

**Office of Inspector General**  
**Semiannual Report**  
**to Congress**

**April 1, 2004, through September 30, 2004**

# Profile of Performance

## For the Period April 1, 2004, through September 30, 2004

Audit and Investigation Results	Audit	Investigation	Hotline	Combined	FY2004
Recommendations That Funds Be Put to Better Use	\$498,144,712		\$2,260,654	\$500,405,366	\$2,367,760,848
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$1,659,629,600			\$1,659,629,600	\$2,426,213,670
Questioned Costs	\$87,851,868			\$87,851,868	\$154,963,692
Management Decisions on Audits with Questioned Costs	\$80,524,272			\$80,524,272	\$120,321,080
Indictments/Informations		752		752	1,442
Convictions/Pleas/Pretrial Diversions		420		420	773
Civil Actions		6		6	35
Months in Prison		5,804		5,804	11,316
Months of Probation		14,144		14,144	25,981
Hours of Community Service		11,075		11,075	14,521
Recoveries/Receivables		\$80,196,368	\$63,584	\$80,259,952	\$380,486,439
Funds Put to Better Use		\$125,408,750		\$125,408,750	\$391,414,327
Collections from Audits	\$9,595,399			\$9,595,399	\$22,802,076
Administrative Sanctions	5	764		769	1,242
Personnel Actions		16		16	55
Arrests		1,345		1,345	2,482
Search Warrants		35		35	74
Weapons Seized		5		5	8
Value of Drugs Seized		\$3,240		\$3,240	\$10,697
Subpoenas Issued	17	282		299	658

# Inspector General's Message

It is with pride that I present the U.S. Department of Housing and Urban Development Office of Inspector General (HUD-OIG) Semiannual Report that outlines our activities for the past half fiscal year beginning April 1, 2004.

The HUD-OIG is serving the American taxpayer by our oversight of HUD program administration through our audits of the Department's financial statements and through internal control reviews. Further, we serve the American taxpayer through our investigations of white-collar crime and program abuse. Employee misconduct is checked through our vigorous efforts to investigate and resolve reported offenses. We continue to assess information security, report on departmental compliance and accountability, and identify management and performance challenges.



During the past 6 months, we have seen the HUD-OIG's "return on investment" (ROI) far exceed our own initial goal. During the last half year, OIG audits and investigations returned over 33 times more than we spent. I am very pleased by our increases, but we are highly motivated and capable of achieving even greater results in the next reporting period.

Some of our accomplishments are highlighted in this report. We are continuing to address problems plaguing single-family housing. During the 6-month reporting period, audit reports related to the Single Family Housing program area questioned millions of dollars in costs and made nearly half a billion dollars in recommendations as to how funds could be put to better use. A key example of this work is our audit of Wells Fargo Home Mortgage Company, a case that was widely reported in the press. We found that this large nationwide mortgage company did not follow HUD requirements and prudent lending practices. Our recommendations resulted in this company, the Department, and the industry implementing more financially sound procedures.

Similarly, we have had outstanding results investigating single-family mortgage fraud, due in large part to our collaboration with the Mortgage Bankers Association, the Appraisal Institute, and mortgage underwriters associations. Our investigations of single-family activities have led our agents into wide-ranging initiatives on combating white-collar crime. During the past 6-month period, single-family housing cases have been filed that uncovered property flipping, loan origination fraud, racketeering and money laundering, identity theft, conspiracy, mail and wire fraud, and outright theft.

Further, the Department's Rental Housing Integrity Improvement Program has been improved by the collaboration of the Department with OIG and State and local law enforcement. Jointly we have been successful in reducing Section 8 rental subsidy fraud. In an effort to identify tenants who have lied about their family incomes, OIG has signed memoranda of understanding with housing authorities and State and local law enforcement agencies aimed at sharing income databases. This income verification effort has yielded enormous success, as demonstrated by this summer's initiatives focusing on residents who are not eligible.

OIG auditors continue to monitor the disaster assistance funds provided to the City of New York in the wake of the 9-11 attacks. Specifically, we have audited the Lower Manhattan Development Corporation (LMDC) and found that it has generally disbursed the Disaster Assistance Funds as directed by the Congress. We have noted, though, certain processing deficiencies in the Employment Training Assistance Program that need to be resolved to ensure LMDC's administration of the funds are more efficient.

The HUD-OIG has also been active in rooting out public corruption. East Cleveland Mayor Emmanuel Onunwor was indicted on 22 counts of Federal Racketeering Influenced Corrupt Organizations Act (RICO) conspiracy, mail fraud, public corruption, witness tampering, and violations of tax laws. HUD-OIG, along with the Federal Bureau of Investigation and the Internal Revenue Service recently executed 13 Federal arrest warrants against a Massachusetts Executive Director, his family, and associates, who stole from the Springfield Housing Authority. The violations included conspiracy to commit RICO crimes, conspiracy to commit bribery, bribery, conspiracy to commit theft, extortion, conspiracy to commit mail fraud, money laundering, and obstruction of justice.

In closing, I want to acknowledge the extraordinary efforts of our auditors, investigators, and support personnel who form the core of the HUD-OIG. During the last half year, scores of our employees have been selected for awards and commendations by the President, the President's Council on Integrity and Efficiency, U.S. Attorneys' Offices, the Department of Justice, elected officials, and editorial boards, providing evidence of the superior work they have performed. I again want to thank them for their dedication and service to the American taxpayers and their commitment to eliminate waste, fraud, and abuse.

Thank you,

A handwritten signature in black ink, appearing to read "Kenneth M. Donohue", with a stylized, flowing script.

Kenneth M. Donohue  
Inspector General

# Information About the HUD Office of Inspector General

Beginning with fiscal year (FY) 2004, the Office of Inspector General (OIG) instituted a return-on-investment (ROI) computation as one method to measure its contribution to the Department's mission. This measure takes the total dollars of recommended Funds To Be Put to Better Use<sup>1</sup> and Questioned Costs,<sup>2</sup> together with Receivables and Recoveries<sup>3</sup> from Investigations and Hotline, and divides that total by OIG's operations costs, including salaries, for the period. The resulting ratio represents the potential amounts that could be realized or better used per dollar of OIG expenditures either during current or future periods. Many factors affect when and how much is actually returned so OIG uses recommended amounts in our ROI calculation, rather than management decisions, to better relate results to the work that was actually done during the period. Much of this period's ROI results from the annual financial audit finding regarding the need to deobligate more than \$1.43 billion in HUD funds. The majority of contributing factors to the ROI are the results from reviews of external parties who administer or benefit from U.S. Department of Housing and Urban Development (HUD)-funded programs. HUD refers many matters such as these to OIG for audit or investigation, as appropriate.

Our target ROI ratio for FY 2004 was set at 7 to 1. This means that for every dollar Congress appropriated to OIG, we should uncover \$7 that should be returned or put to better use. The budget for FY 2004 was \$100.3 million. The ROI in dollars computed on a 7 to 1 ratio would be \$700 million. We are pleased to report that our FY 2004 ROI was 32.8 to 1 – far exceeding a goal of 7 to 1.

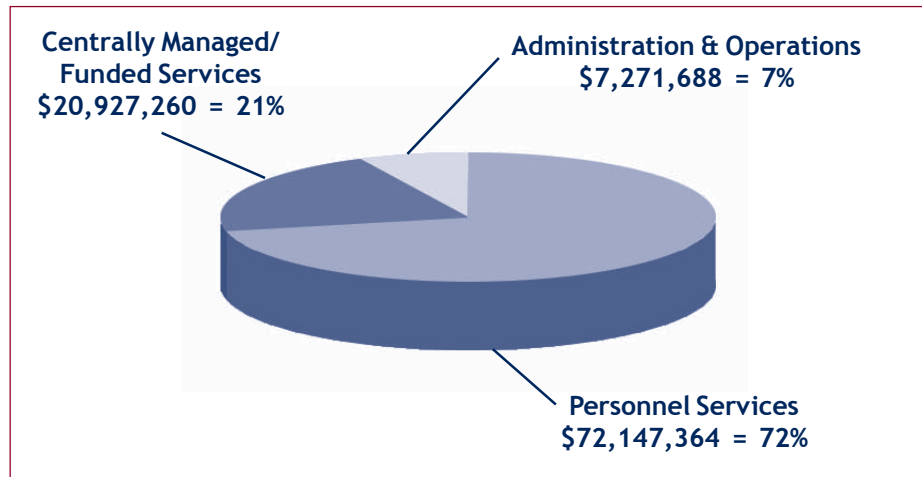
	October 1, 2003 - March 31, 2004	April 1, 2004 - September 30, 2004	FY 2004
Return on Investment	<b>51 to 1</b>	<b>16.2 to 1</b>	<b>32.8 to 1</b>

<sup>1</sup> Funds To Be Put to Better Use is an item required by Congress and is defined in the IG Act as “a recommendation by the Office that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contractor grant agreements; or (6) any other savings which are specifically identified.”

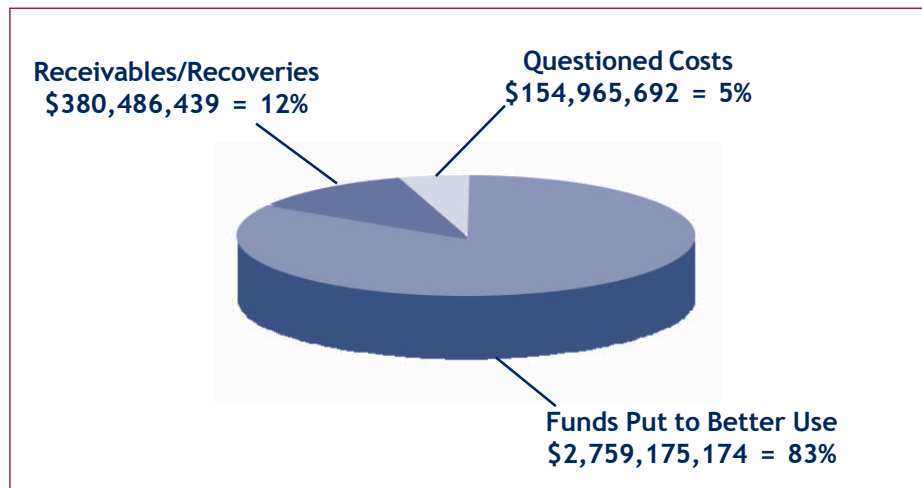
<sup>2</sup> Questioned Costs are “a cost that is questioned by the Office because of (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.”

<sup>3</sup> Receivables and Recoveries are based on the total dollar value of (1) criminal cases—the amount of restitution, criminal fines, and/or special assessments based on a criminal judgment or established through a pretrial diversion agreement; (2) civil cases—the amount of damages, penalties, and/or forfeitures resulting from judgments issued by any court (Federal, State, local, military, or foreign government) in favor of the U.S. Government or the amount of funds to be repaid to the U.S. Government based on any negotiated settlements by a prosecuting authority or the amount of any assessments and/or penalties imposed, based on actions brought under the PCFRA, civil money penalties, or other agency-specific civil litigation authority, or settlement agreements negotiated by the agency while proceeding under any of these authorities; (3) Voluntary repayments—the amount of funds repaid on a voluntary basis or funds repaid based on an agency's administrative processes by a subject of an OIG investigation or the value of official property recovered by an OIG during an investigation before prosecutive action is taken, any of which result from a case in which an OIG has an active investigative role; and (4) Administrative Receivables and Recoveries based on Hotline referrals to HUD program staff.

