portion of the \$1.5

million grant; and not award the Council additional funding until it has implemented adequate financial management and procurement systems and can provide evidence that it has developed the organizational capacity to carry out a HUD grant. (Audit Report: 2006-LA-1013)



## Investigation

During this reporting period, OIG opened 14 investigation cases and closed 10 cases involving areas of HUD operations that do not fall under specific programs identified in other chapters of this report. Judicial actions taken on these cases during the period included 2 indictments/informations, 1 convictions/pleas/pretrial diversions, 3 personnel actions, and 1 arrest.

## OIG Hotline

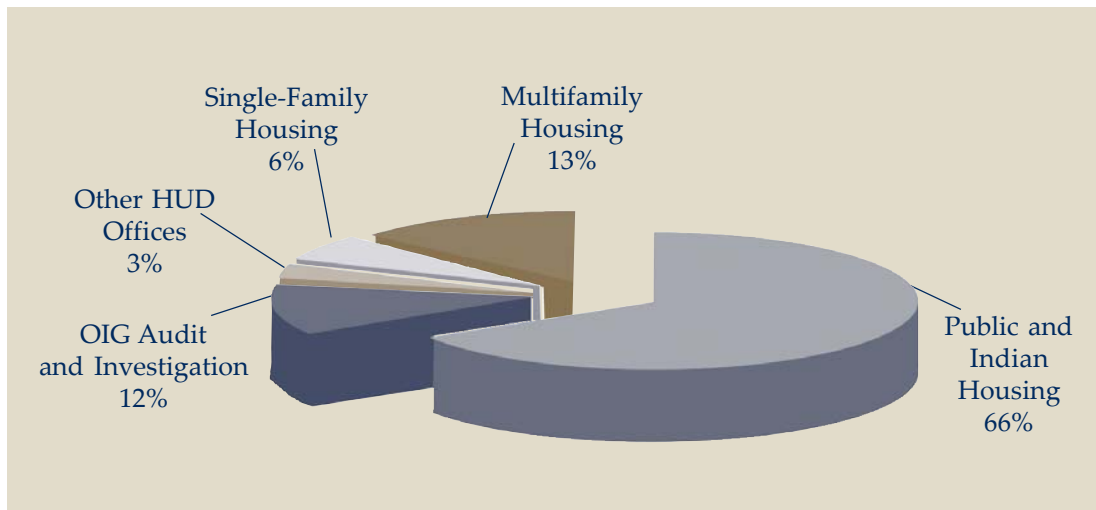
The HUD OIG Hotline is operational 5 days a week, Monday through Friday, from 10:00 a.m. to 4:30 p.m. The Hotline is staffed by seven full-time OIG employees, who take allegations of waste, fraud, abuse, or serious mismanagement in HUD or HUD-funded programs from HUD employees, contractors, and the public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

During this reporting period, the Hotline received and processed 10,588 complaints – 76 percent received by telephone, 17 percent by mail, and 7 percent by e-mail. Every allegation received by the Hotline is logged into a database and tracked.

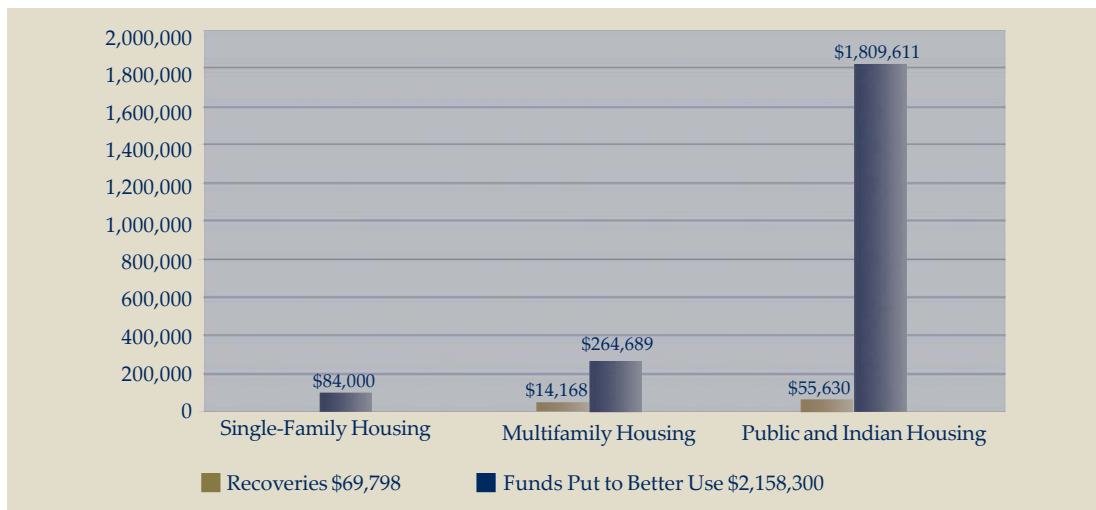
Of the complaints received, 1,196 were related to the mission of OIG and were addressed as Hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of Hotline case referrals by percentage.

The Hotline closed 832 cases this reporting period. The closed Hotline cases included 130 substantiated allegations. The substantiated allegations resulted in six administrative sanctions against HUD employees for personnel violations or investors for improprieties involved in the purchase of a home. The Department also took 124 corrective actions that resulted in \$69,798 in recoveries of losses and \$2,158,300 in HUD funding that could be put to better use. The recoveries included repayments of overpaid rental subsidies. Some of the funds that could be put to better use were the result of cases in which tenants were terminated from public housing or multifamily housing programs for improperly reporting their incomes or family composition to qualify for rental assistance.

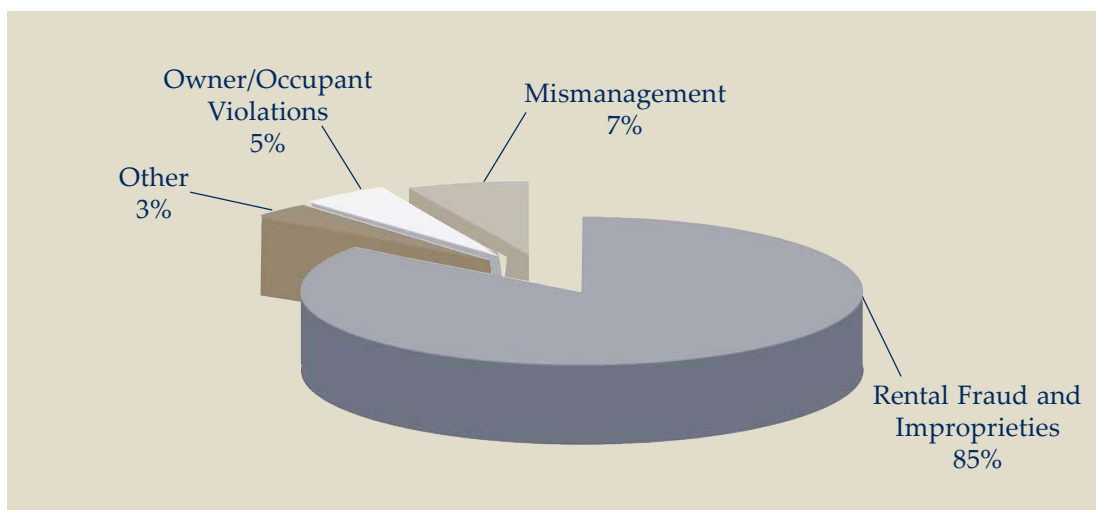
**Chart 7.2: Hotline Cases Opened by Program Area**



**Chart 7.3: Hotline Dollar Impact from Program Offices**



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









## **Chapter 8**

# **Outreach Efforts**

To foster cooperative, informative, and mutually beneficial relationships with agencies and organizations whose intent is to assist the accomplishment of the U.S. Department of Housing and Urban Development's (HUD) mission, the Office of Inspector General (OIG) participates in a number of special outreach efforts. These efforts, as described below, are in addition to OIG's regular coordination with federal, state, and local law enforcement agencies; other OIGs; and various congressional committees and subcommittees. During these outreach efforts, OIG presents the results of its audit and investigative work, discusses its goals and objectives, and provides information about its role and function.

Inspector General (IG) Kenneth Donohue; Regional Inspector General for Audit (RIGA) Edgar Moore; Special Agent in Charge (SAC) Ruth Ritzema; and Assistant Inspector General/Director of Investigations (AIG/DOI) Steve Pasichow, Port Authority of New York/New Jersey, were guest speakers at the Association of Government Accountants' (AGA) 55th Annual Professional Development Conference in **San Diego, CA**. The presentation was entitled "The Tragedy and Aftermath of September 11, 2001; Oversight of Disaster Assistance Funding and Lessons Learned." IG Donohue was the moderator, while RIGA Moore and SAC Ritzema made presentations on HUD OIG's audits and investigative efforts regarding Community Development Block Grant (CDBG) Disaster Recovery Assistance funds provided to the State of New York in response to the September 11, 2001, terrorist attacks. AIG/DOI Pasichow provided a presentation on the Port Authority's efforts in using integrity monitors to help in overseeing Port Authority funding provided after the September 11 tragedy.



IG Kenneth Donohue, Assistant Special Agent in Charge (ASAC) Suzanne Steigerwald, and RIGA Ron Hosking met with the U.S. Attorney for the District of Colorado and members of his staff in their **Denver, CO**, office. They also met with staff of the Colorado Bureau of Investigations in its Denver office. The topic of discussion at both meetings was fraud in HUD's single-family programs.



IG Kenneth Donohue, SAC Barry McLaughlin, and RIGA Heath Wolfe participated in the Minnesota NAHRO conference, which was held in **Breezy Point, MN**. IG Donohue was the keynote speaker, and he presented an overview of OIG, OIG's mission and role, and the general functions of the Offices of Investigation and Audit. There were more than 300 members in attendance. SAC McLaughlin and RIGA Wolfe participated in a round table discussion in which they explained common audit findings, the "red flags" of fraud, and fraud case studies and discussed good public housing authority operating practices.



Deputy Inspector General (DIG) Michael Stephens, SAC William Creel, and ASAC Ruth Valdes participated in a HUD-sponsored Single-Family Mortgage Fraud Symposium in **Savannah, GA**. The symposium, entitled "Stop Mortgage Fraud: A Call To Action," was attended by more than 650 members of the real estate community representing Fannie Mae, Freddie Mac, the North Carolina Real Estate Commission, the Florida Office of Financial Regulation, the Georgia Department of Banking and Finance, and mortgage and real estate professionals. DIG Stephens served as the moderator for a panel of seven presenters addressing "Enforcement After the Crime." Panel members included ASAC Valdes, HUD OIG Miami field office; SAC Brian Lamkin, Federal Bureau of



*Deputy Inspector General Michael Stephens presenting at a HUD-sponsored Single-Family Mortgage Fraud Symposium in Savannah, GA.*

Investigation (FBI), Columbia, SC, division; two assistant U.S. attorneys (AUSA); and Verlon Shannon, Director of HUD’s Quality Assurance Division, Atlanta Homeownership Center. DIG Stephens discussed HUD OIG’s commitment to investigating and prosecuting those who prey on the mortgage industry to illegally enrich themselves, and ASAC Valdes spoke on the importance of combining law enforcement resources and industry professionals to hold offenders accountable.



SAC Barry McLaughlin, along with representatives from the U.S. Attorney’s Office (USAO), U.S. Trustee’s Office, and FBI, provided a panel discussion and presentation to more than 50 individuals attending a meeting of the Illinois Association of Mortgage Brokers and Bankers in **Chicago, IL**. Panel members presented their agencies’ mission, and collectively the panel discussed law enforcement methods used for investigating real estate fraud.



SAC Barry McLaughlin, along with an FBI supervisory special agent (SA) and legal counsel, conducted a panel presentation at the Mortgage Bankers Association (MBA) first annual National Fraud Issues conference held in **Chicago, IL**. The panel discussed numerous topics, including the

Federal Housing Administration (FHA) mortgage environment, working with law enforcement, and forfeiture laws, and illustrated recent successful investigations. Approximately 60 MBA members attended.



New England Regional SAC Peter Emerzian, ASAC Diane DeChellis, and ARIGA Michael Motulski presented HUD OIG’s mission, priorities, and successful investigations/audits involving HUD’s public and Indian housing program at the annual Connecticut National Association of Housing and Redevelopment Officials (NAHRO) conference held at the Mohegan Sun in **Uncasville, CT**. More than 300 officials representing approximately 25 Connecticut public housing authorities attended.



