

**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)(b) (7)(C)	DATE: December 4, 2009
A. Description of Systemic Deficiency: <p>Numerous investigations (b) (7)(C) revealed several counterfeiting rings in which a significant amount of counterfeit payroll checks were cashed at Kansas City store fronts. Investigation revealed that approximately twenty-five counterfeit payroll checks that were cashed/negotiated contained a housing authority bank account number and routing number. Investigation revealed that the organizers of the counterfeiting rings obtained the housing authority bank account information from utility allowance/reimbursement checks. The following Housing Authorities were victimized as a result of the counterfeit payroll check schemes: Kansas City, Missouri; Independence, Missouri; Lee's Summit, Missouri; Kansas City, Kansas.</p>	
B. Suggestions to Correct Deficiency: <p>The Department should implement an alternative method for providing utility reimbursements/allowances. (b) (5), (b) (7) (E)</p> <p>electronically</p>	
C. Investigative Techniques: <p>Reviewed numerous housing authority utility reimbursement/allowance checks received from several housing authorities and compared them with the counterfeit checks.</p>	
Distribution: 1 <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other:__ __	

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AGENT: (b) (7)(C)(b) (7)(C)	
DISTRICT/OFFICE: Special Investigations Division, GIO	DATE: October 29, 2009
A. Description of Systemic Deficiency: During HUD OIG investigation (b) (7)(C) it was learned that HUD's Office of Security and Emergency Planning (OSEP), Protective Services Division (PSD) issued HUD OSEP PSD credentials identifying the holder as a "Special Deputy U.S. Marshal" to a Physical Security Specialist (PSS) who had not received any U.S. Marshal Special Deputation and who was not assigned to PSD. This investigation also determined that HUD violated its agreement with U.S. Marshals Service which stipulates that a sponsoring agency may not include the wording, "Special Deputy U.S. Marshal" on agency credentials.	
B. Suggestions to Correct Deficiency: It is recommended that HUD redesign HUD OSEP PSD credentials to omit the wording "Special Deputy U.S. Marshal." It is also recommended that HUD OSEP implement a process to ensure they only issue credentials to personnel that have received their U.S. Marshal Deputation and are assigned to PSD.	
C. Investigative Techniques: (b) (7)(C)(b) (7)(C) (b) (7)(C)(b) (7)(C)(b) (7)(C)(b) (7)(C) (b) (7)(C) (b) (7)(C)	
Distribution: 1 <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other: _ _	

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AGENT: (b) (7)(C)	
DISTRICT/OFFICE: Midwest Region, (b) (7)(C)(b) (7)(C)	DATE: November 27, 2009
A. Description of Systemic Deficiency: <p>Our office received a referral from the Cuyahoga Metropolitan Housing Authority (CMHA) for assistance in an allegation of program fraud in the Housing Choice Voucher Homeownership Program (HICVP). CMHA Homeownership Program Manager alleged CMHA tenant, (b) (7)(C) was failing to pay (b) (7)(C) mortgage note as required per Homeownership policies and regulations. CMHA records indicated that when the original mortgage holder, Ohio Saving Bank transferred the mortgage to Wells Fargo Bank, payments were made via check from CMHA directly to the owner of the property. It was then the owners responsibility to forward that payment to the mortgage company.</p> <p>Subsequent to the transfer of the mortgage by Ohio Savings Bank, CMHA establish their payment of the mortgage on behalf of the owner as a direct deposit to the owner's bank account, which corresponded to the bank that held the mortgage.</p> <p>Once Ohio Saving Bank transferred the property to Wells Fargo Bank, Wells Fargo did not allow CMHA to make direct deposits to their banking institution for payment of the mortgage. CMHA in any event had to issue the mortgage payment directly to the owner, (b) (7)(C). Furthermore, once the mortgage payment checks were sent to the owner, the mortgage started to become delinquent.</p> <p>Investigative findings discovered that the owner was using the CMHA funds for their personal well-being (i.e. utilities, tuition for 808 children's school, etc...), which caused the house to go into foreclosure.</p> <p>As related to CFR Title 24 982.635 Homeownership Part 4D as follows:</p> <p>(d) <i>Payment to lender or family.</i> The PHA must pay homeownership assistance payments either:</p> <p>(1) Directly to the family or;</p> <p>(2) At the discretion of the PHA, to a lender on behalf of the family. If the assistance payment exceeds the amount due to the lender, the PHA must pay the excess directly to the family.</p>	
B. Suggestions to Correct Deficiency: The payment of the mortgage loan should be directed solely to the lending institution to avoid the chance of fraud within the HUD funded program.	
C. Investigative Techniques	
Distribution: <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other: _____	