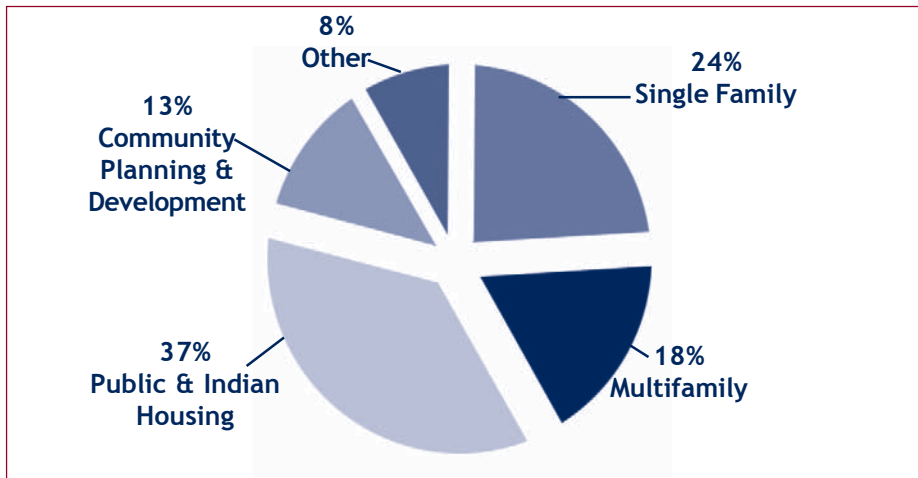
**OIG Cost of Operations for FY 2004**  
**\$100.3 Million**



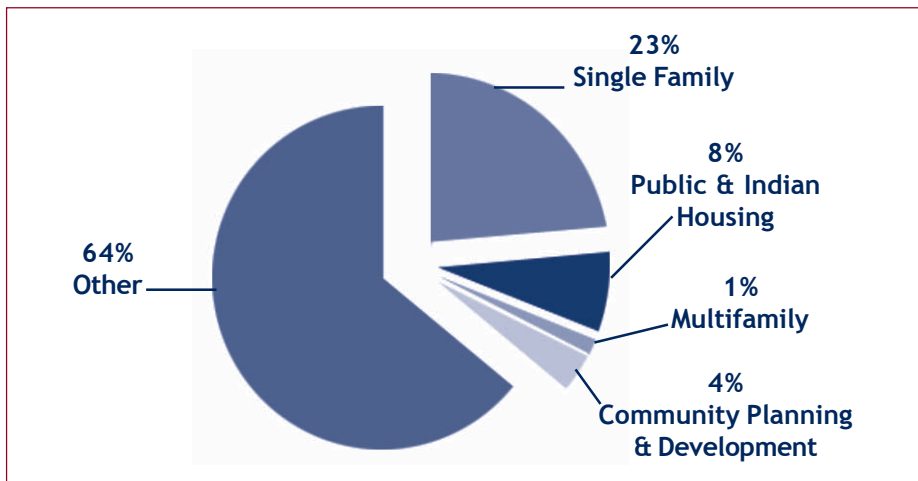
**OIG Results FY 2004**  
**\$3.29 Billion**



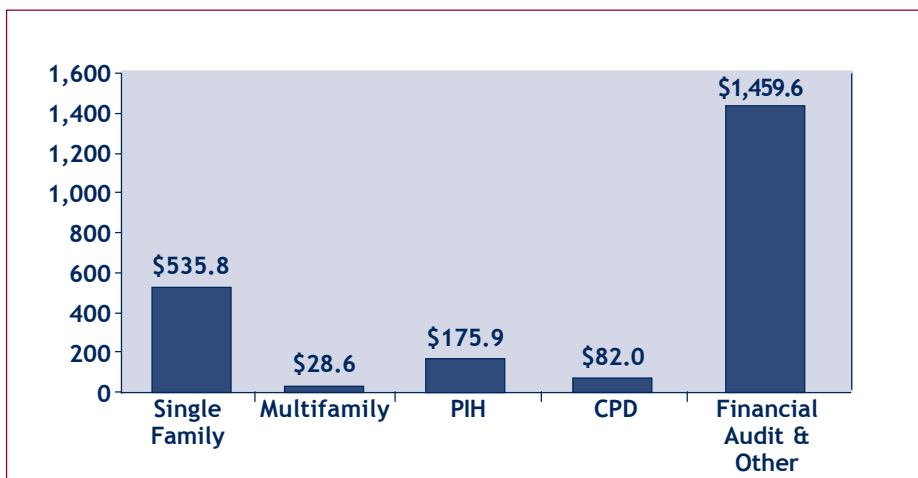
### Audit Reports Issued by Program FY 2004



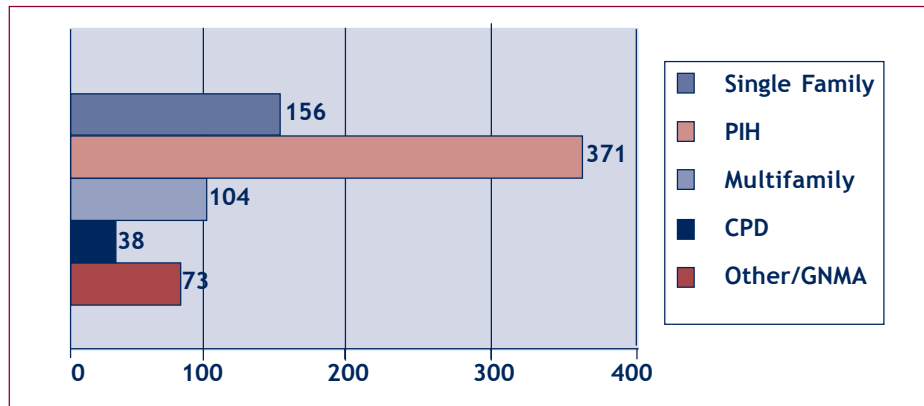
### Monetary Benefits Identified by Program FY 2004



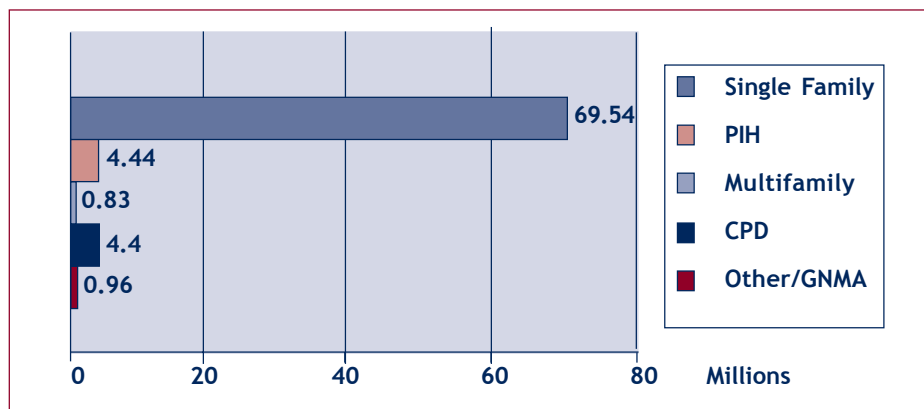
### Monetary Benefits Identified in Millions of Dollars - Office of Audit FY 2004



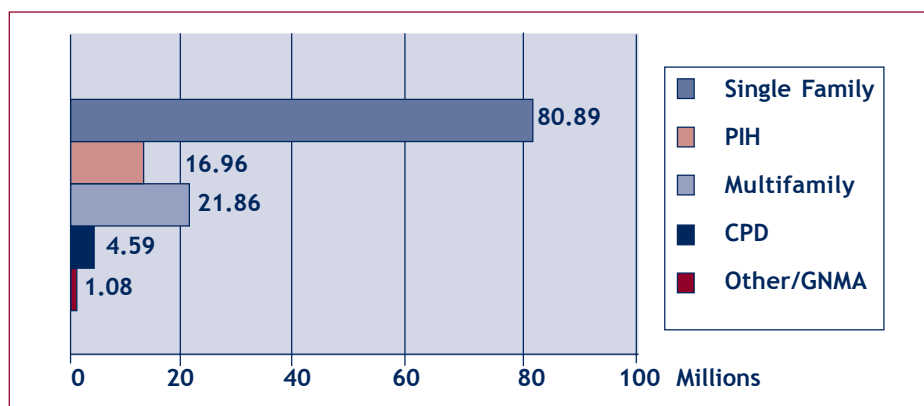
### Investigation Cases Opened by Program



### Investigation Recoveries by Program



### Investigation Funds Put to Better Use



# Acronyms List

<b>ACC</b>	Annual Contributions Contract
<b>ARIGA</b>	Assistant Inspector General for Audit
<b>ASAC</b>	Assistant Special Agent in Charge
<b>ASSMCA</b>	Administrator of the Mental Health and Anti-Addiction Service Administration
<b>CDBG</b>	Community Development Block Grant
<b>CID</b>	Criminal Investigation Division
<b>CPD</b>	Community Planning and Development
<b>DCD</b>	Department of Community Development
<b>DEC</b>	Departmental Enforcement Center
<b>DOC</b>	Department of Commerce
<b>DVA</b>	Department of Veteran Affairs
<b>EA</b>	Executive Assistant
<b>ED</b>	Executive Director
<b>EDA</b>	Economic Development Agency
<b>EDI</b>	Economic Development Initiative
<b>EPA</b>	Environmental Protection Agency
<b>FBI</b>	Federal Bureau of Investigation
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FHA</b>	Federal Housing Administration
<b>FY</b>	Fiscal Year
<b>GNMA</b>	Government National Mortgage Association (aka Ginnie Mae)
<b>HAP</b>	Housing Assistance Payments
<b>HHS</b>	Department of Health and Human Services
<b>HOME</b>	Home Investment Partnership
<b>HOPE VI</b>	Housing Opportunities for People Everywhere
<b>HOPWA</b>	Housing Opportunities for Persons with AIDS
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>IG</b>	Inspector General
<b>IRS</b>	Internal Revenue Service
<b>JFMIB</b>	Joint Financial Management Improvement Program
<b>LLC</b>	Limited Liability Company

<b>MAP</b>	Multifamily Accelerated Processing
<b>NAHRO</b>	National Association of Housing and Redevelopment Officials
<b>NAIHC</b>	National American Indian Housing Council
<b>NOFA</b>	Notice of Funding Availability
<b>NPO</b>	Nonprofit Organization
<b>OCD</b>	Office of Community Development
<b>OGC</b>	Office of General Counsel
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OND</b>	Officer Next Door
<b>PBA</b>	Public Buildings Authority
<b>PHA</b>	Public Housing Authority
<b>PHADA</b>	Public Housing Authorities Directors Association
<b>PIC</b>	Public and Indian Housing Information Center
<b>PIH</b>	Office of Public and Indian Housing
<b>REO</b>	Real Estate Owned
<b>RESPA</b>	Real Estate Settlement and Procedures Act
<b>RICO</b>	Racketeering Influenced Corrupt Organizations
<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>	Senior Forensic Auditor
<b>TND</b>	Teacher Next Door
<b>UCOWF</b>	United Council on Welfare Fraud
<b>UDAG</b>	Urban Development Action Grant
<b>WtW</b>	Welfare to Work

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# Reporting Requirements

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

Source/Requirement	Pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	103-108
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-92, 109-112
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	9-92
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Report on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	9-92
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.	No Instances
Section 5(a)(6)-listing of each audit report completed during the reporting period and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	9-92
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	No Instances
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	No Instances
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	111 - 112

# Chapter 1: HUD's Management and Performance Challenges

## The HUD Office of Inspector General

**T**he 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, we have forged a strong alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. We strive to make a difference in HUD's performance and accountability. We are committed to our statutory mission of detecting and preventing fraud, waste, and abuse and promoting the effectiveness and efficiency of government operations. While organizationally we are located within the Department, we operate independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. Our activities seek to

- Promote efficiency and effectiveness in programs and operations.
- Detect and deter fraud and abuse.
- Investigate allegations of misconduct by HUD employees.
- 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 10 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 budget approximates \$31 billion annually. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single family and multifamily properties. FHA's outstanding mortgage insurance portfolio is slightly below a half trillion dollars. Ginnie Mae, through its mortgage-backed securities program, gives issuers access to capital markets through the pooling of federally insured loans.

While HUD may appear to be a small agency, with about 9,100 staff nationwide, numerous partners are relied upon 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 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 many distinct programs. HUD's management problems have for years kept it on the General Accounting Office's (GAO) list of agencies with high-risk programs. HUD's

management team, the GAO, and the Office of Inspector General (OIG) share the view that improvements in human capital, acquisitions, and information systems are essential in removing HUD from its high-risk designation. More specifically, HUD must focus these improvements on rental housing assistance programs and single-family housing mortgage insurance programs, two areas where financial and programmatic exposure is the greatest. That HUD's reported management challenges are included as part of the President's Management Agenda (PMA) is indicative of HUD's important role in the Federal sector. HUD's current Administration places a high priority on correcting those weaknesses that put HUD on GAO's high-risk list.

Each year in accordance with the Reports Consolidation Act of 2000, the HUD-OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. We submitted our latest assessment on October 19, 2004. These reported challenges are the continued focus of our audit and investigative effort. HUD is working to address these challenges and in some instances, has made progress in correcting them. The Deputy Secretary's Executive Management Meeting focuses on the actions taken by each Assistant Secretary in meeting the PMA. The PMA includes governmentwide as well as HUD-specific initiatives. The HUD-specific initiatives are intended to formulate viable strategies and plans to address the major problems facing the Department.