*Region 1 ASAC Diane Dechellis, CT NAHRO Executive Director Carol Barlow, & Region 1 ARIGA Michael Motulski at the Connecticut NAHRO conference held at the Mohegan Sun in Uncasville, CT.*



Patrick Meehan, U. S. Attorney for the Eastern District of Pennsylvania, held a press conference at Lucien Blackwell Homes, a Philadelphia Housing Authority (PHA) public housing development located in southwest **Philadelphia, PA**, to announce the kick-off of the Philadelphia Public Housing Safety Initiative (PHSI). Lucien Blackwell Homes, a newly built family development with more than 120 homes, is considered the “wave of the future” for



Philadelphia’s housing developments, and PHA plans to construct an additional 400 homes on 17 square blocks encompassing Lucien Blackwell Homes. The Philadelphia PHSI is one of 10 nationwide PHSIs developed to protect the residents of newly constructed housing developments from fugitive felons, violent crimes, and gang activity. AUSA Richard Barrett requested HUD OIG assistance in providing strategic information during the development of the Philadelphia PHSI law enforcement proposal, a proposal developed by the USAO, and continued assistance as a participating law enforcement partner. SAC for HUD OIG Mid-Atlantic Region, Joseph Clarke, and SA Lou Mancini were invited to participate in the press conference by Philadelphia’s USAO. Other Philadelphia PHSI law enforcement partners participating in the press conference included representatives from the U.S. Marshals Service (USMS); Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATFE); Drug Enforcement Administration (DEA); Philadelphia Police Department; PHA Police Department; and other federal, state, and local officials including Guy Ciarrochi, HUD Region 3 Director. HUD OIG continues to actively support Philadelphia’s PHSI investigative efforts.



RIGA Heath Wolfe and SAC Barry McLaughlin met with three state auditor’s offices to explain the role of HUD OIG, develop lines of communication, and possibly conduct joint audits in the future. On April 3, they met with officials of the Michigan Auditor General’s office in **Lansing, MI**; on April 5, they met with officials of the Minnesota State Auditor’s office in **St. Paul, MN**; and on April 17, they met with officials of the Wisconsin Legislative Auditor’s office in **Madison, WI**. They provided a brief background of OIG and presented information on OIG’s mission and the function of the Offices of Investigation and Audit. They outlined ways in which the states can refer cases/

audits to OIG and ways in which OIG can make referrals to the states.



RIGA Heath Wolfe and SAC Barry McLaughlin gave a presentation at the Mortgage Association of Minnesota’s 36<sup>th</sup> Annual Convention and Trade Show in **Minneapolis, MN**. SAC McLaughlin presented an overview of the latest trends in mortgage and real estate fraud. RIGA Wolfe’s presentation covered common OIG findings during mortgagee audits and certifications that violate the Program Fraud Civil Remedies Act (PFCRA).



RIGA Frank Baca, ARIGA Theresa Carroll, and SA Lynelle Kunst presented a training session to about 30 attendees of the Texas NAHRO conference in **Corpus Christi, TX**. The presentation covered OIG’s organization and mission and the recent focus on rental assistance overpayments.



RIGA Edgar Moore gave a presentation to President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (PCIE/ECIE) members who attended the 2006 PCIE/ECIE training conference and retreat in **Portsmouth, VA**. The presentation, entitled “The IG Community’s Changing Role in the Wake of 911 and Katrina,” provided an overview of Region 2 New York/New Jersey’s work in auditing the CDBG Disaster Recovery Assistance funds. RIGA Moore participated in a panel of PCIE awardees from three agencies, who discussed their accomplishments.



RIGA Heath Wolfe and SA Julien Kubesh made a presentation at the Supportive Housing Program Start-Up Conference in **Minnetonka, MN**. The presentation provided an overview of HUD OIG, which consisted of a brief background of OIG’s missions and goals. RIGA Wolfe

presented the Office of Audit's function, and SA Kubesh presented the Office of Investigation's function. Information was also provided on OIG's role in fraud investigations and the importance of documentation of program expenditures and achievements. There were approximately 85 in attendance.



RIGA Francis Baca and ARIGA Will Nixon gave a presentation at the fall meeting of the Oklahoma Chapter of NAHRO in **Norman, OK**. The presentation, prepared by Senior Auditor Danita Wade and entitled "How to Survive a HUD Audit," focused on how OIG selects and performs audits, public housing findings, and resolution of audits. RIGA Baca and ARIGA Nixon fielded a range of questions from the group of about 30 housing executives from across Oklahoma who attended.



ASAC Tony Meeks and SA David Carranza coordinated and hosted a meeting between the Ventura County District Attorney's Office Chief Deputy, Bureau of Investigations personnel, and Executive Directors representing Newbury Park, Oxnard, Ventura, Port Hueneme, and Santa Paula Housing Authorities in **Ventura, CA**. The purpose of the meeting was to discuss HUD rental assistance program fraud schemes and trends. ASAC Meeks and SA Carranza provided an overview of HUD OIG's Fugitive Felon and Sex Offender initiatives, identified avenues for housing authorities to recognize program fraud, and shared ideas to develop a more efficient and coordinated effort between HUD OIG and the District Attorney's office when investigating and prosecuting housing authority fraud referrals. The Ventura County District Attorney's Chief Deputy expressed a commitment to combating housing fraud and providing an expeditious process to prosecute individuals fraudulently receiving public funds.



ASACs Ray Espinosa and Brad Geary provided a presentation to the Electronic Crimes Commission sponsored by the U. S. Secret Service in **Chicago, IL**. ASACs Espinosa and Geary discussed the latest trends in real estate and mortgage fraud, along with procedures used in investigating these crimes. More than 150 individuals representing law enforcement and security personnel from banks and private businesses attended.



ASAC Diane DeChellis and SA Fernando Ramos attended a Criminal Justice Advisory Board meeting at Bridgewater State College in **Bridgewater, MA**. ASAC DeChellis presented and discussed HUD OIG's role, mission, and priorities, along with the importance of HUD OIG's partnership with local, state and other federal law enforcement agencies in combating crime. Those in attendance included Timothy Cruz, District Attorney for Plymouth County; Linda Balzotti, Brockton City Council; and numerous representatives from state and local law enforcement agencies.



ASAC Ray Espinosa, along with representatives from the Northern District of Illinois USAO and Chicago Police Department, participated in a panel presentation at Project Safe Neighborhoods National Conference held in **Denver, CO**. The presentation, known as "Public Housing, Gang Suppression and Deterrent Strategies," described investigative strategies to help reduce the proliferation of gang-related activities in public housing complexes, HUD OIG resources to support deterrence, and enforcement initiatives. ASAC Espinosa also discussed HUD OIG's role in assisting Project Safe Neighborhood operations, initiatives, and task forces by initiating parallel white-collar investigations involving tenants, landlords, single-family fraud, and money laundering.



ASAC Ruth Valdes met with members of the Domestic Security Task Force (DSTF) in **Palm Beach, FL**. ASAC Valdes presented HUD OIG's authority, mission, and benefits of cooperation between HUD OIG and DSTF members and provided information relating to Section 8 fraud and HUD OIG initiatives, including the Fugitive Felon initiative. ASAC Valdes also discussed a possible coordination with HUD's public housing personnel for training employees of South Florida public housing authorities to aid DSTF response teams in Dade, Broward, and Palm Beach Counties. Approximately 40 DSTF representatives from various federal, state, and local law enforcement entities attended the meeting.



ASAC Nadine Gurley and SA Michelle Ahmad presented HUD OIG's mission and role in preserving the integrity of HUD-funded programs at the Southeast Affordable Housing Management Association (SAHMA) 2006 spring workshop held in **Birmingham, AL**. Topics discussed included HUD OIG's efforts to identify and eliminate fraudulent schemes in HUD rental assistance, hurricane relief, and FHA programs, along with HUD OIG's Fugitive Felon and Missing Children initiatives. Approximately 75 SAHMA members attended.



The HUD OIG Los Angeles field office conducted a presentation at the Southern California Housing Authority Managers Association (HAMA) quarterly meeting in **Oceanside, CA**. ASACs Herschell Harvell and Tony Meeks provided an overview of scheduled presentations and introduced OIG SAs Neil McMullen, Herminia Neblina, and John Rodriguez, along with ARIGA Tanya Shulze. Seminar topics included OIG's Fugitive Felon, Sexual Offender, and rental assistance fraud initiatives, in addition to HUD's Enterprise Income Verification. Additionally, SA McMullen discussed the benefits of a well-worded

Section 8 housing application and its evidentiary value during a criminal and/or administrative proceeding, and ARIGA Shulze provided an overview of OIG's organizational structure and function and the mission of OIG's Office of Audit.



ASAC Suzanne Steigerwald provided a presentation to more than 50 individuals attending a NAHRO conference in **Keystone, CO**. ASAC Steigerwald provided an overview of HUD OIG's mission and authority and described fraud detection and enforcement methods used to successfully prosecute investigations.



ASAC Nadine Gurley presented HUD OIG's mission and role in preserving the integrity of HUD-funded programs at the Georgia Association of Housing and Redevelopment Authorities (GAHRA) 2006 spring workshop held in **Macon, GA**. Topics discussed included HUD OIG's efforts to identify and eliminate fraudulent schemes in HUD rental assistance, hurricane relief, and FHA programs and HUD OIG's Fugitive Felon and Missing Children initiatives. Approximately 75 GAHRA members attended.



ASAC Suzanne Steigerwald provided a presentation to approximately 20 individuals attending a Colorado Housing and Finance Authority conference in **Denver, CO**. ASAC Steigerwald provided an overview of HUD OIG's mission and authority and described fraud detection and enforcement methods used to successfully prosecute investigations.



ASAC Maureen Nelting, along with SAs from the U.S. Department of Education (DOE) OIG and Internal Revenue Service (IRS), Criminal Investigations Division (CID), participated in a Federal Law Enforcement Officers Association-sponsored

event in support of National Missing Children’s Day in **Boston, MA**. ASAC Nelting and others fingerprinted and photographed 60 children who attend the Government Center Child Care at the JFK and O’Neill Federal Buildings in Boston. Since 1983, the United States has observed May 25 as National Missing Children’s Day, as a reminder to the nation to renew efforts to reunite missing children with their families and to make child protection a national priority. The National Center for Missing and Exploited Children spearheaded this event.



ASAC Brad Geary provided a presentation at a meeting of the Illinois Coalition of Appraisal Professionals in **Springfield, IL**. ASAC Geary discussed types of fraud in the real estate and mortgage industry, presented “red flag” indicators, described detection methods, explained documenting and reporting allegations, and supplied examples of fraud investigations to approximately 65 appraisers in attendance.



ASAC George Dobrovic and SA Dave Frederick conducted a real estate and mortgage fraud seminar for U.S. Secret Service agents in **Cleveland, OH**. ASAC Dobrovic and SA Frederick discussed how to identify fraudulent mortgage files and “red flag” indicators and illustrated how fake identities and U.S. Treasury checks are used to further mortgage fraud schemes.



At the request of the Long Beach Housing Authority (LBHA), ASAC Herschell Harvell participated as a panelist for a resident community meeting at LBHA’s Northpointe housing complex in **Long Beach, CA**. ASAC Harvell described HUD OIG’s mission and role in preventing fraud, waste, and abuse in HUD’s Section 8 programs and discussed tenant fraud issues involving unauthorized tenancy and

unreported income. As a result, representatives from LBHA, the Long Beach Police Department, the Long Beach City Prosecutors Office, and Northpointe property management personnel developed and agreed to participate in a joint investigative effort to assist in identifying tenants violating HUD’s Section 8 programs.



ASACs Brad Geary and Ray Espinosa conducted a comprehensive training session for 75 Wisconsin Association of Housing Authorities employees in **Wausau, WI**. ASACs Geary and Espinosa provided a presentation entitled “Combating Fraud in Assisted Housing” and described HUD’s Rental Housing Integrity Improvement Program (RHIIP) initiative, HUD OIG’s Fugitive Felon initiative, tenant and landlord fraud schemes, “red flag” fraud indicators, and current prosecutorial initiatives within Region 5.



ASAC Herschell Harvell and SAs David Carter and Ira Long presented HUD Section 8 fraud investigative efforts at a meeting held in **San Bernardino, CA**, and attended by the San Bernardino County Sheriff and approximately 30 police chiefs from cities located throughout San Bernardino County. SA Carter offered a brief overview of HUD OIG’s organizational structure, jurisdiction, and mission and described HUD OIG’s role as “lead investigative agency” in an ongoing joint Section 8 fraud investigative initiative with the San Bernardino County Sheriff’s Department.