U.S. Department of Housing & Urban Development

Office of Inspector General

Special Investigations Division

550 12th Street, 3rd Floor

Washington, DC 20024

Office: (202) 287-4100 Fax: (202) 708-5331

December 10, 2009

MEMORANDUM FOR: (b) (7)(C) [Redacted]

(b) (7)(C) [Redacted] Special Investigations Division (GIP)

FROM: (b) (7)(C) [Redacted] in Charge
Special Investigations Division (GIO)

THRU: (b) (7)(C) [Redacted]
Office of Investigation (GI)

SUBJECT: Systemic Implications Report (SIR)
HUD OIG File Number: (b) (7)(C) [Redacted]

Attached is a copy of a Systemic Implications Report for your review and appropriate action.

Please contact me at (b) (7)(C) [Redacted] if you have any questions or need clarification of matters discussed in the report.

Attachment

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**U. S. Department of Housing
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AGENT: (b) (7)(C)

DISTRICT/OFFICE:
(b) (7)(C)

DATE:
December 10, 2009

A. Description of Systemic Deficiency:

During a HUD OIG investigation (b) (7)(C) it was determined that HUD has no policy regarding HUD employees working with organizations representing federal employees. Title 5 of the Code of Federal Regulations (CFR), Part 251, "Agency Relationships with Organizations Representing Federal Employees and Other Organizations," allows federal employees to use "agency equipment and/or administrative support services for preparing papers and documents....." and allows for "a liberal policy in authorizing excused absences for employees to attend meetings....." when working with these types of organizations. Currently, guidelines are left to the discretion of the employee and his/her supervisor. The lack of agency guidance/policy allows opportunities for serious abuse.

The specific sections of the CFR that apply are listed below:

- 5 CFR 251.101 - Introduction
- 5 CFR 251.102 - Coverage
- 5 CFR 251.103 - Definitions
- 5 CFR 251.201 - Association of management officials and/or supervisors
- 5 CFR 251.202 - Agency support to organizations representing Federal employees and other organizations
- 5 CFR 251.301 - Associations of management officials and/or supervisors
- 5 CFR 251.302 - All other organizations

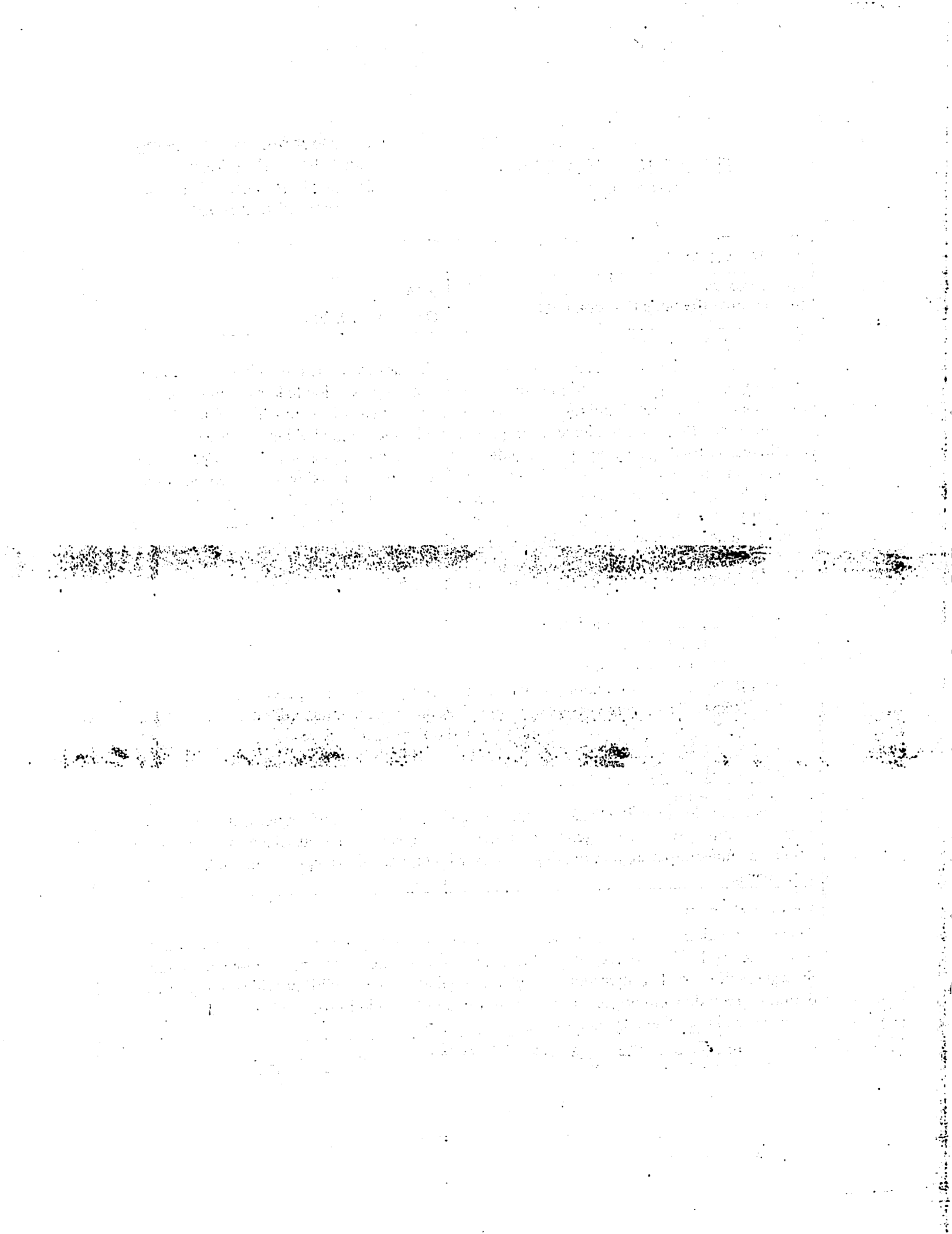
B. Suggestions to Correct Deficiency:

It is recommended that HUD research the above CFR and create and implement policy regarding employees' use of agency equipment, liberal leave and excused absences, and use of agency administrative support relating to work with organizations representing federal employees.

C. Investigative Techniques:

(b) (5), (b) (7)(E)

Distribution: 1 Case File 2 AIGI 3 OMAP 4 Other: CID



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AGENT: (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)	DATE: March 5, 2010 RELATED INVESTIGATION (b) (7)(C)
A. Description of Systemic Deficiency:	
<p>(b) (7)(C) (b) (7)(C) Cincinnati, OH, suspected fraud had occurred with the HPRP (b) (7)(C) (b) (7)(C) was reviewing the case files on Friday, September 19, 2009 when (b) (7)(C) noticed a name that was (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) confronted the worker who denied wrong doing but (b) (7)(C) still requested verification that the address that the assistance was paid to was different then (b) (7)(C) On Monday the 21st of September the worker admitted to misuse of funds. Upon learning this information (b) (7)(C) access to the files stored electronically on VESTA was terminated and the (b) (7)(C) stopped referring clients to the (b) (7)(C) program.</p> <p>(b) (7)(C) began reviewing the worker's files in search of any other suspicious eviction notices or notices to vacate. There were several of the suspicious notice to vacate forms and (b) (7)(C) called the landlord for each of the individuals who had that form. The landlord of (b) (7)(C) (b) (7)(C) indicated that no notice to vacate had been given for the client. One other client had the same form and when (b) (7)(C) repeatedly contacted the landlord no one returned (b) (7)(C) all. A search of Facebook revealed that the client and (b) (7)(C) (b) (7)(C) were "friends". To this date (b) (7)(C) has not received a call back from that landlord.</p> <p>Upon learning about these fraudulent cases, (b) (7)(C) began searching all case files for the same suspicious eviction forms. (b) (7)(C) contacted all of the landlords to verify the validity of the forms. There were two cases in which the landlord denied having issued the notice to vacate. Those two cases were from (b) (7)(C) Community Services. Upon finding these fraudulent cases on September 23, 2009, (b) (7)(C) contacted (b) (7)(C) (b) (7)(C) at (b) (7)(C) (b) (7)(C) (b) (7)(C) who denied any wrong doing. (b) (7)(C) met with (b) (7)(C) again on Friday, September 25, 2009 and (b) (7)(C) indicated that one of the individuals was a known "friend" of (b) (7)(C)</p>	
B. Suggestions to Correct Deficiency: (b) (5), (b) (7)(E)	
Documents were reviewed and interviews were conducted of all subjects allegedly involved in scheme to defraud.	
Distribution: 1 <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other: _____	