The Department's management challenges and current efforts to address these challenges are as follows:

**Departmentwide Organizational Changes.** For more than a decade, the Department has struggled with organizational and management changes in an effort to streamline its operations. These changes were necessary as HUD tried to manage more programs and larger budgets with fewer staff. The former HUD Administration tried to realign the Department along functional lines, separating outreach from program administration. Also, it attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD implemented these realignments, many employees were assigned new duties and responsibilities and many new employees were hired. HUD also experienced a serious "brain drain" as many experienced senior staff took buy-outs and left the Agency. While these organizational changes were well intended, some worked and others did not. The disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, new staff with new training needs, the inability to simply relocate staff to locations where they would be most effective, and difficulty in providing supervision to remote staff.

Our past semiannual reports noted that many organizational changes were slow to be put in place, and some of those in place were ineffective. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made by the previous Administration. The current Administration made several changes to reduce organizational layers. For example, the Departmental Enforcement Center was placed under the direc-

tion of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing in order to improve REAC's working relationships with program staff and program partners. A return to the former regional and field office structure was implemented to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals and to strengthen the local focus on workload management to meet national performance goals.

Earlier this year, we examined the operations of the Enforcement Center. We found the intended results of the Center were not being realized. Most of the Center's operating division staff was assigned exclusively to multifamily operations. The Department's one enforcement strategy was not working. Key vacancies further burdened the Center in its ability to implement a single enforcement strategy for the Department. We made several recommendations to improve the effectiveness of Center operations.

The first goal in HUD's 5-year Strategic Human Capital Management Plan, developed in 2003, is to make HUD a mission-focused agency. Getting the right number of employees in the right location with the right skill mix will improve the quality of HUD programs and services by addressing management challenges, reducing program risks, and improving program performance. The relationship between office functions and departmentwide goals is also reinforced through the plan implementation. HUD's plan recognizes that human resources

activities must be aligned with agency goals to clearly, efficiently, and effectively support and enable HUD to achieve its mission.

#### ***Financial Management Systems.***

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with Federal financial system requirements has been reported in our financial audit as a material weakness in internal controls since fiscal year (FY) 1991. While progress has been made, a number of long-standing deficiencies remain.

Because of the large volume of financial transactions, HUD relies heavily on automated information systems. For the past several years, our financial audits reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets were adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our FY 2003 Consolidated Financial Audit relate to the need to

- Comply with Federal financial systems requirements, including the need to enhance FHA's information technology systems to more effectively support FHA's business and budget processes;
- Strengthen controls over the computing environment; and
- Improve administration of personnel security operations.

We also noted the need for HUD to improve the processes for reviewing

outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations. The audit of FHA's FY 2003 financial statements continued to report long-standing weaknesses in FHA's financial management systems environment. FHA continues to conduct many day-to-day business operations with legacy-based systems, limiting its ability to integrate its financial processing environment and to monitor budget execution. During FY 2003, FHA implemented the Federal Housing Administration Subsidiary Ledger (FHASL) financial system. This system automated many previously manual processes used to (1) consolidate the accounting data received from the various FHA operational legacy systems and (2) prepare summary entries for posting to the FHASL. Despite this improvement, significant weaknesses still exist.

FHA plans to fully address this material weakness by performing reengineering efforts for the Single Family and Multifamily operational systems and related business processes and by building additional automated interfaces from the operational systems to the FHASL. These system enhancements will also allow FHA to better monitor its budgetary execution process. FHA plans to fully complete these efforts by fiscal year 2007.

**Adequate and Sufficiently Trained Staff.** For many years, the Department has struggled at finding a time and workload measurement system that would make it easier to determine staff resource needs. Additionally, in the past decade, there has been a major shift in

job responsibilities in the Department. HUD has moved many functions once done by HUD employees to functions now performed by contractors. Many HUD staff now find themselves in a contract oversight function.

HUD's current Administration has embraced standards of management accountability. However, HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

HUD is working to complete a comprehensive strategic workforce plan. The plan will include the following elements:

- Kind of work to be done now and in the future;
- Knowledge, skills, and ability needed to perform the work;
- Knowledge, skills, and ability of existing staff to do their work;
- Training and development needed to improve the capabilities of existing staff;
- Strategies for identifying and filling skills gaps; and
- Proposals for appropriate changes in staff development across organi-

zations to better support accomplishment of the Department's mission in the future.

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. The Department is now involved in the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began in the spring of 2002. Our audit of the TEAM process found the Department has made significant progress in developing and implementing the key components of its human resource management system. The next step is to apply these principles as decisions are made to hire new staff.

The workforce plan must include the core business program offices and address projected retirements in these offices, consider the advance of e-government and competitive sourcing, and recommend staffing levels in accordance with the outcome of the workforce analysis and the REAP/TEAM data. In addition, the workforce plan will include a further review of any programs and service delivery issues to eliminate high-risk areas with strategies for more effective human capital management.

HUD has submitted a Comprehensive Sourcing Plan to the Office of Management and Budget (OMB) for approval. A number of actions were scheduled for completion at the end of FY 2004. Those program areas undergoing

workforce analysis include the Office of Public and Indian Housing, the Office of Community Planning and Development, the Office of Housing/Federal Housing Administration, and the Office of Fair Housing and Equal Opportunity. Upon completion of the workforce analysis, program managers will assess opportunities to fill identified existing or anticipated staffing or skill gaps through competitive sourcing. A Departmental workforce plan will be developed using the combined input of four analyses, with the objective of comparing priority needs across HUD and making workforce management decisions that best serve the Department's mission.

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

Consistent with the GAO's identification of single-family mortgage insurance programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from a fraudulent practice known as property flipping. Changes are underway to strengthen the property appraisal process, and other actions are being proposed to better disclose FHA closing costs.

The audit of FHA's FY 2003 financial statements reported a need to place more emphasis on monitoring lender underwriting and continuing to improve single-family early warning and loss prevention. Recommendations were made to increase targeting of high-risk lenders to include the addition of 30- and 60-day delinquencies to the Default Monitoring System. A series of other recommendations were made to target lenders that would benefit from early intervention. FHA needs to increase its use and analysis of other data now available to improve lender monitoring. Timely identification of lenders with unacceptable early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single-family insured mortgages and lenders that represent the greatest financial risks to FHA. Potential problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

In FY 2004, we have completed 22 lender audits based on a targeting strategy that identified lenders with poorly performing FHA portfolios. Results from these audits have noted significant lender underwriting deficiencies and irregularities involving monetary benefits exceeding a half billion dollars. Additionally, our investigative workload in the single-family area has grown dramatically over the past 5 years. Last fiscal year, more than 400 persons were indicted for single-family mortgage fraud. Our work in process indicates we will have a continued growth in investigative activity this fiscal year.

**Public and Assisted Housing Program Administration.** HUD provides housing assistance funds under various

grant and subsidy programs to public housing authorities (PHA) and multifamily project owners (both nonprofits and for profit). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing and the Office of Housing administer a variety of assisted housing programs.

Material weaknesses in the monitoring of PHAs and assisted multifamily projects were first reported in our financial audit in 1991 and continue to challenge HUD. Material monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. A 2000 HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained overpayment or underpayment errors. The Administration has set a goal for a 50-percent reduction in the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. To achieve this goal, HUD hopes to reduce errors and improper payments by 1) simplifying the payment process; 2) enhancing administrative capacity; 3) establishing an annual error measurement process and rental integrity monitoring; and (4) establishing better controls, incentives, and sanctions.

Paralleling this effort, our investigative and audit focus are concentrating on fraudulent practices in the Section 8 program. In those States where HUD has entered into memorandums of understanding with State wage-based agencies, the respective State PHAs are conducting upfront income verifications. Discrepancies found through these matches are now reported to the OIG for investigation.

HUD continues to implement its performance-oriented, risk-based strategy for carrying out its PHA oversight responsibilities. In FY 2004, HUD supplemented this strategy, conducting rental integrity monitoring and utilizing current performance information to better direct its field office monitoring efforts. However, as noted in previous financial audits, further improvements need to be made in the field office monitoring of PHAs in other key areas. For example,

interface problems have prevented PHAs from entering tenant data. Also, HUD has not effectively used the Public Housing Assessment System data to target performance problems or been able to establish an effective organizational structure and obtain relevant and reliable data to complete the monitoring process. Finally, HUD has been slow to implement additional strategies needed to improve quality control over the rental assistance subsidy determination.





## 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 new or existing homes or to rehabilitate existing homes.

## Audits

During this reporting period, the Office of Inspector General (OIG) issued 22 reports: 2 internal audits, 18 external audits, and 2 external memoranda, in the Single Family Housing program area. These reports disclosed over \$26.6 million in questioned costs and about \$435.7 million in recommendations that funds be put to better use. We reviewed the

Chart 2.1: Single Family Housing Reports Issued

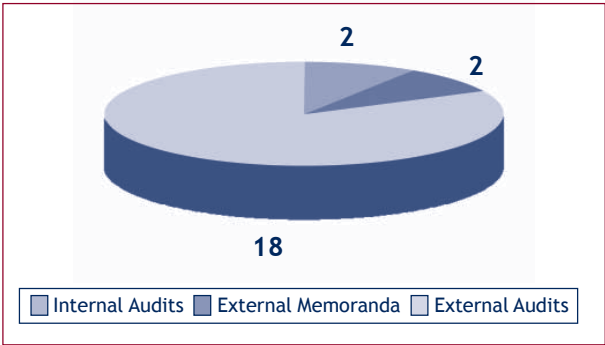
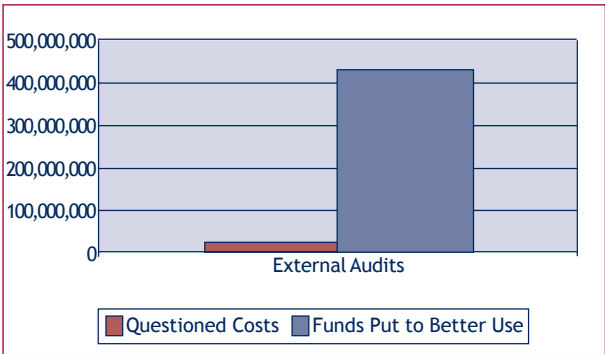


Chart 2.2: Single Family Housing Dollars



The cost figures in the charts above represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

use of independent contract loan officers to originate FHA-insured loans, contracts for endorsement and postendorsement service, and 19 lenders.

### Use of Independent Contract Loan Officers to Originate FHA-Insured Loans

We reviewed eight U.S. Department of Housing and Urban Development (HUD)-approved nonsupervised loan correspondents (mortgagees) located in the **Salt Lake City, UT, and Denver, CO**, metropolitan areas. These mortgagees were selected for review primarily based on information that they were using independent contract loan officers to originate FHA-insured loans. Seven of the eight mortgagees were using independent contract loan officers, contrary to HUD requirements. Furthermore, five of the seven mortgagees established agreements with the loan officers that did not comply with HUD requirements. By using independent contract loan officers or nonemployees to originate FHA-insured loans, the mortgagees could not, and in fact did not, exercise direct control and supervision over their loan origination officers, as required by HUD. The lack of direct control and supervision, coupled with quality control deficiencies, contributed to increased default and claim rates and, therefore, resulted in a higher risk to the FHA insurance fund.

We recommended that HUD issue appropriate guidance and specific instructions to its Homeownership Centers and to FHA-approved mortgagees, requiring the use of mortgagee employed loan officers, versus contractors or nonemployees, to originate FHA-insured loans. We also recommended that HUD require mortgagees to report their originating loan officer’s

income on Internal Revenue Service (IRS) Form W-2, which would include withholding of Federal income tax, Social Security tax, and Medicare tax. (Report No. 2004-PH-0004)

### ***Contracts for Endorsement and Postendorsement Services***

The OIG reviewed the standard contracts that the Office of Single Family Housing used to procure and administer endorsement processing and postendorsement quality control services over FHA-insured mortgage loans. Our objectives were to determine whether terms of the contracts provide adequate controls to ensure efficient and cost-effective delivery of these services and to determine if the pricing of those services at the four Homeownership Centers was reasonable.

We reviewed the contracts that the Office of Single Family Housing used for endorsement and postendorsement services over FHA-insured mortgage loans to determine whether the terms of the contracts provide adequate controls to ensure efficient and cost-effective delivery of the services and to determine if the pricing of the services at the four Homeownership Centers was reasonable. We did not identify any significant deficiencies. (Report No. 2004-PH-0004)

### ***Nonsupervised Mortgagees and Loan Correspondents***

The OIG audited Wells Fargo Home Mortgage, a nonsupervised direct endorsement lender in **Des Moines, IA**, approved to originate FHA-insured loans. Wells Fargo improperly submitted 2,325 loans, with mortgages totaling over \$265

million, for insurance endorsement when the borrowers had delinquent payments prior to loan submission to HUD. Wells Fargo did not have adequate controls to ensure its employees followed HUD's requirements regarding late requests for insurance endorsement. These inappropriately submitted loans significantly increased the risk to the FHA insurance fund.