ASAC Herschell Harvell and ARIGA Tanya Schulze presented an overview of HUD OIG’s roles to personnel from LBHA in **Long Beach, CA**. ARIGA Schulze offered a summary of the HUD OIG Office of Audit’s organizational structure and discussed the audit process. ASAC Harvell described the organizational structure and Section 8/Sex Offender initiatives of OIG’s



Office of Investigation. Approximately 35 housing authority employees, including the Executive Director and LBHA managers, attended.



ASAC Brad Geary provided a presentation for the Metro Fraud Committee of Chicago Title Companies in **Chicago, IL**. ASAC Geary discussed current fraud trends in the real estate and mortgage industry and provided examples of investigations, “red flags,” detection, and methods for documenting and reporting allegations of fraud to law enforcement. Approximately 25 title industry personnel attended.



ASAC Suzanne Steigerwald provided an overview of HUD OIG’s mission and authority to more than 400 individuals attending a NAHRO conference in **Denver, CO**. ASAC Steigerwald also explained fraud detection and enforcement methods used to successfully prosecute criminal investigations.



ASACs Ray Espinosa and Brad Geary participated in a panel discussion entitled “The Homeownership Preservation Initiative,” sponsored by Neighborhood Housing Services of Chicago and the Federal Deposit Insurance Corporation in **Chicago, IL**. The panel discussed current real estate fraud, including rescue fraud, flipping, condo conversions, and straw buyers. Approximately 15 individuals representing community groups, banks, and law enforcement agencies attended.



ASAC Robert Gale and SSA Daniel Ellis spoke at the Mortgage Bankers Association training seminar entitled “Detecting and Avoiding Mortgage Fraud,” held in **Washington, DC**. SSA Ellis, a keynote speaker, provided information on HUD OIG’s mission and described mortgage fraud investigations and prosecutions to approximately 30 representatives from

lending institutions across the country. In addition, SSA Ellis presented an overview of a Baltimore housing fraud initiative investigation resulting in 16 borrowers, speculators, real estate agents, loan officers, appraisers, and/or settlement agents being convicted of a property-flipping scheme and costing FHA millions in claims.



ASAC Brad Geary provided a presentation to a meeting of the Illinois Coalition of Appraisal Professionals in **Naperville, IL**. ASAC Geary discussed current fraud trends in the real estate and mortgage industry, and provided examples of investigations, “red flags,” detection, and methods for documenting and reporting allegations of fraud to law enforcement. Approximately 350 appraisers attended.



ASAC Herschell Harvell and SA Vicky Lawson were invited to LBHA, **Long Beach, CA**, to speak with property owners and managers of the Andy Street Association, an association containing several housing units occupied by Section 8 tenants. ASAC Harvell presented HUD Section 8 policies and the role of HUD OIG and described the collaborative law enforcement efforts between HUD OIG, the Long Beach Police Department, LBHA, and the City of Long Beach Prosecutor’s Office. Representatives from LBHA, the Long Beach Police Department, and approximately 21 property owners and/or managers attended.



ASACs Kevin Chan and Frank Castrogiovanni and SFA Mark Klein met with New York State Division of Housing and Community Renewal (HCR) Assistant Commissioner Alan Smith, Director Clifford Scott, and Senior Program Representative Vincent Fagon in **New York City, NY**, to establish a working relationship with HCR and its staff for assistance in the development of HUD’s Housing Choice Voucher program investigations. HCR

oversees numerous HUD-subsidized housing complexes within the New York City area. During the meeting, ASACs Chan and Castrogiovanni and SFA Klein discussed HUD OIG's mission and objective toward combating fraud, waste, and abuse and removing housing assistance recipients from HUD's subsidized housing programs.



ASAC Brad Geary provided a presentation through a video telephone conference in **Indianapolis, IN**, to more than 150 individuals representing bankruptcy court personnel and AUSAs from nine judicial districts in Indiana, Illinois, Missouri, Arkansas, and Nebraska. ASAC Geary presented an overview of HUD OIG's mission and described real estate fraud and the roles of bankruptcy court personnel during bankruptcy fraud prosecutions.



ASAC George Dobrovic and SAs James Waldron and Matt Nutt provided a presentation outlining aspects and techniques used in Housing Choice Voucher program fraud investigations to Michigan State Housing Development Authority (MSHDA) employees in **Detroit, MI**. Approximately 45 managers; housing specialists; department technicians; administrative personnel; and MSHDA finance, homeownership, and family self-sufficiency staff members attended the presentation.



ASAC Mike Wilson and ARIGA Theresa Carroll gave a presentation to more than 35 public housing authority officials attending the Office of Public Housing's New Executive Director's Training in the **Fort Worth, TX**, regional office. The presentation explained 1) roles and responsibilities of the Offices of Investigation and Audit, 2) areas of fraud which could occur in public housing and the prosecution process, 3) how and why a public housing entity might be reviewed by OIG, and 4) areas that might

be audited and audit findings over the past 12 months.



The Offices of Audit and Investigation participated in the 2006 Youth Summit. The event was held at the Savannah Center located on the campus of Indiana University Northwest, in **Gary, IN**. ARIGA Kelly Anderson and SFA Katherine Bercaw represented Region 5 at the event. They met with high school students and shared information about HUD OIG and the career opportunities available.



ARIGA Tom Towers and Auditor Alexandra Burgess participated in Walsh College's career fair in **Troy, MI**. They spoke with students about OIG's mission and the benefits of pursuing a student volunteer position with HUD OIG. They accepted 25 resumes, eight from students who expressed an interest in the student volunteer program at OIG's Detroit Office of Audit.



ARIGA Ron Farrell and ASAC George Dobrovic spoke to more than 60 members of the Ohio Conference of Community Development, Inc., **Columbus, OH**. They delivered a presentation on HUD's mission statement and strategic goals and discussed how OIG interacts with HUD to accomplish its mission and goals. They discussed ways in which OIG promotes the integrity, efficiency, and effectiveness of HUD programs and operations to assist the Department in accomplishing its mission. The discussion focused on how OIG detects and prevents waste, fraud, and abuse in CPD programs through its audits and investigations and seeks redress through criminal prosecution, civil recoveries, and administrative sanctions for those responsible for fraud.



SA Timothy Lishner provided an overview of Section 8 Housing Choice Voucher program fraud schemes at a “landlord fair” sponsored by the Aurora Housing Authority in **Aurora, CO**. The fair provided new and existing landlords an opportunity to network and obtain information on managing properties under the Section 8 Housing Choice Voucher program. SA Lishner encouraged participants to notify HUD OIG when encountering any suspected fraud. Approximately 50 current and prospective landlords attended the fair.



SA Neil McMullen provided an overview of HUD OIG’s mission and authority to approximately 50 members of Inglewood Rental Property Owners Association in **Inglewood, CA**. In addition, SA McMullen offered information on Inglewood Section 8 fraud investigations and prosecutions and explained HUD OIG’s successful partnership with the Inglewood Police Department in curtailing gang and drug activity.



SA Heather Yannello, Auditor Patrick Anthony, and AUSA Robert Trusiak provided a presentation entitled “Fraud, Flipping, and You, Learn to Detect and Protect” at the Buffalo Mayor’s Anti-Flipping Task Force seminar held in **Buffalo, NY**. The Mayor’s Anti-Flipping Task Force is committed to curbing real estate flipping and fraudulent activity. In Buffalo, this activity typically involves the reselling of vacant homes taken over by HUD or the City of Buffalo and slated for demolition with little or no rehabilitation and without an attorney or title company involved. More than 200 participants from the Western New York Bar Association, Buffalo Niagara Board of Realtors, and Appraisal Institute attended the seminar.



SA James Carrieres provided an overview of HUD OIG and described successful single-family fraud investigations to 41 appraisers attending the Arizona Chapter of the National Association of Independent Fee Appraisers meeting held in **Phoenix, AZ**. SA Carrieres hosted a question and answer forum after his presentation.



SA Scott Savedow presented a course entitled “HUD OIG Hurricane Response and Fraud Awareness” at the SAHMA training conference held in **Jacksonville, FL**. SA Savedow discussed the impact and consequences of recent hurricanes on HUD operations and provided examples of common fraudulent activity in subsidized housing programs. Approximately 300 SAHMA representatives attended the conference.



SA Nancy Valencic presented HUD OIG’s mission in preserving the integrity of HUD-funded programs at the Tennessee Association of Housing and Redevelopment Agencies (TAHRA) 2006 workshop held in **Franklin, TN**. SA Valencic discussed criminal cases involving tenant, landlord, and housing authority employee fraud and provided information relating to HUD OIG’s Fugitive Felon/Missing Children initiatives and hurricane relief efforts. Approximately 50 TAHRA members attended.



SA Joshua Stockman provided an overview of HUD OIG’s rental assistance program fraud investigations and successful prosecutions in California and Arizona at the Pacific Southwest Regional Council of NAHRO Annual Spring Conference held in **Los Angeles, CA**. In addition, SA Stockman discussed prosecutorial merit and the investigative process from referrals to sentencing, and participants were provided information on how to prevent program

abuse and assist with fraud investigations. Housing and redevelopment officials from California, Arizona, and Nevada attended this conference.



SA Julien Kubesh conducted a presentation at the North Central NAHRO convention held in **Minneapolis, MN**. SA Kubesh outlined HUD OIG’s role in fraud investigations originating from Enterprise Income Verification data, the importance of documentation when residents apply for or recertify their housing eligibility, and the critical need for open communication between housing authorities and HUD OIG.



SA Jewel Kelley conducted a presentation at Indiana’s annual NAHRO conference held in **Indianapolis, IN**. The theme of the conference was “Extreme Makeover,” and presentations focused on Enterprise Income Verification and Public and Indian Housing Information Center training, grant writing, and preventive measures to reduce tenant, landlord, contractor, and housing authority personnel fraud. SA Kelley provided an overview of HUD OIG’s mission, recent prosecutions, and the responsibilities of housing authorities to assist HUD in securing the integrity of the Housing Choice Voucher and project-based housing assistance programs. Approximately 30 representatives from various Indiana housing authorities attended.



At the request of the Richmond Housing Authority (RHA) housing manager in **Richmond, CA**, SA Teresa Carson conducted fraud training for approximately 15 RHA public housing, Section 8, and maintenance supervisors. The training consisted of a brief overview of HUD OIG, HUD OIG’s perspective on priority investigations and prosecution of housing fraud, “red-flag” fraud indicators, possible solutions to combating fraud, and the

relationship between HUD OIG and RHA as it relates to fraud.



SA Nelson Sanchez provided an overview of HUD OIG’s mission and authority to more than 50 individuals attending a NAHRO conference in **Spearfish, SD**. In addition, SA Sanchez explained fraud detection and enforcement methods used to successfully prosecute criminal investigations.



SA Cari Williams provided an overview of HUD OIG, housing assistance fraud investigations, and joint initiatives to approximately 30 police officers at the Indianapolis Police Academy in **Indianapolis, IN**. The officers in attendance represented the Indianapolis Police Department, Marion County Probation Office, and other local agencies.



SA Scott Savedow conducted a training course entitled “Subsidized Housing Violations for Law Enforcement” for Homestead Police Department personnel in **Miami, FL**. The training provided methods for identifying, investigating, and prosecuting subsidized housing fraud, along with the requirements necessary for subsidy terminations under HUD’s “One-Strike and You’re Out” regulations. Approximately 20 officers, detectives, and senior law enforcement managers attended the course.



SA Joshua Stockman presented an overview of HUD OIG’s mission and role in rental assistance and grant fraud investigations at the Arizona Chapter of NAHRO annual training conference in **Scottsdale, AZ**. SA Stockman also described the investigative process from referral to sentencing and provided examples of successful prosecutions in both Arizona and California. Housing and redevelopment



officials representing 20 Arizona cities attended.



SA James Carrieres provided an overview of HUD OIG and described successful single-family fraud investigations at a Las Vegas Chapter of the Appraisal Institute meeting in **Las Vegas, NV**. Approximately 45 individuals from Arizona and Nevada attended.



SA Eric Huhtala presented a general overview of HUD OIG's mission and role in investigating and prosecuting fraud to Vallejo Housing Authority (VHA) housing specialists, inspectors, and management in **Vallejo, CA**. SA Huhtala described how fraud cases are identified and prosecuted and provided proactive prevention ideas for VHA personnel to implement in their day-to-day operations and contacts with program participants.



