



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

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MEMORANDUM NO:
2013-LA-1804

Memorandum

TO: Dane M. Narode
Associate General Counsel for Program Enforcement, CACC

Tanya E. Schulze

FROM: Tanya E. Schulze
Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: Final Civil Action: Settlement of Allegations of Failing To Fully Comply With HUD Neighborhood Stabilization Program Requirements and Submitting False Certifications to HUD

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), assisted the HUD Office of Program Enforcement in conducting a civil fraud review of alleged false claims submitted to HUD regarding City ██████ employee labor costs charged to the City's Neighborhood Stabilization Program (NSP) grant. The false claims allegations stemmed from a ██████ OIG audit report¹ outlining details of ineligible employee labor costs. As a result of the combined efforts, the City agreed to pay \$7,500 as settlement on behalf of ██████ and ██████. The objective of our review was to determine whether ██████ and ██████ submitted false certifications attesting to ineligible employee labor costs.

METHODOLOGY AND SCOPE

To assist the HUD Office of General Counsel, we provided our audit work papers and other relevant documents. Specifically, we reviewed and provided the City's NSP grant agreement, journal vouchers related to labor charges, HUD payment system draws, employee timesheets, signed statements, and other relevant documents. We also discussed the elements of the case with the HUD Office of General Counsel and provided information as requested.

¹ Audit report ██████, "The City ██████, Needs To Improve Its Procedures for Administering Its Neighborhood Stabilization Program Grant," dated ██████

BACKGROUND

The Neighborhood Stabilization Program 1 (NSP1) was authorized under Division B, Title III, of the Housing and Economic Recovery Act of 2008 and provided grants to all States and selected local governments on a formula basis. The Act appropriated \$3.92 billion in NSP1 funds for emergency assistance for the redevelopment of abandoned and foreclosed-upon residential properties. NSP1 was established for the purpose of stabilizing communities that had suffered from foreclosures and abandonment.

The City ██████ was awarded approximately \$9.6 million in NSP1 grant funds. The City's Neighborhood Services Department was in charge of administering its NSP1 activities. ██████ worked as the neighborhood services director, and ██████ worked as the housing and revitalization director. Both ██████ and ██████ had oversight and responsibility for staff that worked on activities related to the NSP1 grant.

The grant agreement, approved by HUD, stated that NSP grant funds could be used to pay eligible costs arising from eligible uses incurred after the NSP approval date provided the activities to which such costs were related were carried out in compliance with all applicable requirements. The grant agreement also stated, "The Grantee is advised that providing false, fictitious or misleading information with respect to NSP Grant Funds may result in criminal, civil, or administrative prosecution under 18 USC [United States Code] §1001, 18 USC §1343, 31 USC §3729, 31 USC §3801 or another applicable statute."

RESULTS OF REVIEW

Based on the audit report, issued on February 8, 2011, OIG issued a referral to the HUD Office of General Counsel on May 25, 2011, for action under the Program Fraud and Civil Remedies Act, based on analysis and facts as determined by the audit. Specifically, the referral detailed a \$22,344 adjusting journal entry charge to the City's NSP1 grant. The documentation retained by the City to support the adjusting entry included a statement signed by ██████ and ██████, claiming that the adjustment was made because work assignments for certain City employees were changed in July 2009 from part time to full time on the NSP1 grant activities. However, we determined that the labor charges were questionable as certain employees did not work full time on the NSP1 grant during the period in question. During the audit, ██████ and ██████ provided a signed statement to OIG auditors, asserting that certain employees did not use timecards during the period in question. However, we determined that this assertion was not correct, indicating that ██████ and ██████ were aware that the labor charges were not accurate. Based on the journal entries and signed statement on full-time status, the City was reimbursed \$22,344 as part of a larger draw that was submitted to HUD on July 1, 2010.

On November 29, 2012, HUD filed separate complaints against ██████ and ██████. HUD contended that (1) ██████ and ██████ were aware that certain employees of the City's Housing and Rehabilitation Department did not work full time on the NSP1 grant during the months of July, August, and September 2009; (2) ██████ and ██████ provided the City with erroneous information, including signed statements indicating that labor cost for

these employees should be paid entirely from NSP1 grant funds; and (3) this caused the City to make a false claim to HUD for NSP1 grant funds on or about July 1, 2010.

On February 21, 2013, HUD entered into settlement agreements² with [REDACTED] and [REDACTED], each agreeing to pay \$3,750,³ bringing the total settlement to \$7,500. The Office of the City Attorney, City [REDACTED], agreed to represent both [REDACTED] and [REDACTED]. The City agreed to pay the entire civil penalty on their behalf, since they acted within the scope of their employment in causing the false claim issue.

RECOMMENDATIONS

We recommend that HUD's Office of General Counsel, Office of Program Enforcement

- 1A. Agree to allow HUD OIG to post the settlement of \$7,500 to HUD's Audit Resolution and Corrective Actions Tracking System as funds to be put to better use.

² The settlement was the result of a desire to seek a satisfactory resolution without the expense and uncertainty of further litigation. The settlement agreements do not constitute admissions of liability, fault, or wrongdoing.

³ The \$7,500 was paid by the City [REDACTED] on behalf of the subjects since they acted within the scope of their employment in causing the false claim at issue.