The OIG also found that Wells Fargo did not adhere to HUD requirements and prudent lending practices when originating 61 of the 74 defaulted loans examined. Problems included unsupported assets, unsupported income, inadequate qualifying ratios, inadequate documentation, unallowable fees charged to the borrowers, derogatory credit information, underreported liabilities, potential fraud indicators, and improper approval when using an automated underwriting system. Wells Fargo also submitted 4 of the 74 loans as late requests for insurance endorsement but did not follow HUD regulations when submitting the insurance requests. As a result, HUD lacks assurance that the mortgagors qualified for the 61 FHA-insured loans totaling over \$6.6 million.

We recommended that HUD take appropriate administrative action against Wells Fargo. This action should, at a minimum, include requiring indemnification for 2,375 loans, with actual and potential cost savings currently valued at over \$266 million. (Report No. 2004-KC-1003)

The OIG audited A-Pan-American Mortgage Group, a nonsupervised loan correspondent in **Chicago, IL**, approved to originate FHA mortgage loans under HUD's Single Family Direct Endorsement Program. The audit concluded that

A-Pan-American did not comply with HUD regulations, procedures, and instructions in the origination of FHA-insured loans. It allowed unapproved branches and/or nonemployees to originate loans using A-Pan-American's FHA lender identification number. Additionally, it lacked an adequate quality control plan or any evidence that it implemented a quality control plan. A-Pan-American's unacceptable loan origination practices contributed to its high loan default and claim rate, putting at risk more than \$6.8 million in FHA-insured loans.

We recommended that HUD take appropriate administrative action against A-Pan-American, including seeking civil money penalties and withdrawal of its approval to participate in HUD's Single Family Direct Endorsement Program. Further, HUD should require A-Pan-American to indemnify HUD against future losses on 49 active loans, valued at over \$6.5 million, reimburse HUD for losses incurred of \$145,000 on four loans terminated by claims, and reimburse HUD for future losses on one loan terminated by a claim of more than \$128,000 once the property is resold by HUD. (Report No. 2004-CH-1007)

The OIG completed an audit of Decatur Mortgage Company, LLC, **Indianapolis, IN**, a nonsupervised loan correspondent approved to originate FHA mortgage loans under the Single Family Direct Endorsement Program. The audit concluded that Decatur did not originate FHA-insured loans in accordance with HUD's requirements and prudent lending practices. A review of 41 defaulted loans found that in originating the loans, Decatur did not exercise due diligence to (1) verify or support borrowers' income level and stability, (2) investigate credit inquiries and questionable Social Security

numbers shown on credit reports, (3) establish the borrowers' ability and willingness to pay, 4) document the source of deposits and gift funds, and ensure appropriate use of the gifts, (5) estimate borrowers' expenses and property taxes, (6) keep interested third parties from handling key documentation, and (7) support property appraisals. Additionally, Decatur did not ensure that quality control reviews were completed on FHA loans to include performing quality control reviews on early default loans, documenting work done to determine if loans were originated properly, and identifying origination deficiencies and corrective actions needed for its loan originations.

We recommended that HUD seek appropriate administrative action against Decatur Mortgage and its sponsoring lender, including requiring Decatur's sponsor to reimburse HUD for actual and potential losses on 31 foreclosed loans of over \$1 million and indemnifying HUD against future losses on 28 loans valued at over \$4 million. Additionally, we recommended that HUD obtain review appraisals for 41 properties to determine whether they were properly valued since some appraisals were increased as gift amounts changed. If the appraisals are found to be deficient, appropriate administrative action should be taken against the appraisers. (Report No. 2004-CH-1009)

The OIG audited 18 HUD/FHA-insured loans, valued at over \$4.1 million, approved by Cambridge Home Capital, LLC, a nonsupervised mortgagee, in **Great Neck, NY**. The review disclosed that 11 of the 18 loans had at least one significant underwriting deficiency. The underwriting deficiencies included (1) debt/income ratios that exceeded HUD/FHA standards, (2) inadequate property valuation, (3) inadequate asset verifica-

tion, (4) inadequate income verification, (5) insufficient gift information, (6) inadequate debt verification, (7) minimum downpayment not provided, and (8) bankruptcy discharge less than 2 years prior to loan eligibility. In addition, Cambridge did not document or provide adequate justification for variations in its mortgage charge rates and has not implemented procedures or established controls to ensure that all loans defaulting within 6 months of closing undergo a quality control review.

We recommended that HUD take appropriate action against Cambridge for not adhering to HUD's underwriting requirements and have Cambridge reimburse HUD for losses on four of the loans, totaling over \$1.7 million, that have gone to claim and indemnify HUD/FHA against future losses on 10 loans, totaling about \$2.3 million. (Report No. 2004-NY-1003)

The OIG completed an audit of Homewide Lending Corporation, a nonsupervised mortgagee, based in the **City of Industry, CA**, and found that Homewide used false employment and income documentation to originate FHA loans. Specifically, 21 of 30 loans reviewed, totaling \$3.5 million, contained false documents and information, including (1) false or altered IRS W-2 forms, pay stubs, and verification of employment forms; (2) false downpayment and gift fund documentation; and (3) false statements of occupancy on the loan applications. Our review also identified other loan origination deficiencies with the 21 loans, including (1) overstated income, (2) inaccurate or excessive qualifying ratios, (3) unsupported downpayment and/or gift funds, and (4) understated liabilities. In addition, while Homewide had established a written quality control plan that met

HUD requirements, it failed to conduct the required quality control reviews or ensure that immediate corrective action was taken on deficiencies identified. As a result, loans were approved based on false information and caused unnecessary risk to the FHA insurance fund.

We recommended that HUD (1) remove Homewide from participation in HUD's Single Family Mortgage Insurance Programs, (2) require Homewide to indemnify HUD for the \$3.5 million in FHA loans, (3) consider seeking civil money penalties against Homewide for the loans originated using false documents, and (4) take the needed action to ensure that required quality control reviews are conducted and that corrective action is taken for all reported deficiencies. (Report No. 2004-LA-1003)

The OIG completed an audit of Hartford Funding, Ltd. (Hartford), a nonsupervised mortgagee located in **Ronkonkoma, NY**. Hartford did not adhere to prudent lending practices in approving two of 15 FHA-insured loans. The loans had underwriting deficiencies, including (1) the debt-to-income ratio exceeded FHA standards, (2) inadequate documentation of downpayment, (3) inadequate documentation of gifts, (4) inadequate review of a credit report, and (5) minimum downpayment not provided. In addition, Hartford had not implemented procedures or established controls to ensure that all loans defaulting within the first 6 months undergo a quality control review.

We recommended that HUD review the two loans with underwriting deficiencies totaling about \$450,000 to determine whether Hartford should indemnify HUD against any future losses on these loans. In addition, we recommended that Hartford

establish procedures to ensure that all data on defaulted FHA-insured loans are obtained from loan servicers and that all loans that default within the first 6 months are properly reviewed in accordance with its quality control plan and HUD requirements. (Report No. 2004-NY-1006)

The OIG audited Gershman Investment Corporation, a nonsupervised direct endorsement lender approved to originate FHA-insured loans, in **Clayton, MO**. Gershman did not adhere to HUD requirements and prudent lending practices when originating 27 of the 43 loans examined. Loan files contained unsupported income, unsupported assets, underreported liabilities, questionable and/or derogatory credit histories, inadequate qualifying ratios, and other inconsistent and/or questionable documentation. The deficiencies occurred because Gershman did not have an adequate control environment to ensure that its employees followed HUD requirements when processing and underwriting loans. These 27 loans, totaling over \$2.4 million, represent an increased risk to the FHA insurance fund.

Procedures for submitting late requests for endorsement were also tested. While overall the procedures were effective, Gershman improperly submitted five loans for insurance endorsement when the borrowers had delinquent payments prior to loan submission. These five loans, with mortgages totaling more than \$525,000, also represent an increased risk to the FHA insurance fund.

Gershman was deficient in its quality control review activities. It did not conduct reviews within 90 days of loan closing and did not review the required number of loans closed. Without fully implementing adequate quality control policies and

procedures, Gershman is unable to ensure the accuracy, validity, and completeness of its loan origination operations.

We recommended that HUD take appropriate administrative action against Gershman Investment Corporation. This action should, at a minimum, include indemnification for the 28 actively insured loans, totaling nearly \$2.8 million, and reimbursement of \$71,000 in related losses already incurred on the three loans that have gone into claim status. (Report No. 2004-KC-1004)

The OIG audited Apreva, Inc., a nonsupervised mortgagee approved by HUD to originate and approve FHA-insured loans under HUD's Single Family Direct Endorsement Program in **Bellevue, WA**. Apreva repeatedly ignored HUD requirements by failing to follow HUD regulations and other requirements when underwriting and approving loans, entering into prohibited agreements with independent mortgage companies or individuals to act as branches and/or employees to originate loans, and not conducting required quality control reviews of loan originations.

We recommended that HUD remove Apreva from participation in FHA's Single Family Mortgage Insurance Programs, impose civil money penalties, and take appropriate administrative sanctions against Apreva officials. We also recommended that HUD require Apreva to (1) repay insurance losses on claims totaling over \$1.36 million and (2) indemnify HUD against future losses on loans totaling more than \$2.86 million that were identified as having serious underwriting deficiencies or were originated by ineligible branches or employees and in default or claim status and on other loans identified during the audit that were otherwise

not processed and quality controlled as required. (Report No. 2004-SE-1006)

The OIG completed an audit of First Funding, Inc., an FHA-approved nonsupervised loan correspondent in **Largo, MD**. We found that First Funding had not adequately developed and implemented a quality control plan that meets HUD regulations, its office operations did not comply with FHA approval requirements, and it failed to exercise due diligence in its loan origination processes. Specifically, First Funding did not meet its 10-percent sample requirement for quality control reviews for 3 months, review loans that defaulted within the first 6 months, or review 10 percent of rejected loans. In addition, First Funding charged unjustified fees and did not review borrowers' liabilities or credit characteristics or verify sources of funds. Consequently, mortgage loans of questionable eligibility were approved for FHA insurance and borrowers may have incurred unwarranted costs. First Funding could not support more than \$6,000 in fee overcharges and nearly \$372,000 of funds could have been put to better use.

We recommended that First Funding take immediate action to implement a quality control plan that meets all HUD requirements and correct its ongoing operational deficiencies. We also recommended that HUD consider taking appropriate administrative action against First Funding for its continual failure to comply with HUD requirements. (Report No. 2004-PH-1009)

The OIG audited Cotton State Mortgage, a nonsupervised loan correspondent in **Atlanta, GA**. Cotton State Mortgage did not properly originate FHA-insured loans in accordance with HUD requirements and prudent lending

practices. Cotton State Mortgage did not exercise due diligence in the verification of borrowers' liabilities, credit, assets, and income. We identified loan origination deficiencies in 4 of the 26 loans we reviewed. The deficiencies included (1) inadequate verification of employment, rent, and gift funds; (2) inadequate verification of funds used to pay off debts; and (3) inconsistencies in credit reports and loan applications. This process, in addition to not complying with HUD requirements for reviewing defaulted and rejected loans, did not include monthly quality control reviews. As a result, Cotton State Mortgage was originating loans for mortgagors who were not qualified for FHA-insured loans. These inappropriate loans contributed to high default rates and increased the risk to the FHA insurance fund.

We recommended that HUD seek appropriate administrative action against Cotton State Mortgage and require it to indemnify two loans totaling \$221,000. In addition, HUD should require Cotton State Mortgage to follow proper requirements for obtaining and verifying information used to qualify borrowers for FHA insurance and implement its management control process and quality control plan to ensure that all loan origination functions comply with HUD requirements. (Report No. 2004-AT-1005)

The OIG audited the branch office of Guild Mortgage Company (Guild) doing business as Residential Mortgage Bankers in **Downey, CA**. Guild is a nonsupervised direct endorsement lender headquartered in San Diego, CA. The audit disclosed that Guild allowed the branch to engage in prohibited lending practices and operate contrary to HUD requirements. This was caused by Guild's lack of oversight, ineffective controls, and improper deci-

sions. These deficiencies resulted in excessive defaults and foreclosures, increased the risk to the FHA insurance fund, and actual losses of over \$811,000.