SA Kathleen Hatcher presented HUD OIG's mission; FHA fraud and predatory lending schemes; and criminal, civil, and administrative remedies at a Mortgage Banker's Association conference entitled "Next Steps in Combating Mortgage Fraud" in **Long Beach, CA**. In addition, SA Hatcher discussed specific fraud investigations and encouraged mortgage industry personnel to contact HUD OIG when encountering fraud schemes. Approximately 50 individuals attended the conference.



SALynelle Kunst, assisted by SADanita Wade and ARIGA Will Nixon, gave a presentation at a meeting of North Texas Association of Housing Authorities in **Fort Worth, TX**. The group consisted of about 40 administrators and managers of public housing authorities in North Texas. The presentation covered background on HUD OIG, how it selects audits, common

findings, fraud and internal controls, and audit resolution.



SA Christopher Conn presented HUD OIG's mission and role in rental assistance fraud investigations at the annual Mid-America Crime Free Conference entitled "Combating Welfare Fraud," held in **Blue Springs, MO**. In addition, SA Conn described fraud identification and prosecution issues and common fraud prevention methods and provided case studies of successful fraud prosecutions. Approximately 88 individuals representing a spectrum of professions attended.



SA Charles Grace presented HUD OIG's role in maintaining the integrity of various HUD-funded rental assistance programs at a meeting of the Southeast Precinct Interagency Coordination held at the Seattle Police Department, **Seattle, WA**. Topics discussed included crime in Seattle Housing Authority's public housing developments, and concepts to address this issue were shared. A spokesperson from the Seattle's Mayor's office, law enforcement personnel, and representatives from various community agencies attended.



RIGA Ron Hosking, ARIGA Kim Randall, and Computer Audit Specialist (CAS) Glenn Brock met with auditors at the Legislative Division of Post Audit for the State of Kansas in **Topeka, KS**. ARIGA Randall gave a presentation that explained OIG's mission and authority, organizational structure, audit planning process, types of audits conducted, and the reporting process. CAS Brock presented the role of the Information Systems Audits Division in the OIG audit framework and the function of the CAS position in the audit environment. He discussed OIG's use of general software applications and the Department's systems inventory. RIGA Hosking, ARIGA Randall, and CAS Brock, along with Legislative

Division of Post Audit staff, then discussed joint audits each agency had conducted in the past and how the agencies might work together in the future.



CAS Glenn Brock participated in the Missouri Society of Certified Public Accountants' Kansas City Chapter Career Night in **Kansas City, KS**. CAS Brock imparted OIG's mission and career opportunities to the 50 students and accounting professionals in attendance. He provided information related to current auditor and investigator positions within OIG and a synopsis of OIG's function as an audit organization.



CAS Glenn Brock participated in the Missouri Society of Certified Public Accountants' LEAP (Lead and Enhance the Accounting Profession) Fall Mixer in **Lee's Summit, MO**. CAS Brock discussed OIG's mission and career opportunities with the 35 students and an accounting instructor in attendance. He provided information related to current auditor and investigator positions available within OIG and a synopsis of OIG's function as an audit organization. He also discussed computer systems audits performed by the Information Systems Audits Division and the CAS role in the OIG audit environment.



ASAC Maureen Nelting, RIGA John Dvorak, and ARIGA Kevin Smullen presented HUD OIG's mission and priorities and described successful investigations/audits and "red flag" indicators for detecting tenant, landlord, and housing authority employee fraud to representatives of the New England Elderly Housing Association at Monsignor Neagle Apartments in **Malden, MA**. Approximately 30 individuals from private management companies and public housing authorities attended.



RIGA Heath Wolfe and SAC Barry McLaughlin gave presentations to the Michigan State Chapter of NAHRO Fall Conference on September 28, 2006, in **Lansing, MI**. RIGA Wolfe and SAC McLaughlin presented background information on HUD OIG, OIG's mission, public housing authorities, common audit findings, and the "red flags" of fraud. Approximately 45 NAHRO members were in attendance.



RIGA Heath Wolfe and SAC Barry McLaughlin met with the State of Indiana's State Board of Accounts in **Indianapolis, IN**. The State Board of Accounts has oversight of the State of Indiana's departments/agencies, public housing authorities, local municipalities, and nonprofit agencies. SAC McLaughlin and RIGA Wolfe met with the organization to explain the role of HUD OIG, develop lines of communication, and discuss the possibility of conducting joint audits in the future. They provided the office a brief background on HUD OIG and presented information on OIG's mission and the functions of the Offices of Investigation and Audit. They outlined ways in which the state can refer cases/audits to OIG and ways in which OIG can make referrals to the state.



ARIGA Kelly Anderson gave a presentation at the Peer-to-Peer Homeless Conference held in **Collinsville, IL**. The audience was comprised of administrators of supportive housing grants. Kelly gave the attendees an overview of HUD OIG and OIG's activities as they relate to CPD programs. There were approximately 50 people in attendance.



RIGA Heath Wolfe and SAC Barry McLaughlin met with officials of the State of Illinois' Office of the Auditor General in **Springfield, MA**, to explain the role of HUD OIG, develop lines of communication, and

discuss the possibility of conducting joint audits in the future. SAC McLaughlin and RIGA Wolfe provided the office a brief background on HUD OIG and presented information on OIG's mission and the functions of the Offices of Investigation and Audit. They outlined ways in which the state can refer cases/audits to OIG and ways in which OIG can make referrals to the state.



The Region 5 Office of Audit participated in the 2006 Business and Liberal Arts Job Fair. The event was held in the Student Union building on the Northeastern Illinois University campus in **Chicago, IL**, and was sponsored by the Northeastern Illinois University Placement Office. Auditors Anthony Smith and Eric Linderman represented Region 5 at this event. They met with students to promote HUD OIG and recruit for current available positions as student volunteers and future entry-level auditor positions.





## **Chapter 9**

# **Legislation, Regulations, and Other Directives**



Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG reviewed 136 issuances. This chapter highlights some of OIG's prior comments on notices, comments for this reporting period, and other policy directives.

## Proposed Rules

### *HUD proposed an interim rule for project-based voucher rents for units receiving low-income housing tax credits to allow for a higher rent than allowed in the Low Income Housing Tax Credit (LIHTC) program*

OIG reported on this issue in the prior semiannual report. OIG did not concur with a proposed interim rule since it did not allow for a comment period before implementation and because HUD did not provide support for the proposed action. In response to OIG's comments, HUD agreed to issue the rule as a proposed rule, thereby permitting public comment prior to implementation. Essentially, the rule would allow PHAs the option to pay project-based voucher rents that exceed the maximum allowable tax credit rent for units receiving assistance under the LIHTC program. As part of the comment process, HUD should consider that each Section 8 dollar in excess of the LIHTC rent limit reduces the amount of Section 8 funds available to assist other low-income families in meeting their housing needs.

### *HUD proposed the creation of an Independent Public Accountant Register*

HUD proposed a rule to create a registry of Independent Public Accountants performing audits of HUD programs. OIG did not concur with HUD's proposal and HUD is considering OIG's comments.

## Notices

### *Waivers for the State of Louisiana Community Development Block Grant (CDBG) Disaster Recovery Grant*

OIG commented on HUD's proposed notice because the notice failed to include a provision in the public law. Specifically, the law limits on the amount of CDBG funds that can be used as a matching share for emergency situations. OIG requested that HUD include a provision in this waiver for the State of Louisiana CDBG Disaster Recovery grant that states no more than \$250,000 may be used for the nonfederal costshare of any project funded through the U.S. Army Corps of Engineers.

## Mortgagee Letters

### *Nonprofit Downpayment Gift Providers*

HUD drafted a mortgagee letter regarding nonprofit "downpayment assistance providers." OIG reported a nonoccurrence on the letter in last reporting period. The Department was reviewing OIG's nonconcurring comments at the end of the previous semiannual reporting period. HUD continues to work on a notice for using nonprofits to provide

downpayment assistance. A recent Internal Revenue Service (IRS) ruling is also impacting HUD's development of the notice. OIG and HUD continue to communicate about the use of nonprofit downpayment assistance and the number of Federal Housing Administration (FHA) foreclosures related to this assistance. OIG continues to have many concerns related to nonprofit downpayment assistance.

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

In the prior period, HUD drafted a mortgagee letter to remove the certification requirement from FHA's late endorsement procedures. HUD believes the certification requirement does not materially contribute

to reducing insurance risk. OIG nonconcurred because the certification is a critical document in supporting and enforcing departmental remedies for noncompliance, and, therefore, OIG disagrees with its proposed elimination. OIG has done significant testing of "late endorsement" compliance by major direct endorsement lenders as part of its audit focus on FHA single-family lending practices beginning in 2004. OIG found that lenders certified full compliance and eligibility for FHA insurance when some loans were not eligible because the borrowers were in arrears on their mortgage payments. OIG also issued a report this reporting period that questioned HUD's analysis on allowing late endorsements. OIG continues to have concerns regarding HUD's taking little action against lenders for late endorsement, and recommended that the mortgage letter be rescinded.







# **Chapter 10**

## **Audit Resolution**



In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon the needed actions and timeframes for resolving audit recommendations. Through this process, OIG hopes to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant pending issues for which resolution action has been delayed. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 2, table A, "Audit Reports Issued before Start of Period with No Management Decision as of September 30, 2006," and table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 2006."

## Delayed Actions

### *Nonprofit Participation in Single Family Programs, Nationwide Audit*

*Issued November 5, 2001* - HUD's existing regulations relating to the sale of HUD real estate-owned (REO) properties gave priority to nonprofit organizations over owner-occupant homebuyers for properties involving a 10 percent nonprofit discount. If a nonprofit organization and an owner-occupant homebuyer submitted bids to purchase an REO property, HUD did not take into consideration the nonprofit organization's 10 percent discount when determining the highest bidder. Accordingly, if an owner-occupant purchaser submitted a bid to purchase an REO property and the bid exceeded a

nonprofit organization's bid by less than 10 percent, HUD awarded the nonprofit organization the property, not the owner-occupant applicant. In OIG's opinion, the awards violated the intent of the discount sales program, which was to provide low-cost housing opportunities to homebuyers. OIG recommended that HUD's requirements be changed so that, if an owner-occupant homebuyer submitted a bid which was higher than the net bid of a nonprofit organization **after** taking into consideration the nonprofit organization's allowed discount, the owner-occupant homebuyer would be awarded the property. This would meet the intent of providing low-cost housing opportunities to low- and moderate-income homebuyers without having to go through a middleman; i.e., the nonprofit organization, which simply increased the price of the property to the ultimate homebuyer.

On January 22, 2002, HUD concurred with OIG's recommendation. HUD and OIG agreed to a December 31, 2002, target date for implementation of the changes necessary to address OIG's recommendation, including revising existing regulations. Before revising the regulations, however, HUD decided that, due to changes in its management and marketing service contracts, many additional changes to the current regulations affecting HUD's sale of its REO property inventory were necessary. HUD stated that the previously agreed to changes addressing OIG's recommendation were to be included in these revised regulations. Accordingly, HUD requested that the target date for implementation of the regulations and clearing OIG's recommendation be extended until June of 2003. HUD did not meet this target date and, in June 2004, informed OIG that the changes to the regulations were still in process. HUD requested another extension of the target date for implementation of corrective actions to June 30, 2005. Reluctantly, OIG agreed to this extension. In August 2005, HUD again informed OIG that the regulations were still

under development and requested another extension to September 30, 2006. OIG agreed to the request.

As of September 30, 2006, HUD has not finalized and implemented the regulations or addressed the problems OIG brought to HUD's attention in November 2001. HUD has indicated that it will request another extension to October 31, 2007, as the proposed regulations remain at the preclearance draft stage. OIG will not concur with any further extension requests as it has now been almost 5 years since report issuance and HUD has still not implemented the promised actions. (Report No 2002-SF-0001)

### ***Significant Management Decision with Which OIG Disagrees***

There are no reports issued before the beginning of the reporting period for which a management decision had not been made by the end of the period.

## **Federal Financial Management Improvement Act of 1996**

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial management system requirements within 3 years or obtain Office of Management and Budget (OMB) concurrence if more time is needed.