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AGENT: (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)	DATE: 04/16/2010
A. Description of Systemic Deficiency: (b) (5)	
C. Suggest	
C. Investig	
Distribution: 1 <input checked="" type="checkbox"/> Case File 2 <input checked="" type="checkbox"/> AIGI 3 <input checked="" type="checkbox"/> OMAP 4 <input checked="" type="checkbox"/> Other CID	

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AGENT: (b) (7)(C) [REDACTED] DRAFT	
DISTRICT/OFFICE [REDACTED] - [REDACTED]	DATE: May 14, 2010
<p>A. Description of Systemic Deficiency:</p> <p>The Department allows lenders to offer a HECM product with an interest rate that is adjustable on a monthly basis with no lifetime cap. Therefore, a lender could and does take full advantage of this, by charging greater than 16% on monthly adjustable mortgage rates. This is a predatory loan, and one the Department should engage in.</p> <p>Currently the regulation reads in 4235.1 1-8 Interest rate (A)(2): "The lender must offer a rate that adjusts annually (with a 2% annual cap and a 5% lifetime cap), but may also offer a rate that adjusts monthly (with only a lifetime cap established by the lender)."</p> <p>The availability of particular HECM products is market-driven, not regulation-driven. If there is no source of money for lenders to offer a particular product, it will disappear. Thus, in practice, because Fannie Mae is the major purchaser of HECMs, they control what products are available, based on what they are willing to purchase. If they are only willing to purchase monthly adjustable ARM's that will be the only product available to our senior citizens.</p>	
<p>B. Suggestions to Correct Deficiency:</p> <p>The Department should issue an interim regulation removing the monthly adjustable ARM from the market place. Continuing to allow the annual adjustable ARM with the cap of 5% over the life of the loan, still gives the free markets flexibility, without HUD backing a predatory loan product to senior citizens.</p>	
<p>C. Investigative Techniques:</p> <p>Data provided by CID was used to pull each mortgage filed with the county clerk, and reviewed for the type of loan and rate. Only by looking at the mortgage filed with the local clerk's office, can this trend be disclosed.</p>	
<p>Distribution: 1 X Case File 2 X AIGI <input type="checkbox"/> 3 OMAP X 4 Other: CID</p>	

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AGENT: (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)(b) (7)(C)(b) (7)(C)	DATE: July 26, 2010
A. Description of Systemic Deficiency:	
<p>The Office of the Inspector General for the U.S. Department of Housing and Urban Development, (b) (7)(C) received an allegation predicated upon a newspaper article published by the (b) (7)(C), dated Thursday, (b) (7)(C) 2010; written by (b) (7)(C) titled, "(b) (7)(C)</p> <p>According to the article, two (2) properties were acquired by (b) (7)(C) (b) (7)(C) in 2009, and (b) (7)(C)(b) (7)(C)(b) (7)(C) (b) (7)(C); and (b) (7)(C)(b) (7)(C)(b) (7)(C)(b) (7)(C) (b) (7)(C). Both properties were sold (b) (7)(C) (b) (7)(C) for \$3,000 each.</p> <p>It was alleged that the HUD sale of Real Estate Owned (REO) properties that were part of a bulk sale (14 properties) to the (b) (7)(C) and the nonprofit organization, (b) (7)(C) had violated HUD guidelines and regulations as a conflict of interest in (b) (7)(C)(b) (7)(C) purchasing homes from employees working at (b) (7)(C). However, it was revealed from the Home Ownership Center (HOC) in Philadelphia that no clause existed in the bulk contract sale of a land use restriction addendum (standards of interest) on how the properties would be used, demoed, or resold.</p> <p>The bulk sales contract didn't include any determination (clause or conflict of interest clause) if the properties would be demolished, remodeled, or resold. HUD didn't allocate what would happen with the homes once sold. The HOC in Philadelphia explained that the (b) (7)(C) would have made the decision on that matter; no clause is noted in the initial contract by HUD.</p> <p>According to the REO sales contract the agreement didn't contain a clause or guidelines explaining a conflict of interest. A review by the HOC was conducted to evaluate this matter which findings revealed that no clause existed within the sale to the (b) (7)(C).</p>	
B. Suggestions to Correct Deficiency:	
<p>A conflict of interest clause (standards of interest) should be implemented into the sale contract of any and all HUD REO properties to avoid the chances of fraud within the HUD funded program.</p>	
C. Investigative Techniques:	
Distribution: 1 <input type="checkbox"/> Case File 2 <input type="checkbox"/> AIGI 3 <input type="checkbox"/> OMAP 4 <input type="checkbox"/> Other: __ __	