We recommended that Guild be referred to the Mortgagee Review Board and assessed civil money penalties for failure to comply with the provisions of the Real Estate Settlement Procedures Act. We also recommended that Guild reimburse borrowers or HUD for charging excessive loan origination fees through unearned loan discount points and premium rate pricing. In addition, Guild should (1) be required to indemnify HUD against future losses on 938 loans totaling about \$159.8 million, (2) discontinue all similar net branch operations immediately, (3) reimburse HUD over \$811,000 for actual losses incurred, and (4) establish policies and procedures to ensure these issues are addressed. (Report No. 2004-LA-1005)

The OIG completed a limited review of the **Phoenix, AZ**, branch office of National City Mortgage Company, a direct endorsement mortgagee. We selected this branch office for review based on the results of a previous OIG audit that identified the use of false credit and employment documents by Keystone Mortgage, a loan correspondent of National City.

We found that all nine of the loans reviewed, totaling about \$1 million, contained indicators of false credit and/or employment documents that were not appropriately resolved by National City during the underwriting process. This occurred because National City failed to exercise due diligence when underwriting the loans. Because National City did not identify and follow up on indicators of irregularities that were present in the

files, loans were approved based on false information, causing HUD to assume unnecessary insurance risks. Two of these nine loans have resulted in mortgage insurance claims to HUD totaling over \$140,000, and five additional loans totaling more than \$482,000 remain insured and represent a continuing insurance risk to HUD.

We recommended that National City indemnify HUD nearly \$623,000 for any past or future losses on these nine loans. (Report No. 2004-LA-1006)

The OIG audited Cornerstone Mortgage Group, Limited, a nonsupervised loan correspondent, in **Inverness, IL**. Cornerstone did not perform quality control reviews of its FHA loans as required. Our audit tests of 43 loans disclosed that Cornerstone did not conduct timely quality control reviews, examine all early defaulted loans, or inform senior management of the findings. Cornerstone did not exercise due diligence in packaging loans for underwriting approval. Tests of 37 loans totaling over \$4.7 million found numerous documentation omissions that Cornerstone did not correct prior to loan approval. Deficiencies included not verifying income, assets, or funds to close or clarifying derogatory credit. Cornerstone relied on the sponsoring underwriters to obtain the proper documentation and verifications.

We recommended that HUD determine whether Cornerstone's approval as an FHA lender should be withdrawn based on the audit findings. We also recommended that HUD require Cornerstone and its sponsor to repay HUD for actual insurance losses on 15 loans of about \$545,000, indemnify HUD on seven defaulted loans totaling over \$916,000, repay HUD over \$132,000 for claims paid

on one loan, and fully establish and implement a quality control plan that meets HUD requirements. (Report No. 2004-CH-1008)

We completed a review of Mortgage America Bankers, LLC (Mortgage America), an FHA-approved nonsupervised loan correspondent whose main office is located in **Kensington, MD**. A review of 22 loans found that Mortgage America originated 17 loans totaling nearly \$3 million from unauthorized offices by non-Mortgage America employees, failed to justify loan overages (discount fees) charged to 13 borrowers and premium rate mortgages (yield spread premiums) charged to 14 borrowers, and did not adequately develop and implement a quality control plan that meets HUD requirements. As a result, Mortgage America received nearly \$89,000 in ineligible and unsupported fees.

We recommended that Mortgage America take immediate action to implement a quality control plan that meets all HUD requirements and correct its ongoing operational and loan origination deficiencies that do not comply with HUD loan correspondent approval requirements. We also recommended that HUD consider taking appropriate administrative action against Mortgage America for its continual failure to comply with HUD requirements and require Mortgage America to indemnify HUD on 13 loans totaling nearly \$2.5 million, to reimburse HUD for actual losses of over \$500,000 on four loans, and to support or reimburse ineligible and unsupported fees of nearly \$89,000. (Report No. 2004-PH-1012)

We audited New Freedom Mortgage Corporation (New Freedom), a

nonsupervised direct endorsement lender in **Salt Lake City, UT**. New Freedom did not comply with the Real Estate Settlement Procedures Act and HUD-related requirements in the streamline refinancing of FHA-insured loans. New Freedom collected an inappropriate monthly mortgage payment from borrowers of streamline-refinanced loans to help offset its lender-paid closing costs on its advertised “no closing cost to you” streamline-refinanced loans. Because borrowers believed these payments to be the last mortgage payment on their existing loans and because New Freedom did not fully disclose all costs associated with the streamline-refinanced loans, borrowers were unable to make informed decisions concerning their refinanced loans. Our testing showed that from a sample of 866 loans reviewed, New Freedom collected nearly \$157,000 in inappropriate monthly mortgage payments on 598 loans.

We recommended that HUD require New Freedom to reimburse the borrowers or HUD for the inappropriate monthly mortgage payments collected on the loans and to consider referring the matter for appropriate action. Further, HUD should review possible violations of the Real Estate Settlement Procedures Act. (Report No. 2004-DE-1004)

An OIG audit found that Austin Loan Corporation, a nonsupervised loan correspondent, in **Austin, TX**, did not implement its quality control plan in compliance with HUD regulations. The audit also disclosed possible conflict of interest situations and faulty and deficient appraisals. We have referred these issues for possible further review. We recommended that HUD take steps to ensure that the current operation of Premier Mortgage Funding, Inc., doing business as Austinloan.com, complies with HUD

regulations concerning quality control plans. (Report No. 2004-FW-1802)

American Mortgage Services, Inc. (American Mortgage), a nonsupervised loan correspondent, in **Millington, TN**, did not always follow prudent lending practices or demonstrate responsibility when it originated FHA-insured loans. In 5 of the 15 cases reviewed, American Mortgage did not exercise due diligence or fully consider all factors in its review of borrowers' liabilities, credit, assets, and income. HUD paid claims totaling nearly \$171,000 for three of the five loans. While the borrowers may have met minimum requirements to qualify for loan approval, we questioned whether American Mortgage originated the loans with the same care that it would have exercised if the loans were entirely dependent on the properties as security. American Mortgage admitted it was concerned that applicants would file suits if their applications were denied and subsequently approved by another mortgagee. As a result, American Mortgage originated loans for borrowers who were marginally qualified for FHA-insured loans. Questionable loan origination practices resulted in its high loan default rate of 12.88 percent, well above the national average of 2.99 percent, for the 2-year period ending December 31, 2002.

We recommended that HUD uphold American Mortgage's suspension under the Credit Watch Program until HUD performs a quality assurance review to assess American Mortgage's ability to properly originate loans in accordance with all HUD requirements. (Report No. 2004-AT-1008)

The officer/owners of First Community Mortgage, Inc. (First Community) of **Fort Meyers, FL**, effectively circumvented HUD's suspension of them by creating two new mortgage companies and obtaining HUD approval for each to originate loans. First Community officers and employees were named as officers and employees of two new companies while still working for First Community. The new entities also used First Community's office address.

First Community did not comply with HUD requirements in the origination of FHA-insured loans. In 18 of the 19 loans reviewed, First Community staff did not obtain complete documentation, made improper income determinations, and did not ensure compliance with other HUD standards. First Community did not implement the quality control plan it submitted to HUD, and its quality control processes did not comply with HUD regulations. The plan did not address key elements including (1) documenting corrective actions taken on quality control results, (2) reporting significant discrepancies to HUD, (3) timely performance of quality control reviews, and (4) quality control reviews of rejected loans. First Community's actual quality control performance was materially deficient.

We recommended that HUD suspend First Community's authority, as well as the authority of the two new mortgage companies, to originate and underwrite FHA-insured loans. We also recommended that HUD debar First Community's principals from further participation in HUD and other Federal programs and consider imposing civil money penalties. (Report No. 2004-AT-1010)

# Investigations

During this reporting period, the OIG opened 156 investigation cases and closed 220 cases in the Single Family Housing program area. Judicial action taken on these cases during the period included \$69,544,292 in investigative recoveries, \$80,892,259 in funds put to better use, 174 indictments/informations, 153 convictions/pleas/pretrial diversions, 167 administrative actions, 3 civil actions, and 206 arrests.

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

## *Property Flipping Schemes*

In **New York, NY**, in Federal Court for the Eastern District of New York, defendant Frank Boccagna, owner of several real estate companies, who flipped properties to three not-for-profits, was sentenced to 3 years probation and was ordered to pay \$18,629,716 in restitution. The loans involved in these transactions were originated through the HUD Section 203(k) Rehabilitation Home Mortgage Insurance Program by Mortgage Lending of America, a defunct mortgage company that was previously based on Long Island.

In **Washington, DC**, in U.S. District Court for the District of Columbia, defendant Maritza Mercedes Ellis was sentenced to 18 months incarceration and 3 years supervised release and was ordered to pay \$284,740 in restitution. Ellis pled guilty to a two-count criminal information charging her with conspiracy

to defraud HUD in an illegal property flipping scheme. From 1995 through 1999, Ellis, acting as a real estate speculator, contracted to purchase approximately 44 properties in the District of Columbia at low prices. At times, Ellis contracted to purchase the properties in the names of her companies, Resource Properties Unlimited and Capitol Developers, Inc.

Ellis used an appraiser who would fraudulently inflate the value of the appraisals so Ellis could resell the properties at artificially inflated prices. The appraisals indicated that the properties were renovated, when in fact they were in poor condition. Ellis recruited individuals to purchase the properties and arranged for them to submit fraudulent loan applications to the lenders. She assisted the buyers in completing false gift letters, secretly provided them with cash downpayments, and created false verifications of employment and rent. Ellis also provided the buyers with false IRS W-2 forms and pay stubs and “cleaned up” the buyers’ credit reports by paying their debts. In some instances, Ellis provided the buyers with large sums of money after settlement. The properties were purchased with approximately \$4.3 million in FHA-insured loans. OIG and Federal Bureau of Investigation (FBI) Agents seized a home owned by Ellis and \$90,344 in cash proceeds from the sale of a second home she owned. All of the assets were derived from her illegal real estate transactions. HUD sustained approximately \$284,740 in losses in this case.

In **Atlanta, GA**, in Federal Court for the Northern District of Georgia, a Federal indictment was unsealed charging defendants Chalana McFarland, an attorney and owner of the McFarland Law Firm in Stone Mountain, GA; Judith Brown, a paralegal; Lisa Bellamy, a legal

assistant; Judy Hooper, a real estate investor; Melvin Quillen, a real estate investor/straw purchaser recruiter; Thomas Davis, a real estate investor/broker; Brandon Wilhite, James Pettigrew, and Kenneth Collins, appraisers; Omar Turrall, a Florida A&M University student who stole identities to use on the loans involved in this case; Melinda Tyner, an investor; and Jewel Williams and Sidney Williams, real estate agents, with participating in a \$20 million property flipping scheme involving 130 properties throughout the Metropolitan Atlanta area. The defendants allegedly purchased properties by using straw purchasers. They grossly inflated the appraisals on the properties and resold them, splitting the proceeds among themselves. Part of the scheme also included placing Section 8 tenants in these properties, some of which were valued at more than \$200,000. The defendants made it appear to the Section 8 tenants that they were entering into lease/purchase contracts for the homes. Although the defendants collected Section 8 rent payments, they never made the mortgage payments, causing the properties to go into default. The charges against the defendants include conspiracy, fraud against HUD, wire fraud, bank fraud, mail fraud, money laundering, obstruction of justice, identity theft, and perjury.

In **New York, NY**, in Federal Court for the Eastern District of New York, defendant Samuel Stith, a board member for Family Preservation Center, a not-for-profit organization, was sentenced to 36 months probation and was ordered to pay \$11,262,701 in restitution. Stith, who previously pled guilty to making false statements to Federal Deposit Insurance Corporation (FDIC)-insured institutions, aided and assisted the not-for-profit in the fraudulent purchase of 66 flipped proper-

ties that were insured through HUD's Section 203(k) program. These 203(k) loans were originated by Mortgage Lending of America, a now-defunct mortgage company. Defendant James Corbett, the owner of a not-for-profit called Homes for Families, who also previously pled guilty to making false statements to FDIC-insured institutions, was sentenced to 36 months probation and was ordered to pay \$3,711,330 in restitution. Corbett purchased flipped properties from investors at inflated prices and in return received \$5,000 in kickbacks per property. These Section 203(k) program loans were also originated by Mortgage Lending of America.