FFMIA requires OIG to report in its semiannual reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its mediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of 2005, the Department reported that 2 of its 44 financial management systems were not in substantial compliance with FFMIA. These two systems are Loan Accounting System (LAS) and Facilities Integrated Resources Management System (FIRMS). HUD reported FIRMS as noncompliant in its 2005 self-assessment. HUD replaced LAS with a commercial off-the-shelf software package at the end of July 2006. As of September 30, 2006, the Department reports that the above two systems are in substantial compliance with FFMIA pending independent verification.







# **Appendix 1**

## **Audit Reports Issued**



# Internal Reports

## 13 Audit Reports

### Chief Information Officer (3 Reports)

- 2006-DP-0005 Review of HUD's Information Technology Contingency Planning and Preparedness, 08/31/2006.
- 2006-DP-0802 Assessment of HUD's Compliance with OMB Memorandum M-06-16, "Protection of Sensitive Agency Information", 09/21/2006.
- 2006-DP-0803 OIG Response to Questions from the OMB under Federal Information System Management Act of 2002, 09/29/2006.

### Chief Procurement Officer (1 Report)

- 2006-AT-0001 The Procurement Office Did Not Maintain Complete Contract Files, 08/29/2006.

### Community Planning and Development (1 Report)

- 2006-CH-0003 The Congressional Grants Division's Oversight of Economic Development Initiative-Special Purpose Grants Needs to be Improved, Washington, DC, 07/21/2006.

### Housing (4 Reports)

- 2006-KC-0002 HUD's Systems Usually Prevent Credit Watch-Terminated Lenders from Originating HUD-Insured Loans, but Brief Searches Could Find Additional Loans That Weren't Prevented, 06/14/2006. Questioned: \$164,523.
- 2006-NY-0001 HUD's Controls Over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate, 06/08/2006.
- 2006-SE-0001 Significant Weaknesses in HUD's Oversight of Single-Family Mortgage Insurance Claims are Costly, 07/11/2006. Questioned: \$1,301,230; Unsupported: \$1,301,230; Better Use: \$214,000,000.
- 2006-SE-0002 The Office of Single-Family Housing Expanded Late Endorsement Eligibility Without Studying Associated Risks, 08/16/2006.

### Public and Indian Housing (4 Reports)

- 2006-BO-0001 HUD Incorrectly Approved \$42 Million in Operating Subsidies for Phase-Down for Demolition Add-On Funding, 07/11/2006. Questioned: \$35,755,661; Unsupported: \$15,153,923; Better Use: \$6,361,640.
- 2006-CH-0002 PIH is Taking Action to Oversee the Section 202 Mandatory Conversion Program, Washington, DC, 07/13/2006.
- 2006-KC-0003 HUD Did Not Ensure That the Omaha Housing Authority Repaid its Public Housing Programs \$2.7 Million, Omaha, NE, 06/19/2006. Better Use: \$2,751,317.
- 2006-PH-0002 HUD Improperly Admitted the Housing Authority of Baltimore City into the MTW Demonstration Program, Baltimore, MD, 05/31/2006.

## Audit-Related Memoranda

### Housing (1 Report)

- 2006-FW-0801 Review of Partial Claim Option to Foreclosure under HUD's Loss Mitigation Program, 04/10/2006.

## Public and Indian Housing (1 Report)

2006-KC-0801 HUD's Oversight of PHA Processes for Prohibiting Criminal Activity, 04/13/2006.

# External Reports

## 74 Audit Reports

### Community Planning and Development (10 Reports)

- 2006-AT-1014 The State of Florida Lacked Adequate Procedures to Prevent Possible Duplicate Disaster Recovery Benefits to Recipients, Tallahassee, FL, 07/26/2006.
- 2006-AT-1016 The Municipality of Humacao Did Not Administer its CDBG in Accordance with HUD Requirements, Humacao, PR, 07/28/2006. Questioned: \$3,970,071; Unsupported: \$3,800,945; Better Use: \$318,853.
- 2006-AT-1019 The Municipality of Toa Baja Did Not Administer its Section 108 Loan Guarantee Assistance Program in Accordance with HUD Requirements, Toa Baja, PR, 09/06/2006. Questioned: \$4,950,106; Unsupported: \$4,879,737.
- 2006-FW-1014 The City of Fort Worth Has Made Significant Improvements in Procedures for Drawing Down CDBG Funds, Fort Worth, TX, 08/16/2006.
- 2006-LA-1015 Institute for Urban Research and Development Did Not Properly Administer its Supportive Housing Program Grants, El Monte, CA, 07/19/2006. Questioned: \$1,268,433; Unsupported: \$1,268,433.
- 2006-LA-1016 Los Angeles Family Housing Corporation Generally Administered its Supportive Housing Program Grants in Accordance with HUD Requirements, North Hollywood, CA, 07/20/2006.
- 2006-LA-1019 The City of Modesto Did Not Always Administer its CDBG in Compliance with Government Regulations, Modesto, CA, 09/07/2006. Questioned: \$68,379.
- 2006-NY-1013 Lower Manhattan Development Corporation, CDBG Disaster Recovery Assistance Funds, New York, NY, 09/27/2006. Questioned: \$3,053; Better Use: \$186,749.
- 2006-PH-1013 The Commonwealth of Virginia Did Not Ensure HOME Funds Were Disbursed and Used in Accordance with Federal Regulations, Richmond, VA, 09/18/2006. Questioned: \$710,766; Unsupported: \$527,060; Better Use: \$3,273,545.
- 2006-SE-1003 Snohomish County's Office of Housing and Community Development Charged Ineligible Administrative Expenses to its CDBG, Everett, WA, 05/31/2006. Questioned: \$67,339; Better Use: \$67,339.

### Housing (22 Reports)

- 2006-AO-1001 Southwest Alliance of Asset Managers, LLC, Did Not Effectively Enforce the Lease Terms Over Payment of Property Utilities, Addison, TX, 06/23/2006. Questioned: \$79,306.
- 2006-AO-1002 Cityside Management Corporation Did Not Enforce the Lease Terms Over Payment of Property Utilities, Hammond, LA, 08/31/2006. Questioned: \$17,744.

2006-AT-1018	Taylor, Bean and Whitaker, Inc., Met Temporary Interest Rate Buydown Requirements, Ocala, FL, 08/28/2006.
2006-BO-1007	Capital Mortgage Associates LLC Did Not Always Comply with HUD Requirements Regarding its Single-Family Loan Originations and Quality Control Plan, North Haven, CT, 06/02/2006. Questioned: \$3,875.
2006-BO-1008	Hall Commons Inc. Did Not Administer its \$4.1 Million Section 202 Capital Advance Construction Grant in Accordance With Federal Requirements, Bridgeport, CT, 06/30/2006. Questioned: \$206,891; Unsupported: \$154,073; Better Use: \$4,079,100.
2006-BO-1009	The Rhode Island Housing and Mortgage Finance Corporation Incorrectly Made More Than \$1.8 Million in Section 8 Subsidy Payments and Released More Than \$900,000 from Restricted Residual Receipts Accounts, Providence, RI, 07/06/2006. Questioned: \$2,800,258.
2006-CH-1014	National City Mortgage Company, Nonsupervised Lender, Did Not Comply with HUD's Requirements Regarding Underwriting of Loans and Quality Control Reviews, Miamisburg, OH, 07/31/2006. Questioned: \$145,101; Unsupported: \$94,372; Better Use: \$677,713.
2006-CH-1015	Birmingham Bancorp Mortgage Corporation, Nonsupervised Lender, Substantially Complied with HUD's Requirements Regarding Underwriting of Loans but Not its Quality Control Reviews, West Bloomfield, MI, 09/25/2006. Questioned: \$47,103; Unsupported: \$47,103.
2006-CH-1017	Community Central Bank, Supervised Lender, Generally Complied with HUD's Requirements Regarding Underwriting of Loans but Not its Quality Control Reviews, Mount Clemens, MI, 09/26/2006. Questioned: \$22,752; Unsupported: \$22,752; Better Use: \$41,280.
2006-DE-1004	Juniper Communities Did Not Comply with Its Regulatory Agreement or HUD Regulations in Managing its FHA-Insured Projects, Bloomfield, NJ, 07/18/2006. Questioned: \$293,387; Better Use: \$1,042,515.
2006-DE-1005	Utah Non Profit Housing Corporation Did Not Ensure Properties Generated Sufficient Income and Did Not Comply With Cost Allocation and HUD Requirements, Salt Lake City, UT, 07/28/2006. Questioned: \$70,755; Better Use: \$30,900.
2006-DE-1006	Nexgen Lending, Inc.'s Lakewood Branch Did Not Follow HUD Requirements in Underwriting Two Insured Loans, Lakewood, CO, 08/31/2006. Questioned: \$1,171; Better Use: \$60,051.
2006-FW-1010	Deer Creek Apartments' Previous Management Agent Paid Itself Unsupported Fees, Houston, TX, 05/11/2006. Questioned: \$24,312; Unsupported: \$24,312.
2006-FW-1011	Premier Mortgage Funding, Inc. and Its Sponsor, JPMorgan Chase, Did Not Comply With HUD Underwriting Requirements and Did Not Meet All Quality Control Requirements, Austin, TX, 06/16/2006. Questioned: \$394,273; Better Use: \$187,648.
2006-KC-1011	The Owner of Wellston Townhouses in St. Louis County Violated its Regulatory Agreement, Wellston, MO, 06/29/2006. Questioned: \$200,288; Unsupported: \$88,794; Better Use: \$104,372.

- 2006-KC-1012 The Owner of HDC Retirement Village In St. Louis Violated its Regulatory Agreement, St. Louis, MO, 06/29/2006. Questioned: \$193,421; Unsupported: \$166,812; Better Use: \$28,395.
- 2006-LA-1011 Sundial Care Center Used \$659,746 in Project Funds for Ineligible and Undocumented Costs and Was Unable to Account for Revenue Totaling \$407,454, Modesto, CA, 05/18/2006. Questioned: \$1,067,200; Unsupported: \$701,405.
- 2006-LA-1014 KB Home Mortgage Failed to Ensure Underwriting Certifications for FHA Loans Were Accurate, Los Angeles, CA, 07/17/2006.
- 2006-LA-1018 First Magnus Financial Corporation Did Not Comply with HUD Guidelines When Underwriting Six FHA-Insured Loans, Tucson, AZ, 07/26/2006. Better Use: \$95,151.
- 2006-NY-1007 First Suffolk Mortgage Corporation Did Not Always Comply with HUD Underwriting Requirements, North Babylon, NY, 06/19/2006. Questioned: \$153,044; Unsupported: \$152,814; Better Use: \$76,958.
- 2006-NY-1009 First Residential Mortgage Services Corporation Did Not Always Comply With HUD/FHA Loan Origination Requirements, Englewood Cliffs, NJ, 08/14/2006. Questioned: \$64,714; Unsupported: \$64,219; Better Use: \$424,384.
- 2006-PH-1012 Trident Mortgage Company Issued and Submitted for Endorsement Loans with an Increased Risk of Defaults and Claims, Devon, PA, 07/19/2006. Questioned: \$79,671; Unsupported: \$79,525; Better Use: \$487,075.

#### **Lead Hazard Control (1 Report)**

- 2006-LA-1013 The Child Abuse Prevention Council of Sacramento Did Not Adequately Administer Its Healthy Homes Initiative Grant, North Highlands, CA, 07/17/2006. Questioned: \$936,879; Unsupported: \$586,039; Better Use: \$472,523.

#### **Public and Indian Housing (41 Reports)**

- 2006-AT-1008 The Housing Authority of the City of Macon's Controls for Expending Low-Income Housing and HOPE VI Program Funds and Safeguarding Low-Income Housing Assets Were Inadequate, Macon, GA, 04/25/2006. Questioned: \$395,211; Better Use: \$125,000.
- 2006-AT-1009 The Metropolitan Development and Housing Agency Did Not Ensure Section 8-Assisted Units Were Decent, Safe and Sanitary, Nashville, TN, 05/18/2006. Better Use: \$8,791,956.
- 2006-AT-1010 The Orlando Housing Authority Did Not Ensure That All Section 8 Units Met Housing Quality Standards and Paid Excessive Subsidies for Some Units, Orlando, FL, 05/31/2006. Questioned: \$41,867; Better Use: \$1,146,708.
- 2006-AT-1011 The Housing Authority of the City of Raleigh Generally Administered its Housing Choice Voucher Program in Accordance with Requirements, Raleigh, NC, 06/19/2006. Questioned: \$7,012.
- 2006-AT-1012 The Miami Dade Housing Agency Paid Housing Choice Voucher Program Funds for Some Overhoused Tenants, Miami, FL, 06/28/2006. Questioned: \$61,862; Better Use: \$81,828.



2006-AT-1013	The Housing Authority of the City of North Charleston Inappropriately Pledged Assets to Secure a Loan and Caused Delays in its Oakleaf Homeownership Program, North Charleston, SC, 07/12/2006. Better Use: \$400,000.
2006-AT-1015	The Municipality of Bayamon Housing Authority Did Not Ensure Section 8-Assisted Units Were Decent, Safe, and Sanitary, Bayamon, PR, 07/27/2006. Better Use: \$1,434,456.
2006-AT-1017	The Housing Authority of Lawrence County Spent More Than \$71,000 for Questionable Purchases, Lawrence County, KY, 08/17/2006. Questioned: \$71,741; Unsupported: \$71,741.
2006-AT-1020	The Jacksonville Housing Authority's Section 8 Units Met HUD Housing Quality Standards, Jacksonville, FL, 09/15/2006.
2006-BO-1010	Boston Housing Authority Used Voucher Program Funds to Pay State Housing Assistance Program Expenses and Needs to Improve Its Rent Reasonableness Process, Boston, MA, 07/26/2006.
2006-BO-1011	The Portland Housing Authority Did Not Use Reserve Funds or Properly Allocate Employee Costs, Resulting in Questioned Costs of More Than \$850,000, Portland, ME, 08/28/2006. Questioned: \$805,848; Better Use: \$44,336.
2006-CH-1009	The Youngstown Metropolitan Housing Authority Did Not Use Public Housing Operating Funds Effectively and Efficiently, Youngstown, OH, 04/18/2006. Questioned: \$99,673; Unsupported: \$99,673.
2006-CH-1010	The Benton Harbor Housing Commission Lacked Supporting Documentation and Did Not Follow Procurement Requirements Regarding its Public Housing Capital Fund Program, Benton Harbor, MI, 05/18/2006. Questioned: \$206,724; Unsupported: \$206,224.
2006-CH-1011	The Columbus Metropolitan Housing Authority Did Not Effectively Operate its Section 8 Housing Program, Columbus, OH, 07/06/2006. Questioned: \$415,385; Unsupported: \$332,070; Better Use: \$7,546,384.
2006-CH-1012	The Housing Authority of the County of Cook Needs to Improve its Section 8 Housing Program Administration, Chicago, IL, 07/11/2006. Questioned: \$123,118; Better Use: \$10,095,840.
2006-CH-1013	The Ann Arbor Housing Commission's Administration of its Section 8 Housing Choice Voucher Program Needs to Be Improved, Ann Arbor, MI, 07/21/2006. Questioned: \$58,540; Better Use: \$1,997,134.
2006-CH-1016	Pickaway Metropolitan Housing Authority Improperly Used Homeownership Sales Proceeds to Fund its Nonprofit Development Activities, Circleville, OH, 09/26/2006. Questioned: \$238,507; Unsupported: \$2,350.
2006-CH-1018	Saginaw Housing Commission Improperly Used Public Housing Funds to Purchase Property, Saginaw, MI, 09/28/2006. Questioned: \$573,324.
2006-CH-1019	Lucas Metropolitan Housing Authority Did Not Effectively Operate its Section 8 Housing Choice Voucher Program, Toledo, OH, 09/29/2006. Questioned: \$211,037; Unsupported: \$108,913; Better Use: \$1,956,438.
2006-CH-1020	Rockford Housing Authority Needs to Improve its Controls over Program Housing Assistance and Utility Allowance Payments, Rockford, IL, 09/29/2006. Questioned: \$663,702; Unsupported: \$582,926; Better Use: \$341,027.

2006-CH-1021 Housing Authority of the County of Cook Had Weak Controls over its Section 8 Housing Choice Voucher Program, Chicago, IL, 09/30/2006. Questioned: \$178,149; Unsupported: \$88,055; Better Use: \$3,416,210.

2006-FW-1008 Brazos Valley Council of Governments Issued Vouchers Larger Than its Policy Allowed, Bryan, TX, 05/08/2006. Questioned: \$552; Better Use: \$7,008.

2006-FW-1009 Dallas County Housing Agency Overhoused Tenants, Dallas, TX, 05/09/2006. Questioned: \$63,311; Better Use: \$298,013.

2006-FW-1012 Oklahoma Housing Finance Agency Made Minor Mistakes in Computing Housing Assistance Payments and Housing Tenants, Oklahoma City, OK, 06/29/2006. Questioned: \$815; Better Use: \$1,214.

2006-FW-1013 The Housing Authority of the City of Denton Made Subsidy Calculation Errors and Overhoused Tenants, Denton, TX, 07/26/2006. Questioned: \$50,917; Unsupported: \$26,104; Better Use: \$949,234.

2006-FW-1015 The Housing Authority of the City of Austin Overhoused Tenants and Paid Excessive HAPs in the Section 8 Housing Choice Voucher Program, Austin, TX, 09/01/2006. Questioned: \$588,130; Better Use: \$957,276.

2006-KC-1009 The Omaha Housing Authority Did Not Encumber Resources Without HUD Approval, Omaha, NE, 04/24/2006.

2006-KC-1010 The Omaha Housing Authority Did Not Follow Required Procurement Procedures, Omaha, NE, 05/30/2006. Questioned: \$5,419; Better Use: \$970,000.

2006-KC-1013 The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE, 08/30/2006. Questioned: \$292,225.

2006-KC-1014 The Columbus Housing Authority Improperly Spent and Encumbered Public Housing Funds for Its Non-HUD Development Activities, Columbus, NE, 09/27/2006. Questioned: \$62,135; Better Use: \$111,894.

2006-LA-1012 The Housing Authority of the City of Los Angeles Did Not Adequately Determine and Support Section 8 Tenant Eligibility, Los Angeles, CA, 06/20/2006. Questioned: \$1,021,222; Unsupported: \$1,021,222.

2006-LA-1017 The Housing Authority of the City of Las Vegas Did Not Comply with Contracting and Grant Use Requirements, Las Vegas, NV, 07/21/2006. Questioned: \$558,068; Unsupported: \$394,845.

2006-NY-1008 The Freeport Housing Authority Has Financial and Management Control Weaknesses, Freeport, NY, 06/30/2006. Questioned: \$407,782; Unsupported: \$356,354; Better Use: \$241,880.

2006-NY-1010 Orange City Housing Authority Has Weakness in its Housing Choice Voucher Program, Orange, NJ, 09/20/2006. Questioned: \$26,231; Unsupported: \$23,592; Better Use: \$1,710,661.

2006-NY-1011 Orange City Housing Authority Incorrectly Paid the City's Street Lighting Costs and Improperly Wrote-off a Receivable, Orange, NJ, 09/20/2006. Questioned: \$156,409; Better Use: \$20,164.

2006-NY-1012 The Housing Authority of the City of Passaic Has Allegations of Mismanagement That Need to be Addressed, Passaic, NJ, 09/22/2006. Questioned: \$3,395,901; Unsupported: \$1,404,813; Better Use: \$6,547,788.

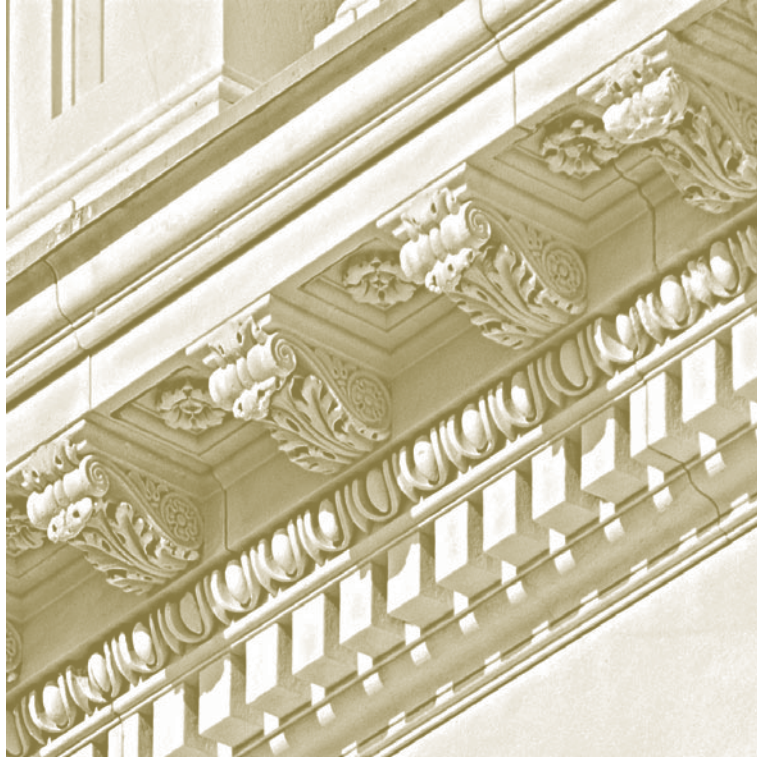
- 2006-PH-1010 The Housing Authority of the County of Butler Needed to Improve Administration of its Section 8 Housing Choice Voucher Program, Butler, PA, 04/20/2006. Questioned: \$229,961; Unsupported: \$229,460; Better Use: \$77,587.
- 2006-PH-1011 The Hampton Redevelopment and Housing Authority Did Not Always Follow HUD Requirements, Hampton, VA, 07/12/2006. Questioned: \$211,664; Unsupported: \$144,707; Better Use: \$169,962.
- 2006-PH-1014 The Housing Authority of the City of McKeesport Needed to Improve its Low-Rent Housing Maintenance Program, McKeesport, PA, 09/25/2006. Questioned: \$90,119; Better Use: \$1,886,372.
- 2006-SE-1004 The Housing Authority of the City of Bremerton Inaccurately Reported its 2005 Section 8 Management Assessment Program Results, Bremerton, WA, 06/21/2006.
- 2006-SE-1005 King County Housing Authority Section 8 Program Meets HUD Requirements, Tukwila, WA, 09/18/2006.

## **Audit-Related Memoranda**

### **Housing (1 Report)**

- 2006-NY-1801 Section 8 Housing Choice Voucher Program, Rochester Housing Authority, Rochester, NY, 05/19/2006.





## **Appendix 2**

### **Tables**



# Table A

## Audit Reports Issued Prior to Start of Period with No Management Decision at September 30, 2006

*\* Significant Audit Reports Described in Previous Semiannual Reports*

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 in Which Final Action Had Not Been Completed as of September 30, 2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
1997-NY-1002	Montgomery County Community Development Program, Fonda, NY	03/14/1997	07/23/1997	12/31/2006
1997-CH-1010	Major Mortgage Corporation, Section 203(K) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	10/15/2006
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	12/31/2006
2001-FO-0002	FHA Audit of FY 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	Audit of HUD FY 2000 Financial Statements	03/01/2001	07/18/2001	12/31/2006
2001-CH-1007	Detroit Housing Commission, Hope VI Program, Detroit, MI	05/16/2001	09/13/2001	06/30/2011
2001-FW-1005	Supportive Housing Program, Harmony House, Inc., Harrison, AR	08/27/2001	12/21/2001	08/03/2007
2002-SF-0001	Nonprofit Participation, HUD Single-Family Program	11/05/2001	08/30/2002	10/15/2006
2002-FO-0002	FHA, FY 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
2002-FO-0003	HUD Financial Statements FY 2001 and 2000	02/27/2002	08/16/2002	11/15/2006
2002-BO-1003	Newport, Resident Council, Inc., Newport, RI	04/30/2002	09/16/2002	01/15/2008
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	03/31/2008
2002-FW-1003	New Mexico Public Interest Education Fund, Outreach and Training Assistance Grant and Public Entity Grant, Albuquerque, NM	09/30/2002	03/31/2003	Note 1
2002-PH-1005	Philadelphia Regional Alliance of HUD Tenants, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grant, Philadelphia, PA	09/30/2002	03/31/2003	03/29/2007