In the same case, defendant Gary Gluskin, a closing attorney formerly employed by the law firm of Bank, Tanen & Bank, was sentenced to 6 months home detention and 3 years supervised release and was ordered to pay \$1,760,098 in restitution. While employed at Bank, Tanen & Bank, Gluskin represented not-for-profits that purchased flipped properties at inflated values from investors. For their role in this scheme, the not-for-profits received kickbacks ranging from \$5,000 to \$10,000 from the investors. All of the HUD Section 203(k) properties were originated by Mortgage Lending of America.

In **Weber County, Salt Lake County, and Davis County, UT**, several individuals were involved in a mortgage fraud scheme in which they used the Social Security numbers of third parties to obtain FHA-insured loans. The properties were part of a flipping scheme carried out through limited liability companies (LLC) that enticed undocumented/unqualified buyers to purchase homes at inflated values. The owners of the LLCs often conducted simultaneous closings on the

same day, netting large profits on the properties involved. The subsequent mortgage defaults were reflected on the credit reports of the victims, making their future financial transactions difficult.

In Weber County, UT, in the 2nd District Court for Weber County, defendant Teodoro Mendez pled guilty to one count of attempted theft by deception and one count of forgery and was ordered to pay \$63,958 in restitution. In Salt Lake City, UT, in the 3rd District Court for Salt Lake County, defendant Francisco Dominguez Vazquez pled guilty to one count of attempted identity fraud and one count of forgery and was ordered to pay \$91,917 in restitution, while defendants Vincente Acosta-Santoyo and Jose Guadalupe Acosta-Santoyo were indicted on five counts of identity fraud and five counts of forgery. Also in Salt Lake County, defendant Jorge Becerril was indicted for forgery and identity fraud.

In Davis County, UT, in the 2nd District Court for Davis County, defendants Bernardino Vargas Sanchez, Juan Perez Olvera, and Maria Vargas were indicted on six counts of forgery and identity fraud.

The total loss to HUD is expected to exceed \$1,700,000 for all mortgages associated with these fraud schemes.

In **Washington, DC**, in U.S. District Court for the District of Columbia, defendant Watson T. Goffney, Jr., an FHA-approved real estate appraiser, was sentenced to 30 months incarceration and 3 years supervised release and was ordered to pay restitution in the amount of \$935,309 to HUD for his role in a conspiracy to defraud HUD through a property flipping scheme involving FHA-

insured mortgages. In sentencing Goffney, the judge said, “without the appraiser’s false statement, the scheme would have been unlikely to succeed.” Goffney pled guilty in April 2002 to one count of conspiracy for falsely inflating appraisals on approximately 36 distressed properties on behalf of his coconspirators, including convicted speculator Modou Camara, thus allowing speculators to resell the properties, sometimes on the same day, at a significant profit. Goffney certified that the properties were recently renovated or that complete renovations had taken place, when in fact many of the properties were uninhabitable. Goffney’s coconspirators would locate buyers who were not financially able to qualify for FHA loans and provide them with fictitious income records and undisclosed financial assistance in order for them to qualify. The FHA-insured mortgages would then go into default and foreclosure, with HUD incurring the loss.

Twenty of the 36 properties involved in the scheme were financed with FHA-insured mortgages and have gone into foreclosure. HUD has acquired and resold 13 of these properties at the cost of the total loan and lender’s foreclosure expenses, with an actual loss (after resale) to the Government of approximately \$935,000.

In **White Plains, NY**, in Federal Court in the Southern District of New York, Elliott Levine was sentenced to 15 months in prison and 3 years supervised release and was ordered to pay restitution of \$499,134.36. Levine was a mortgage broker who pled guilty to one count of Title 18, U.S.Code, Section 1344 (mail fraud) for his involvement in a property flipping scheme. Levine admitted to preparing false and fraudulent documents

to help numerous buyers qualify for home mortgages, some of which were insured by FHA.

In **Dallas, TX**, in Federal Court for the Northern District of Texas, defendant R.C. Jordan pled guilty to one count of bank fraud. In December 2003, Jordan was indicted on 15 counts of conspiracy, wire fraud, bank fraud, and money laundering. Jordan, a mortgage broker for Tru-Faith Mortgage, conspired with Darron Banks, Alan Banks, and Mark Dean in a land flipping scheme involving FHA and conventional loans. Alan Banks served as a closing agent for American Title, also known as Texas Title, while Darron Banks located properties and obtained appraisals that inflated the prices of the properties. Jordan then recruited strawbuyers and prepared loan packages, which contained false information, to be submitted to the lender. After the strawbuyers purchased the properties at the inflated prices, they failed to make the mortgage payments, and the properties went into foreclosure. The Bankses are responsible for over \$50 million in losses to various lenders.

In **Springfield, MA**, defendants Albert Annarelli, Michael Bergdoll, Anthony Matos, Pasquale Romeo, Wilfred Chagasie, Theodore Jarrett, Mark McCarthy, James Smith, Jonathan Frederick, and Joseph Sullivan were indicted and arrested for a fraudulent property flipping scheme. The arrests took place following the unsealing of a Federal indictment, which was returned on September 2, 2004. The indictment charges 10 defendants in the property-flipping scheme with wire fraud and conspiracy to launder money. The scheme, which included over 70 properties in the Springfield, MA, area, involved HUD Real Estate Owned (REO)

properties purchased with FHA-insured mortgages totaling over \$5,900,000. The indictment charges the defendants with 62 counts of mail fraud and one count of conspiracy to commit money laundering. The defendants obtained single-family properties, including several through the HUD REO program and within weeks, resold the properties at prices upward to 200 percent over the purchase price from HUD, using FHA mortgages.

In **Kansas City, MO**, in Federal Court for the Western District of Missouri, defendants Brent Barber, Avonda Nicodemous, Rod Criss, and Chauncey Calvert were charged in a 61-count indictment. The counts alleged conspiracy to commit the transport or transfer in interstate commerce of money taken by fraud and money laundering. The defendants were allegedly involved in a single-family property flipping scheme in which 64 properties were purchased and sold with inflated appraisals and false income information. The loans were processed through Ameriquest Mortgage, resulting in over \$2.5 million in diverted funds. Ameriquest has identified 13 additional loans, valued at about \$1 million, as part of a related civil lawsuit.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, defendants Mardell McGee Smith, Mario McGee, Maurice McIntosh, Jimmy Sexton, and Lawanda Knox were indicted for their part in a conspiracy to defraud HUD. The indictment alleges the following property flipping schemes: Smith owned and operated New Alliance Enterprises, a Missouri corporation that bought properties, had the properties appraised at inflated values, and sold them at inflated prices. McIntosh was a licensed real estate agent with Prudential Patterson Realty who assisted in the fraud. Many of

the buyers of the properties obtained FHA-insured loans. Buyers who had poor credit ratings were instructed by Smith and McGee to obtain an employer identification number from the IRS. The buyers' loan applications then falsely listed the identification number as the Social Security number. In some cases, Smith and McGee provided downpayment funds and false employment information, gift letters, and credit letters to the buyers. In addition to the conspiracy charges, each defendant was charged with false use of a Social Security number. Losses to HUD in this case are in excess of \$500,000 on loans that have already foreclosed. There are also substantial losses on conventional loans.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Pedro Rodriguez was indicted on charges of money laundering. Rodriguez allegedly caused funds received from wire fraud associated with the sale of an FHA-insured property to be transferred into a marker account at a casino in Las Vegas, NV. This case was initiated after the OIG, FBI, and IRS Criminal Investigation Division began investigating real estate investor Lorenzo Espinoza and his colleagues, who were allegedly involved in defrauding HUD through a property flipping scheme. Monies allegedly received through this scheme also led to income tax evasion, bankruptcy fraud, and money laundering. In this case, Rodriguez, using proceeds from a flipped property in which strawbuyers were used to obtain an FHA-insured loan, transferred \$25,000 and \$30,000 on two consecutive dates to a company that wired these payments to pay off a marker account at a Las Vegas hotel.

In **Salt Lake City, UT**, in the 3rd District Court for Salt Lake County, defendants Antonio Urcino, Carolina Baena-Urcino, Roberto Osorio Tenorio, Enrique Montanez-Osorio, Leonel Salgado, and Rolando Galindo-Sanchez were indicted on nine counts of forgery, communications fraud, and theft by deception. These indictments resulted from an investigation, which alleges that the defendants used Social Security numbers of third party individuals to obtain FHA-insured properties valued at \$529,100. Further, the properties were part of a flipping scheme carried out through LLCs that enticed undocumented/unqualified buyers to purchase homes at inflated values. The owners of the LLCs conducted simultaneous closings on the same day, netting large profits. In many cases, the buyers stopped making mortgage payments and subsequently defaulted on the loans, with a loss to HUD totaling \$386,217. The defaults were reflected on the credit reports of the actual owners of the Social Security numbers, which made future financial transactions very difficult.

## ***Loan Origination***

In **New York, NY**, in New York State Court, Manhattan, NY, after a lengthy investigation where HUD-OIG focused investigative efforts on fraud that had occurred in the origination and issuance of loans insured through the HUD 203(k) loan program, Andrew Graynor pled guilty to false statements relating to Title 18, U.S. Code, Section 1014. Andrew Graynor, an attorney and one of the main players in the HUD 203(k) loan fraud scheme, utilized his Escrow account to control monies derived from the 203(k) loan mortgages surrendered in the Eastern District of New York.

This investigation uncovered a vast scheme, involving real estate investors, not-for-profit organizations, attorneys, appraisers, and loan officers of Mortgage Lending of America, a privately held mortgage lending institution in Long Island, NY, that is now defunct. Utilizing cooperating defendants, documents seized from the search warrants, subpoenaed bank records, and witnesses testimony, the HUD 203(k) investigation has resulted in a \$1,870,395 seizure of a luxury vehicle, 42 arrests, 25 guilty pleas, and court-ordered restitution to HUD in the amount of \$42,279,126 to date.

**In Los Angeles, CA**, in Federal Court for the Central District of California, defendant Kelli Davis, a loan officer at RE Mortgage Group, Inc., was sentenced to serve 6 months confinement and pay restitution of \$2,146,564 and a special assessment of \$600. Davis was previously convicted of six counts of violation of Title 18, U.S. Code, Section 1343 (wire fraud), for her involvement in a single-family loan origination fraud scheme. Davis and other coconspirators purchased fraudulently prepared employment, income, and credit documents and packaged them into mortgage loan applications for unqualified mortgagors. Approximately 80 FHA-insured loans were processed, exceeding \$11.4 million worth of funded loans.

**In Farmington, UT**, in Davis County District Court Bernardino, Vargas Sanchez pled guilty to one count of forgery and one count of attempted identity fraud, both third degree felonies in the State of Utah. Sanchez was sentenced immediately following his entering a guilty plea. These judicial actions were the result of the defendant being found guilty of participating in a loan origination fraud scheme wherein he used a Social Security number of a third party to obtain

an FHA-insured single-family home. Sanchez failed to make the required mortgage payments, resulting in a default and subsequent foreclosure on the FHA-insured property, costing HUD \$21,651 in losses. As a result of his actions, the District Judge sentenced Sanchez to 30 days confinement at a local detention facility.

**In Denver, CO**, in U.S. District Court for the District of Colorado, Patricia Pittman, an employee of the United States Postal Service, was arrested and appeared before the Senior District Judge. Pittman, a homebuyer who was previously indicted on September 22, 2004, for her participation in a loan origination fraud scheme involving FHA-insured properties, was charged with using a false Social Security number and making false statements on a loan application for an FHA-insured loan. Pittman paid money to Roderick Wesson, who has pled guilty for his involvement, to obtain a false Social Security number, IRS W-2 forms, and pay stubs. Pittman also had Wesson verify her false income in order for her to be able to qualify for the FHA-insured loan. The total loans in this case are valued at \$6.7 million. To date, the loss to HUD is \$309,700.

**In Los Angeles, CA**, pursuant to an information simultaneously filed by the United States Attorney's Office, Central District of California, real estate agent Lucero Fernandez pled guilty to one count of violation of Title 18, U.S. Code, Section 1010 (fraud), against HUD. As part of a loan origination fraud scheme, Fernandez caused a mortgage application, which contained forged and false employment and income documents, to be completed on behalf of a nonqualified borrower. Fernandez directed a coconspirator to obtain the forged documents used in the

mortgage application that led to the origination of the fraudulent FHA-insured home mortgage loan. Fernandez' involvement in the scheme resulted in an approximate loss to HUD of approximately \$42,557.