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-PH-1007	Legal Aid Bureau, Inc., Outreach and Training Assistance Grant Number FFOT98012MD, Baltimore, MD	09/30/2002	03/31/2003	Note 1
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	03/29/2007
2003-SE-1002	Tenants Union, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant, Seattle, WA	12/02/2002	03/31/2003	03/29/2007
2003-AT-1001	Northwestern Regional Housing Authority, Public Housing Programs, Boone, NC	01/09/2003	06/02/2003	04/01/2007
2003-FO-0002	FHA, FY 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	12/31/2006
2003-FW-1001	Low-Rent Program, Housing Authority of the City of Morgan City, LA	02/21/2003	06/20/2003	12/31/2006
2003-CH-1014	Coshocton Metropolitan Housing Authority, Public Housing Program, Coshocton, OH	03/28/2003	07/28/2003	04/30/2047
2003-DE-0001	HUD Office of Multifamily Housing Assistance Restructuring's Oversight of the Sec 514 Program Activities	03/31/2003	03/31/2003	Note 1
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL	06/13/2003	10/10/2003	Note 1
2003-NY-1005	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	09/30/2003	01/28/2004	03/31/2007
2004-BO-1002	Family Living Adult Care Center, Biddeford and Saco, ME	11/04/2003	03/04/2004	04/01/2007
2004-KC-1001	East Meyer Community Association, Kansas City, MO	11/24/2003	03/29/2004	06/30/2007
2004-CH-1001	Kankakee County Housing Authority, Section 8 Housing Program, Kankakee, IL	11/26/2003	03/24/2004	10/31/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-DP-0001	FY 2003 Review of Information Systems Controls in Support of the Financial Statements Audit	12/01/2003	05/28/2004	12/31/2006
2004-BO-1004	Danbury Housing Authority Capital Fund Program, Boston, MA	12/05/2003	04/05/2004	12/01/2008
2004-FO-0003	HUD Financial Statements FY 2003 and 2002	12/19/2003	07/20/2004	10/15/2007
2004-AT-0001	Public Housing Agency Development Activities	01/13/2004	05/20/2004	04/01/2007
2004-AT-1001	Housing Authority of the City of Cuthbert, GA,	01/15/2004	05/14/2004	12/31/2006
2004-AO-0001	Award and Administration of Lead-Based Paint Hazard Reduction Grants	02/06/2004	06/30/2004	08/01/2007
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	01/30/2008
2004-FW-1003	City of New Orleans Section 108 Loan Program, Jazzland Theme Park, New Orleans, LA	03/15/2004	09/07/2004	Note 2
2004-LA-1003	Homewide Lending Corporation, Nonsupervised Mortgagee, Los Angeles, CA	05/19/2004	09/01/2004	10/15/2006
2004-PH-1008	Safe Haven Outreach Ministry, Inc., Washington, DC	06/03/2004	08/31/2004	Note 2
2004-FW-1007	City of New Orleans Desire Community Housing Corporation, New Orleans, LA	06/22/2004	09/20/2004	Note 2
2004-AT-0002	Effectiveness of the Departmental Enforcement Center	07/12/2004	12/13/2004	12/31/2006
2004-AT-1012	Housing Authority of the City of Durham, NC	08/02/2004	11/29/2004	12/31/2020
2004-CH-1803	Somerset Point Nursing Home, Multifamily Equity Skimming, Shaker Heights, OH	08/09/2004	08/09/2004	12/31/2007
2004-CH-1008	Cornerstone Mortgage Group, Limited Nonsupervised Loan Correspondent, Inverness, IL	09/10/2004	01/05/2005	12/31/2006



Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD	09/10/2004	01/06/2005	03/31/2007
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR	09/17/2004	02/23/2005	02/23/2007
2004-LA-1008	United States Veterans Initiative, Inc., Inglewood, CA	09/27/2004	03/31/2005	04/15/2013
2004-DE-1004	New Freedom Mortgage Corporation, Single-Family Direct Endorsement Mortgagee, Salt Lake City, UT	09/29/2004	01/28/2005	Note 2
2005-DP-0001	FY 2004 Review of Information Systems Controls in Support of the Financial Statements Audit	10/19/2004	02/16/2005	01/15/2007
2005-SE-1001	Tulalip Tribes Housing Authority Cannot Account for Grant Funds, Marysville, WA	10/21/2004	02/02/2005	10/31/2006
2005-CH-1001	Prestige Mortgage Group, Inc., Non-Supervised Loan Correspondent, Springfield, OH	10/27/2004	10/29/2004	10/29/2006
2005-FW-1801	Highland Meadows Apartments, Dallas, TX	11/02/2004	02/24/2005	02/28/2007
2005-LA-1801	The Carmichael Rehabilitation Center, Carmichael, CA	11/04/2004	01/27/2005	Note 2
2005-FW-1001	City of New Orleans, Section 108 Program, Louisiana ArtWorks, New Orleans, LA	11/05/2004	03/02/2005	Note 2
2005-FO-0002	FHA's Financial Statements for FY 2004 and 2003	11/15/2004	11/15/2004	12/31/2006
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-CH-1003	Royal Oak Township Housing Commission, Public Housing Program, Ferndale, MI	11/29/2004	03/29/2005	10/31/2006
2005-PH-1004	Corrective Action Verification Review of the Housing Authority of Baltimore, MD, Section 8 Certificate and Voucher Programs, Audit Report No. 2001-PH-1003	12/21/2004	04/20/2005	04/30/2007

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-CH-1004	Lakewood Care Center, Multifamily Equity Skimming, Milwaukee, WI	12/22/2004	10/07/2005	12/31/2006
2005-CH-1801	RVA Properties Inc., Multifamily Equity Skimming, Farmington, MI	12/22/2004	12/26/2004	06/29/2007
2005-CH-1005	Wood Hills Assisted Living Facility, Multifamily Equity Skimming, Kalamazoo, MI	01/12/2005	10/07/2005	12/31/2006
2005-AT-1005	Pan American Financial Corporation, Nonsupervised Direct Endorsement Lender, Guaynabo, PR	01/27/2005	05/17/2005	05/31/2007
2005-FW-1004	American Property Financial, Nonsupervised Loan Correspondent, San Antonio, TX	01/28/2005	05/27/2005	05/31/2007
2005-SE-1003	Oregon Housing and Community Services, Salem, OR	02/09/2005	05/27/2005	05/01/2008
2005-FW-1005	New Orleans African-American Museum Mismanaged its CDBG and Did Not Comply with its Grant Agreements, New Orleans, LA	02/25/2005	05/12/2005	Note 2
2005-PH-1007	Lehigh County Housing Authority Could Not Support All Costs and Used HUD Funds to Support its Nonfederal Entities, Emmaus, PA	03/09/2005	05/02/2005	01/30/2017
2005-LA-1002	Housing Authority of Maricopa County, Mixed Finance Development Activities, Phoenix, AZ	03/14/2005	07/11/2005	08/31/2007
2005-AT-1007	Interstate Financial Mortgage Group Corporation, Nonsupervised Direct Endorsement Lender, Miami, FL	03/15/2005	08/04/2005	01/31/2007
2005-PH-1008	The Housing Authority of the City of Pittsburgh Did Not Effectively Implement its MTW Demonstration Program, Pittsburgh, PA	03/24/2005	07/13/2005	12/31/2006
2005-PH-0001	Criteria Governing Local Government Participation in HUD's Single-Family Property Disposition Discount Sales Program	03/29/2005	07/27/2005	01/02/2007

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-FW-1008	City of New Orleans Did Not Contribute Approximately \$3.6 Million in HOME Funds, New Orleans, LA	04/08/2005	05/26/2005	Note 2
2005-PH-1009	Richmond Redevelopment and Housing Authority Did Not Always Properly Use HUD Funds, Richmond, VA	04/08/2005	07/28/2005	10/31/2006
2005-BO-1003	Milford Housing Authority, Selected Programs, Milford, CT	04/25/2005	10/07/2005	11/19/2006
2005-DE-1004	Aspen Home Loans, American Fork, UT	05/06/2005	08/31/2005	08/31/2007
2005-DE-0001	HUD's Control Over FHA Claims Payments	05/12/2005	09/09/2005	01/31/2007
2005-LA-1003	First Source Financial USA, Henderson, WV	05/12/2005	09/08/2005	05/31/2007
2005-FW-1010	Broad Street Mortgage Company, Subsidiary of Fieldstone Mortgage Company, San Antonio, TX	05/26/2005	07/13/2006	07/16/2007
2005-NY-1005	The Housing Authority of the City of Newark, Bond Financing Activities and Section 8 Housing Choice Voucher Administrative Fee Reserves, Newark, NJ	05/26/2005	09/23/2005	12/31/2006
2005-PH-1012	The Lycoming County Housing Authority Risked HUD Assets for the Benefit of Its Affiliated Nonfederal Entity, Williamsport, PA	06/06/2005	07/12/2005	11/30/2006
2005-LA-1006	Maricopa Home Consortium Home Program, Mesa, AZ	07/28/2005	11/22/2005	08/31/2007
2005-BO-1004	Housing Choice Voucher and Low-Income Public Housing Program Deficiencies at the Bridgeport Housing Authority Resulted in \$3.8 Million in Questioned Costs, Bridgeport, CT	07/29/2005	11/25/2005	11/25/2006
2005-PH-1013	Review of the Commonwealth of Pennsylvania's HOME Investment Partnership Program, Harrisburg, PA	07/29/2005	11/22/2005	11/21/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-PH-1014	Review of the McKeesport Housing Authority's Section 8 and Public Housing Programs, McKeesport, PA	07/29/2005	11/21/2005	11/01/2006
2005-CH-1012	Savanna Trace Apartments, Multifamily Equity Skimming, Kalamazoo, MI	08/04/2005	12/28/2005	12/28/2006
2005-CH-1013	Ivan Woods Senior Apartments, Multifamily Equity Skimming, Lansing, MI	08/05/2005	12/28/2005	12/28/2006
2005-LA-1007	KB Home Mortgage Company, Las Vegas, NV	08/12/2005	12/09/2005	12/31/2006
2005-BO-1006	The Hartford Housing Authority Improperly Used \$3.7 Million in Public Housing Operating Subsidies for its State and Other Federal Programs, Hartford, CT	09/06/2005	01/03/2005	01/03/2007
2005-LA-0001	Single-Family Preforeclosure Sale Program	09/13/2005	01/10/2006	01/31/2007
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer its Independent Capital Fund in Accordance with HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	11/30/2006
2005-AT-1014	National City Mortgage Company Did Not Comply with FHA Requirements, Miamisburg, OH	09/15/2005	11/14/2005	10/31/2006
2005-NY-1007	Security Atlantic Mortgage Company, Inc. Did Not Always Comply with HUD/FHA Loan Origination Requirements, Edison, NJ	09/16/2005	01/13/2006	01/31/2007
2005-SE-1007	City Bank, Puyallup, WA	09/16/2005	12/20/2005	12/20/2006
2005-SE-1008	Idaho Housing and Finance Association, Boise, ID	09/16/2005	03/31/2006	11/01/2006
2005-CH-1017	Flint Housing Commission, Section 8 Housing Program, Flint, MI	09/23/2005	01/20/2006	01/20/2016
2005-LA-1010	First Magnus Financial Corporation, Las Vegas, NV	09/23/2005	01/19/2006	01/19/2007