In **McMinnville, OR**, in Yamhill County District Court, defendants Carlos Morales, Eddy Morales, Cristobal Vilario, Samuel Pleites, Douglas Pleitez, Guadalupe Pleitez, and Patricia Tellez, a mortgage broker, three loan officers, and three real estate agents, respectively, were indicted on State charges related to mortgage fraud involving FHA-insured and conventional mortgages. The 40-count indictment charged the defendants for their roles in the origination of approximately 50 fraudulent mortgages worth an estimated \$8 million. The charges include racketeering, theft in the first degree, obtaining execution of documents by deception, fraud and deceit with respect to mortgage banker or broker business, aggravated theft, forgery in the first degree, theft in the second degree, and issuing a false financial statement. This fraudulent loan scheme involved the alleged theft of monies from borrowers in amounts ranging from \$400 to \$30,000, often demanded by the loan officers in the form of cash payments, prior to the close of escrow; these payments were not shown on the settlement statements, thus allowing the borrowers to be double-charged. The scheme also involved the use of fraudulent employment information used to defraud HUD, banks, and other lenders. This information consisted of the documentation of false employers that the coconspirators located on the Internet for the borrowers, a majority of whom are living illegally in the United States. The borrowers were often employed as laborers at local ranches and vineyards earning

minimum wage. The loan officers specified cellular phones in their offices that were to be exclusively used to verify employment. Twenty-two of the loans involved in the scheme were insured by FHA.

In **Los Angeles, CA**, the U.S. Attorney's Office in the Central District of California issued an information charging defendants Eugenia Mercado, Liza Mercado, Thanya Mercado, Manuel Molina, and Nelly Rubiano with two counts each of wire fraud and aiding and abetting. Eugenia and Liza Mercado were licensed real estate agents, Thanya Mercado was a loan processor, and Manuel Molina was an unlicensed real estate agent and a loan officer. Eugenia Mercado and Nelly Rubiano were also notary publics. The defendants allegedly participated in a scheme to defraud HUD. They were associates of George Bahamondes, who was arrested and indicted for originating the funding and insurance of approximately \$7.5 million in fraudulent FHA-insured home mortgages.

Allegedly, the defendants caused mortgage applications containing false employment, income, and credit information to be completed on behalf of unqualified buyers and submitted to FHA. Molina acted as a real estate agent on sales of property to unqualified buyers. In some instances, he and Rubiano acted as investors themselves. Eugenia Mercado and Rubiano notarized the necessary signatures of strawbuyers and fictitious buyers on loan documents, falsely certifying that they had personally met with them. The Mercados and other coconspirators caused the funding and insurance of approximately \$3.6 million in fraudulent FHA-insured mortgages on properties in Los Angeles County. To date, properties

that have gone into default and been resold have caused over \$1 million in losses to HUD.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, the following 12 defendants involved in The Loan Store, Inc., fraud scheme were charged, sentenced or pled guilty.

Defendant Ronald Gladney was sentenced to 5 years probation and was ordered to pay \$344,000 in restitution for mail fraud. Gladney, a real estate investor and full-time St. Louis firefighter, admitted engaging in a scheme to sell his residence to two different strawbuyers. Two loans totaling \$788,000 were obtained with false documents through The Loan Store. Also, the owner of Bankers Title, who previously pled guilty, assisted Gladney by disguising the source of the downpayments to qualify the strawbuyers for the loans. Indymac Bank suffered \$344,000 in losses due to Gladney's scheme.

Defendant Sean Holland was sentenced to 3 years probation and 100 hours of community service and was fined \$3,000 for conspiracy to commit wire fraud. Holland, an accountant for The Loan Store, created false income documents for the owner/officers of The Loan Store. A Federal search warrant executed at Holland's home/office in November 2001 yielded the false documents, which assisted The Loan Store in obtaining \$3.8 million in loans and \$1.9 million in attempted loans. Holland cooperated in the investigation and received a downward departure from the sentencing guidelines.

Defendant Orville "Leo" Johnson was sentenced to 3 years probation and was ordered to pay \$200,000 in restitution for conspiracy to commit wire fraud.

Johnson, a real estate investor doing business as Onyx Real Estate and Platinum Investments, illegally flipped properties by using false appraisals and income documents and disguising the origin of downpayments. Johnson's scheme caused \$200,000 in losses.

Defendant Pierre Jacques was sentenced to 2 years probation and 100 hours of community service for wire fraud. Jacques, a real estate appraiser/investor who owned International Appraisal Company, falsely inflated appraisals for the owner and employees of The Loan Store as well as other investors. The Loan Store did not charge him points and closing fees on his investment properties.

Defendant Mark Williams, owner of Onyx Investments and Platinum Investments, was also sentenced to 8 months home confinement, 5 years probation, and 200 hours of community service. Williams previously pled guilty to wire fraud and admitted manufacturing and providing false documents in order to qualify an individual for a home mortgage.

Defendant Demona Payne, a former loan officer for The Loan Store, Inc., was sentenced to 3 years probation and was ordered to pay \$75,000 in restitution. Payne previously pled guilty to one count of wire fraud and one count of conspiracy. She conspired with Tandy Hairston, the owner of The Loan Store, Inc., to broker loans that included a variety of false documentation, including appraisals, IRS W-2 forms, tax returns, bank statements, and verifications of deposit.

Defendant Arnold Mitchell, a real estate investor, was sentenced to time already served (3 months) and 3 years probation and was ordered to pay \$61,879 in restitution to two financial institutions.

Mitchell previously pled guilty to one count of conspiracy to commit wire fraud. He participated in a scheme to illegally flip properties to unqualified buyers.

Defendant Iris Whitener was sentenced in St. Louis, MO, to 6 months home confinement and 3 years probation. Whitener previously pled guilty to conspiracy to commit wire fraud. As an officer of Nations Investments, a real estate investment company, Whitener conspired with Tandy Hairston to purchase distressed properties and sell them to unqualified and unsophisticated buyers by obtaining false appraisals and income documentation. Whitener admitted to giving cash incentives and downpayments to individuals to purchase overqualified properties.

Defendant Billy Miller, a real estate investor, was sentenced to 5 years probation and 400 hours of community service and was ordered to pay \$345,000 in restitution. Miller was previously indicted as part of an 18-count Federal conspiracy indictment against eight individuals associated with The Loan Store and Nations Investments. Miller admitted being paid to locate a strawbuyer to purchase property, as well as obtaining mortgage loans to assist investors in preventing loss of their properties to foreclosure. Miller admitted to causing \$345,000 in losses.

Defendant Anthony Orr, a real estate investor, was sentenced to 5 years probation and was ordered to pay \$570,952 in restitution to 16 financial institutions. Orr previously pled guilty to one count of conspiracy to commit wire fraud. He admitted to conspiring with Hairston to illegally flip overvalued properties to unqualified buyers.

Defendant Kelan Pyant was sentenced to 4 months home confinement and 5 years probation and was ordered to pay \$50,000 in restitution. Pyant previously pled guilty to one count of conspiracy to commit wire fraud. Pyant admitted that while working for Nations Investments, a real estate investment company, he used a strawbuyer to purchase a property from HUD. He then transferred the property into his own name, obtained an inflated appraisal, and flipped the property at a substantial profit to an unqualified purchaser. Pyant admitted to conspiring with Tandy Hairston in obtaining financing with false documents. Pyant's fraudulent activities caused \$50,000 in losses.

Defendant Tandy Hairston was charged in an 18-count indictment as former president of The Loan Store, Inc., as well as several of his employees and associates, for conspiracy to commit wire fraud, mail fraud, and money laundering. Hairston subsequently pled guilty and was sentenced to 64 months confinement, 36 months probation, and ordered to pay restitution of \$2,424,857.

In **Las Vegas, NV**, in Federal Court for the District of Nevada, defendant Michael Cartron, a former loan officer at Mortgage Capital Resources and National City Mortgage, was sentenced to 21 months incarceration and 5 years supervised release and was ordered to pay \$333,375 in restitution. Cartron was sentenced on count 8 of a second superseding indictment that charged him with wire fraud in the furtherance of loan fraud. Cartron helped falsify income and employment information for borrowers, including tax returns, pay stubs, IRS W-2 forms, gift letters, and credit documents, in order to obtain FHA-insured loans. He did this while he was employed at Mort-

gage Capital Resources. He also provided borrowers with false documents in order to obtain conventional loans while he was employed at National City Mortgage.

In the same case, defendants Beth Lanza, Gary Stephens, and Zina Sagona, all loan officers, were sentenced. Lanza received 27 months incarceration and 5 years supervised release and was ordered to pay \$333,375 in restitution. Stephens received 10 months incarceration and 5 years supervised release and was ordered to pay \$148,249 in restitution. Sagona received 2 years probation and was ordered to pay \$197,594 in restitution. Lanza had previously pled guilty to count 7 of a second superseding indictment charging her with wire fraud in the furtherance of loan fraud. Stephens pled guilty to count 2, charging him with making false statements to HUD. Sagona pled guilty to counts 1 and 14 of the original indictment, charging her with conspiracy to commit loan fraud and making false statements to HUD. The three defendants originated fraudulent FHA-insured loans while employed at Mortgage Capital Resources. Lanza continued to originate fraudulent conventional loans at National City Mortgage after leaving Mortgage Capital Resources. The defendants falsified income and employment information for borrowers including tax returns, pay stubs, IRS W-2 forms, gift letters, and alternate credit documents.

Thirty-two fraudulent FHA-insured loans originated by the defendants have been identified. Eighteen FHA loans valued at \$1.9 million have gone into default, while all 18 of the conventional loans have gone into default.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Carla Piza, owner of Quality Home Investments, was sentenced to 12 months incarceration and 36 months supervised release for false statements and wire fraud. Piza was also ordered to pay \$103,699 in restitution. As part of a loan origination fraud scheme, Piza located and recruited unqualified buyers to purchase residential properties using FHA-insured mortgages. In furtherance of the scheme, Piza purchased cashiers' checks, which were used to provide the funds for the buyers' downpayments, and fraudulent loan documents such as IRS W-2 forms, pay stubs, and credit letters. The fraudulent loan documents were given to other coconspirators and submitted in loan packages for FHA insurance. In total, the scheme caused \$425,809 in fraudulent loans to be funded with a resulting \$250,000 loss to HUD.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Otis C. Bevel, Jr., was sentenced to 1 year and 1 day in prison and 5 years supervised release and was ordered to pay \$121,325 in restitution, \$23,500 to Wells Fargo and \$97,825 to Second National Bank. Bevel pled guilty in June 2004 to one count of mail fraud and three counts of bank fraud for executing a scheme to defraud Second National Bank and other mortgage lenders through his two residential real estate companies, Capital Realty Group and Midwest Venture Realty, Inc. Bevel provided false and fraudulent financial documents to lenders in support of loan applications for both conventional and FHA-insured loans. Several of the applications were in fictitious names. False and fictitious Social Security numbers, pay stubs, and tax forms were also used, in addition to nominee or

nonexistent employers, to falsely verify employment and income for the loan applicants. In one instance, Bevel caused a loan application to be provided and the mortgage loan issued in the name of a minor child, concealing from the lender the true identity of the borrower. HUD insured this particular loan for \$111,599.

To date, Bevel has illegally earned more than \$500,000 in proceeds from his activities. He is currently serving a prison sentence for previous mortgage fraud, after pleading guilty to Federal charges in U.S. District Court in March 2003. Bevel continued this illegal activity until he reported to the Bureau of Prisons in August 2003.

### ***Racketeering/Theft***

In **Washington, DC**, in Federal Court for the District of Columbia, defendant Sunday Yemi Adefehinti, a real estate agent, was sentenced to 74 months incarceration and 5 years supervised release and was prohibited from employment in the real estate industry while on supervised release. Adefehinti's sentence was based on a loss amount of \$628,900, the amount of loan proceeds fraudulently received from commercial banks relating to five properties. Adefehinti was also ordered to pay \$340,922 in restitution to the commercial banks he defrauded. Additionally, a forfeiture order was entered in the amount of \$1,253,338; the proceeds will go to the Federal Government. The amount of the forfeiture order represents the total amount of funds that were obtained from racketeering activity.

In October 2003, Adefehinti was found guilty of one count of racketeering, five counts of bank fraud, one count of money laundering, and one count of

interstate transportation of stolen property. Adefehinti, along with Tayo John Bode, Stephen Benson Akinkuowo, and Olushola Akinleye, were involved in a scheme in which they flipped properties to strawbuyers, using conventional mortgages, then rented the properties under the Section 8 program. They failed to make any mortgage payments, and the mortgages subsequently went into default and foreclosure.