Report Number	Report Title	Issue Date	Decision Date	Final Action
2005-BO-1007	Fairfield Financial Mortgage Group, Inc., Did Not Always Comply with FHA Requirements, Danbury, CT	09/26/2005	01/20/2006	01/19/2007
2005-LA-1011	KB Home Mortgage Company Did Not Follow HUD Requirements When Originating Insured Loans, Phoenix, AZ	09/26/2005	01/23/2006	01/15/2007
2005-FW-1018	The Housing Authority of the City of Houston Violated HUD Regulations Concerning Section 8 Housing Choice Voucher Tenants and Units, Houston, TX	09/27/2005	01/24/2006	01/24/2007
2005-NY-1008	Lower Manhattan Development Corporation, CDBG Program Disaster Assistance Fund, New York, NY	09/27/2005	08/22/2006	12/31/2006
2005-NY-1009	Golden First Mortgage Corporation, Nonsupervised Direct Endorsement Lender, Great Neck, NY	09/28/2005	01/20/2006	01/20/2007
2005-AT-1015	The Municipality of San Juan Housing Authority Did Not Properly Administer Its Section 8 Housing Choice Voucher Program, San Juan, PR	09/29/2005	01/12/2006	12/29/2006
2005-CH-1020	Housing Authority of the City of Gary, Section 8 Housing Program, Gary, IN	09/29/2005	01/25/1006	12/31/2052
2005-BO-0002	HUD Did Not Conduct a Front-End Risk Assessment and, Therefore, Fully Implement Controls for the Public Housing Mortgages and Security Interest Program	09/30/2005	12/20/2005	04/01/2007
2005-KC-1009	Washington Mutual Bank Did Not Follow HUD Regulations When Underwriting Six Loans, Seattle, WA	09/30/2005	01/11/2006	01/11/2007
2006-PH-1001	The Alexandria Redevelopment and Housing Authority Improperly Used Section 8 Funds to Support its Other Programs, Alexandria, VA	10/04/2005	12/01/2005	10/04/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-BO-1001	The Division of Grants Management, City of Hartford, Paid \$1,039,296 for Ineligible CDBG Activities and Failed to Return Income to the Program, Hartford, CT	10/27/2005	02/02/2006	02/02/2007
2006-PH-1002	The Suffolk Redevelopment and Housing Authority Did Not Always Follow HUD Requirements in its Section 8 and Low-Rent Programs, Suffolk, VA	10/17/2005	02/08/2006	01/02/2007
2006-DP-0002	Security Configuration of FHA Unix Operating System	10/31/2005	03/30/2006	02/28/2007
2006-LA-1001	Ryland Mortgage Company Did Not Follow HUD Requirements in the Origination of Insured Loans, Tempe, AZ	10/31/2005	07/13/2006	07/16/2007
2006-FO-0002	FHA Financial Statements for FY 2005 and 2004	11/07/2005	02/15/2006	10/16/2006
2006-FO-0003	Additional Details to Supplement Our Reports on HUD's FY 2005 and 2004 Financial Statements	11/15/2005	02/02/2006	10/01/2006
2006-BO-1002	Review of Worcester Housing Authority Identified \$1.9 million of Its Public Housing Operating Funds Used for Non-Program Purposes, Worcester, MA	11/29/2005	02/10/2006	11/29/2006
2006-CH-0001	Real Estate Assessment Center's Physical Condition Assessment Was Compromised	11/30/2005	01/10/2006	12/31/2006
2006-KC-1001	The Columbia Housing Authority Is Unnecessarily Paying Housing Choice Voucher Program Funds for Overhoused Tenants, Columbia, MO	11/30/2005	03/27/2006	11/30/2016
2006-PH-1003	The Franklin Redevelopment and Housing Authority Did Not Adequately Administer Its Section 8 Program, Franklin, VA	11/30/2005	03/28/2006	03/31/2007
2006-PH-1004	Homestead Funding Corp. Issued and Submitted for Endorsement Loans with an Increased Risk of Defaults and Claims, Allentown, PA	12/02/2005	03/30/2006	11/30/2006

Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-LA-1003	The Owners of The Avenue Misused More Than \$32,000 in Project Funds, San Francisco, CA	12/07/2005	02/08/2006	02/07/2007
2006-PH-0001	HUD Did Not Properly Award FY 2004 Healthy Homes and Lead Hazard Control Grants	12/07/2005	08/25/2006	10/30/2006
2006-KC-1002	First Magnus Financial Corporation Did Not Follow HUD Regulations When Underwriting 23 FHA Loans, Overland Park, KS	12/12/2005	04/06/2006	03/31/2007
2006-FW-1002	Baytown Housing Authority Improperly Advanced, Transferred, and Encumbered Its Public Housing Funds, Baytown, TX	12/13/2005	04/07/2006	10/31/2006
2006-DE-1001	First Magnus Financial Corporation Did Not Follow HUD Requirements in Underwriting 31 Insured Loans, Denver, CO	12/20/2005	04/06/2006	03/31/2007
2006-FW-1003	Palacios Housing Authority Did Not Fully Comply with HUD's Standards, Palacios, TX	12/22/2005	04/03/2006	11/30/2006
2006-CH-1005	Fairfield Metropolitan Housing Authority Used Annual Contributions Contract Funds for Development Activities Outside Its Annual Contributions Contract, Lancaster, OH	12/30/2005	04/28/2006	12/31/2006
2006-CH-1006	Northstar Community Development Corporation Inappropriately Used More Than \$120,000 in Economic Development Initiative-Special Purpose Grant Funds and HUD's Interest in More Than \$180,000 in Grant Funds Was Not Secured, Detroit, MI	12/30/2005	05/25/2006	10/30/2006
2006-PH-1005	The Housing Authority of the County of Butler Used HUD Assets Improperly to Develop and Support Its Nonfederal Entities, Butler, PA	01/10/2006	04/28/2006	05/01/2007

Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-AT-1002	The Housing Authority of the City of Prichard's Controls over the Sale of Affordable Housing Units, Use of Sales Proceeds, and Expenditure of Low-Income Funds Were Inadequate, Prichard, AL	01/11/2006	05/11/2006	03/31/2007
2006-AT-1003	Certified Home Loans of Florida Did Not Always Comply with FHA Requirements, Miami, FL	01/12/2006	04/03/2006	03/31/2007
2006-AT-1004	The Housing Authority of the City of Prichard Did Not Ensure Section 8 Subsidy Payments Were for Eligible Units, Tenants, and Landlords, Prichard, AL	01/13/2006	04/25/2006	12/31/2008
2006-KC-1004	Major Mortgage Improperly Submitted Late Requests for Endorsement of FHA Loans, Cheyenne, WY	01/20/2006	05/08/2006	03/31/2007
2006-FW-1004	K Hovnanian American Mortgage, LLC, Violated Underwriting Requirements and Did Not Meet All Quality Control or Branch Requirements, Plano, TX	01/26/2006	05/25/2006	01/26/2007
2006-SE-1001	Idaho Housing and Finance Association Did Not Monitor Subsidized Multifamily Projects in Accordance with Regulations or its Annual Contributions Contract with HUD, Boise, ID	01/26/2006	05/23/2006	12/31/2008
2006-DP-0003	Vulnerability Assessment of HUD's Computer Network	01/31/2006	04/19/2006	06/30/2008
2006-KC-1005	Matrix Financial Services Corporation's St. Louis Branch Did Not Properly Underwrite and/or Close 40 FHA Loans, St. Louis, MO	01/31/2006	05/11/2006	05/31/2007
2006-NY-1002	WomenRising, Inc., Did Not Always Comply with HUD's Supportive Housing Program, Jersey City, NJ	01/31/2006	05/11/2006	04/30/2007



Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-NY-1003	The Housing Authority of the City of Newark's Controls Over Bond Financing Activities, Obtaining Supporting Documentation, and Legal Settlements Require Improvement, Newark, NJ	02/14/2006	08/17/2006	12/31/2008
2006-PH-1007	The Loan Origination Process and Quality Control Plan of American Mortgage, Inc., Did Not Comply with HUD Regulations and Requirements, Cherry Hill, NJ	02/15/2006	06/15/2006	02/15/2007
2006-NY-1004	Mount Vernon Urban Renewal Agency, Section 8 Housing Choice Voucher Program Has Administrative and Financial Management Weaknesses, Mount Vernon, NY	02/16/2006	06/23/2006	06/20/2007
2006-NY-1005	Utica Municipal Housing Authority, Operational and Administrative Weaknesses Have Resulted in Unsupported and Ineligible Expenditures, Utica, NY	02/21/2006	06/22/2006	01/02/2007
2006-AT-1006	The Municipality of San Juan Housing Authority Did Not Ensure Section 8 Assisted Units Were Decent, Safe, and Sanitary, San Juan, PR	02/23/2006	05/15/2006	01/30/2007
2006-SE-1002	Northeast Washington Housing Solutions Improperly Administered Housing Choice Vouchers, Spokane, WA	02/27/2006	06/16/2006	10/31/2006
2006-LA-1008	Housing Authority of the City of Los Angeles Did Not Adequately Administer and Maintain Its Section 8 Waiting List, Los Angeles, CA	03/01/2006	03/24/2006	10/30/2006
2006-BO-1004	Mount Saint Francis Health Center, Providence, RI	03/03/2006	05/19/2006	08/08/2007
2006-LA-1009	Fontana Native American Indian Center Did Not Adequately Administer Its Supportive Housing Program Grant, Fontana, CA	03/03/2006	03/17/2006	03/17/2007

Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-LA-1010	The Owner and Agent of Holiday Apartments, LA PRO 30, and Two Worlds II Mismanaged Project Finances and Operations, Los Angeles, CA	03/03/2006	06/23/2006	12/31/2006
2006-BO-1005	Hartford Housing Authority Had Housing Choice Voucher Program Deficiencies Resulting in More Than \$2.6 Million in Costs Exceptions, Hartford, CT	03/10/2006	07/07/2006	10/31/2006
2006-CH-1007	Huntington National Bank, Supervised Lender, Generally Complied with Requirements Regarding Submission of Late Requests for Endorsement and Underwriting of Loans, Columbus, OH	03/15/2006	09/18/2006	08/10/2008
2006-KC-1007	American Lending Group Did Not Properly Originate 9 Loans and Did Not Have Adequate Quality Control Procedures, St. Peters, MO	03/15/2006	06/08/2006	05/31/2007
2006-PH-1008	1st Preference Mortgage Corporation, York, PA, and Greenbelt, MD, Did Not Originate All FHA Loans in Accordance with HUD Requirements, York, PA	03/23/2006	05/11/2006	04/30/2007
2006-PH-1009	The Housing Authority of the City of Annapolis Did Not Adequately Administer Its Section 8 Waiting List, Annapolis, MD	03/23/2006	05/24/2006	03/23/2007
2006-BO-1006	Coventry Health Center, Providence, RI	03/28/2006	05/19/2006	08/31/2008
2006-FW-1006	America's Mortgage Resource, Inc., Branch Manager Formed an Identity-of-Interest Entity That Provided Gift Funds; and Did Not Always Meet HUD Loan Origination and Quality Control Plan Requirements, Metairie, LA	03/28/2006	07/14/2006	10/31/2007
2006-AT-1007	The Housing Authority of the City of Winston-Salem Used More Than \$4.9 Million in Operating Subsidies for Other Programs, Winston-Salem, NC	03/30/2006	07/20/2006	07/31/2011

Report Number	Report Title	Issue Date	Decision Date	Final Action
2006-CH-1008	US Bank NA, Supervised Lender, Did Not Always Comply with HUD's Requirements Regarding Late Requests for Endorsements and Underwriting of Loans, Minneapolis, MN	03/31/2006	09/18/2006	08/14/2008
2006-FW-1007	BSM Financial LP Originated Loans on Overvalued Properties to Less Than Creditworthy Borrowers, Putting Borrowers and HUD at Risk, Allen, TX	03/31/2006	08/18/2006	10/01/2007

REPORTS EXCLUDED FROM TABLE:

35 audits under repayment plans  
32 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.
- 3 No Management decision.

## Table C

### Inspector General Issued Report with Questioned and Unsupported Costs at September 30, 2006 (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	39	46,020	16,682
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	10	19,113	9,667
A3 For which additional costs were added to reports in beginning inventory	-	1,665	9
A4 For which costs were added to noncost reports	0	0	0
B1 Which were issued during the reporting period	63	66,374	34,207
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	112	133,172	60,565
C For which a management decision was made during the reporting period	53 <sup>1</sup>	39,450	9,520
(1) Dollar value of disallowed costs			
Due HUD	25 <sup>2</sup>	11,752	3,366
Due program participants	37	22,528	5,180
(2) Dollar value of costs not disallowed	15 <sup>3</sup>	5,170	974
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	12	30,312	18,652
E For which no management decision had been made by the end of the reporting period	47 <111> <sup>4</sup>	63,410 <61,724> <sup>4</sup>	32,393 <32,392> <sup>4</sup>

<sup>1</sup> 39 audit reports also contain recommendations with funds to be put to better use.

<sup>2</sup> 9 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 15 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.



## Table D

### Inspector General Issued Report with Recommendations That Funds Be Put to Better Use at September 30, 2006

(Thousands)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	36	170,441
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	7	105,692
A3 For which additional costs were added to reports in beginning inventory	-	1,243
A4 For which costs were added to noncost reports	2	35,550
B1 Which were issued during the reporting period	48	286,094
B2 Which were reopened during the reporting period	0	0
Subtotals (A + B)	93	599,020
C For which a management decision was made during the reporting period	49 <sup>1</sup>	210,642
(1) Dollar value of recommendations that were agreed to by management		
Due HUD	22 <sup>2</sup>	127,139
Due program participants	28	45,089
(2) Dollar value of recommendations that were not agreed to by management	16 <sup>3</sup>	38,414
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	117,298
E For which no management decision had been made by the end of the reporting period	34	271,080

<sup>1</sup> 39 audit reports also contain recommendations with questioned costs.

<sup>2</sup> 3 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 14 audit reports also contain recommendations with funds agreed to by management.

## Explanations of Tables C and D

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

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







# Appendix 3

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