In **Las Vegas, NV**, following an investigation involving a stolen check worth over \$30,000 from HUD, defendant Lyn Robison was arrested by OIG Agents for theft of government funds. DP Service Corporation is a HUD contractor responsible for paying real estate taxes on HUD properties. DP Service Corporation issued a check payable to the New York City Department of Finance as payment for real estate taxes on a HUD property in New York. The check was diverted to Robinson Land and Realty and allegedly deposited by the defendant. Robison admitted that he deposited the check and agreed to repay the funds.

### ***Identity Fraud***

In **Salt Lake City, UT**, in 3rd District Court, Davis County, defendant Anastasia Preciado Rolon was sentenced to 1 year in jail and 3 years probation and was ordered to pay \$62,328 in restitution to HUD after pleading guilty to one count of communications fraud. In a related case, defendant Teodoro Mendez was arrested as a result of his indictment for recording false or forged instruments, forgery, and identity fraud. These actions stemmed from a mortgage fraud investigation which disclosed that Rolon and Mendez used the Social Security number of a third party in order to qualify for the

purchase of a single-family home with an FHA-insured mortgage. The properties were part of a flipping scheme conducted through an LLC that enticed undocumented/unqualified buyers to purchase homes at inflated prices. The owners of the LLC conducted simultaneous closings on the same day, netting large profits. The subsequent default regarding the mortgage would be reflected on the innocent victim's credit report, making future financial transactions very difficult. The total loss to HUD is expected to exceed \$1.7 million for all cases associated with the scheme.

In another related case, in Weber County District Court, defendant Celso Rodriguez pled guilty to one count of communications fraud and one count of forgery. Rodriguez also used the Social Security number of a third party to obtain an FHA-insured home loan. The property was part of the flipping scheme conducted through an LLC.

In **Los Angeles, CA**, in U.S. District Court for the Central District of California, defendant Greg Phillips was sentenced in Los Angeles, CA, to 5 months in prison and 5 months home detention and was ordered to pay \$442,888 in restitution. Phillips pled guilty to mail fraud in April 2002. Phillips and two other defendants, Ben Harrison Tyler and Tony Hicks, were involved in a scheme directed at commercial lending institutions and HUD's Title I program. The defendants used the personal information of others, including Social Security numbers, dates of birth, and other individual credit information, to fraudulently obtain conventional mortgage loans and FHA Title I loans. In addition, they recruited strawbuyers or directed other coconspirators to do so, created or

obtained false IRS W-2 forms and pay stubs in the names of the strawbuyers, and then notarized documents certifying that the strawbuyers signed deeds and other documentation necessary for the transactions. The loan applications and false documents were submitted to lending institutions to support inflated income levels necessary for the loans to fund. The defendants' scheme caused \$1.5 million in loans to go into default. Ben Tyler was previously sentenced to 5 years probation, 8 months home detention, \$43,516 in restitution, and a \$10,000 fine, while Tony Hicks was sentenced to \$60,454 in restitution.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Willis Ricardo Barker, a real estate appraiser also known as Leroy Richards, was indicted on one count of misuse of a Social Security number. According to the indictment, Barker on or about July 14, 1997, applied to the Social Security Administration in Cleveland and obtained a false Social Security number in the name of Leroy Richards. He did this because he had a prior felony conviction in his own name. Between 1997 and 2000, Barker allegedly used the false Social Security number and alias of Richards to perform at least 60 real estate appraisals for which he received an average of \$300 per transaction. Other allegations of Social Security number misuse include his purchase of 10 properties, 2 of which were FHA-insured, and the collection of over \$80,000 in Section 8 rental income from the Cuyahoga Metropolitan Housing Authority under the name of Richards.

## ***Conspiracy/False Claims/ Mail and Wire Fraud***

In **Brooklyn, NY**, in Federal Court for the Eastern District of New York, defendants Donald Fazio and Gary Konstantin were indicted on 61 counts of conspiracy, wire fraud, mail fraud, money laundering, and insurance fraud, with forfeiture counts seeking monetary judgments in the amount of \$11.6 million. The defendants were mortgage brokers and branch managers at Brucha Mortgage Bank, a now-defunct mortgage company, and allegedly participated in a massive scheme to defraud HUD's Section 203(k) Rehabilitation Home Mortgage Insurance Program.

In **Pittsburgh, PA**, in U.S. District Court for the Western District of Pennsylvania, defendants William McKee and Terry Boring, the principals of now-defunct Zintron, Inc., a Pittsburgh-based home improvement company, pled guilty to conspiracy, making false statements to HUD, and mail fraud. Boring also pled guilty to income tax evasion. The pleas culminate two and one-half years of investigative efforts focused on Zintron, which engaged in predatory lending practices against elderly and low-income homeowners. The scheme involved solicitation by McKee and Boring, wherein both marketed Zintron's home improvement services door-to-door and through distribution of flyers, falsely alleging that Zintron was affiliated with HUD/FHA. Many of the victims were interested in having home improvements done but lacked good credit and the resources to make payments on the loans Zintron originated. To get the loans approved, McKee and Boring regularly falsified the information they supplied to lenders, including verifications of employ-

ment, IRS W-2 forms, pay stubs, and homeowners' insurance policies. Many victims received loans for which they did not qualify, resulting in numerous defaults/foreclosures. A total of 41 homeowners defaulted on fraudulent FHA-insured Title I loans that Zintron originated, resulting in claims to HUD totaling more than \$600,000.

Zintron also originated hundreds of fraudulent conventional home improvement loans, resulting in a significant number of defaults. As part of their plea agreements, McKee and Boring acknowledged that their conduct resulted in losses that exceed \$2 million.

In **Chicago, IL**, defendant Theresa Holt, a fugitive from Illinois, was arrested upon her arrival in New York City after originally surrendering to American authorities in South Africa. Prior to the arrest, Chicago agents received a call from Holt's daughter reporting her mother's whereabouts and asking for a reward to turn her in. Holt then surrendered to the American Embassy in South Africa and flew to New York. Holt was the alleged main conspirator in an alleged fraud scheme that involved 100 properties and \$5.7 million in loans. Holt, a former employee of North East Austin, a HUD-approved nonprofit, started her own business, known as Share Development Corporation. Share Development acquired numerous properties, some of which were obtained through HUD's Direct Sales Program and North East Austin, and resold them. Many of the mortgage loan applications allegedly contained inflated employment information, including information that some buyers worked for Share Development and Northeast Austin. In addition, buyers, as well as loan officers, were allegedly paid between

\$3,000 and \$4,000 outside of closing for purchasing the properties. Holt is currently in New York awaiting extradition to Chicago.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Julio Baez, also known as Julio Baezeta, was indicted on one count of conspiracy and two counts of making false statements to HUD. Baez, who worked as a real estate professional, allegedly caused false documentation to be submitted to HUD concerning FHA-insured loans. The indictment alleges that in addition to purchasing fraudulent income documents from April 8 Realty, Baez manufactured fraudulent documents. The total amount of the loans involved in the fraud was \$2,581,911, with a total loss to HUD of \$743,231. Baez, who was originally identified as a target in the April 8 Realty investigation, was the thirtieth person charged in this case.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Jade Serrano was sentenced to 5 years probation and was ordered to pay \$868,621 in restitution to HUD. Serrano previously pled guilty to two counts of wire fraud. This case was initiated after OIG received the results of an internal investigation by North American Mortgage Corporation, in which North American Mortgage Corporation discovered and self-reported fraud in its Montebello, CA, branch office. Upon further investigation, the defendant, a loan officer with North American Mortgage Corporation, was found to have purchased false income- and credit-related documentation for inclusion in 22 FHA-insured home loans valued at \$3.5 million, with a \$1.5 million loss to HUD.

In **Springfield, MA**, in Federal Court for the District of Massachusetts, defendant Angel L. Serrano, Jr., a former self-employed real estate broker, was sentenced to 27 months confinement and 36 months supervised release and was ordered to pay \$308,457 to HUD. Serrano was previously convicted of conspiracy, wire fraud, and making false statements. He bought 34 properties and sold them on the same day he purchased them to low-income, unsophisticated purchasers. Serrano defrauded the mortgage lenders by making false representations concerning the purchasers' downpayments and income and submitting fraudulent documentation of gifts and credit references. Many of the mortgages involved in the scheme were insured by FHA and went into default, resulting in a loss of \$308,457 to the FHA insurance fund.

In **Santa Ana, CA**, in Federal Court for the Central District of California, defendant Steve Moreno was sentenced to 18 months in prison and 3 years supervised release and was ordered to pay \$129,754 in restitution to HUD. Defendant Toni Rogers was sentenced to 5 years probation and was ordered to pay \$9,360 in restitution to HUD. This investigation began after OIG received allegations that real estate professionals, including Moreno and Rogers, were involved in making false statements to HUD by assisting unqualified borrowers in obtaining FHA-insured loans. These professionals contacted forgers to prepare false and fabricated income- and credit-related documentation for buyers whom they represented. They would then use the false documents to prepare fraudulent loan applications, which were ultimately submitted to HUD. Thirty individuals have pled guilty as a result of this investigation. The estimated loss to HUD is \$10 million.

In **Portland, OR**, in U.S. District Court for the District of Oregon, defendant Curtis Lee pled guilty to one count of making a false statement to HUD with intent to defraud. Lee's participation in the fraud scheme involved FHA-insured properties. Prior to being indicted in Colorado, Lee moved to Oregon, resulting in the actual plea agreement being transferred to the Oregon District Court.

In **Denver, CO**, in U.S. District Court for the District of Colorado, defendant Michelle Palmer, a homebuyer who used fraudulent documents to qualify for an FHA-insured loan, was sentenced to 4 months probation and was ordered to pay \$10,000 in restitution. Palmer was previously indicted for submitting false statements in relation to FHA-insured properties.

Defendant Paulmiko Parker, a homebuyer who used fraudulent documents to qualify for an FHA-insured loan, was sentenced to 2 years probation for making false statements to HUD involving FHA-insured properties.

Defendants Janice Marshall and Sallena Nichols, both homebuyers, were sentenced for using fraudulent documents to qualify for an FHA-insured loan. Defendant Marshall was ordered to pay \$915 in restitution and serve 24 months of probation. Defendant Nichols was ordered to pay \$20,988 in restitution and serve 24 months probation.

Defendant Marshon Williams pled guilty to a one count of making a false statement to HUD with intent to defraud. Williams was indicted in February 2004 for making a false statement regarding an FHA-insured loan.

Defendant Maria Powell was found guilty of one count of making false statements. In 1999, Powell purchased a home in Aurora, CO, using an FHA-insured loan. She made a number of false statements which enabled her to qualify for the loan, including false income information, gift letters, and verifications of rent.

Defendant Lynn Jones pled guilty to one count of making false statements to HUD (Title 18, U.S. Code, Section 1012) with intent to defraud. Jones was previously indicted on February 24, 2004, for her participation in a loan origination fraud scheme involving FHA-insured properties. Jones had been charged with one count of false statements, one count of misuse of a Social Security number, and one count of aiding and abetting.

Defendant Ekan Udom, who used fraudulent documents to qualify for an FHA-insured loan, was sentenced to 24 months of probation/supervised release, \$20,000 court-ordered restitution, and a \$25 special assessment fee. Udom was previously indicted on February 24, 2004, for his participation in the loan origination fraud scheme involving FHA-insured properties and had pled guilty to a violation of Title 18, U.S. Code, Section 1012 (making false statements to HUD).

Defendant Vaughn Thomas, a homebuyer who used fraudulent documents to qualify for an FHA-insured loan, was sentenced to 2 years probation and was ordered to pay \$37,977 in restitution. Thomas made false statements to HUD with regard to an FHA-insured loan.

These loans valued at \$3.8 million, to date, have resulted in a \$188,800 loss to HUD.

In **Reading, PA**, in Federal Court for the Eastern District of Pennsylvania, defendant David Herb, a real estate agent, pled guilty to participating in a scheme with four others, James Ballantyne, Philip Garland, Judith Grimmel, and Richard Myford, to sell new homes in and around Lancaster, PA, with FHA-insured mortgages. The buyers, who were unqualified, were made eligible through the use of false source of funds letters and other misrepresentations of liabilities, credit worthiness, and income. Herb was included in a previous 34-count indictment of all five defendants; he is the first to plead guilty. An investigation disclosed that, over a 5-year period, Herb conspired to sell up to 100 new homes to unqualified buyers, most of whom were unsophisticated, first-time purchasers. The developer provided funds for the required downpayments, a procedure normally not allowed, and hid this through the use of false and forged statements from friends, family members, charitable organizations, etc. Further, in many cases, the developer required the purchasers to execute a promissory note to cover the amount of funds improperly advanced. This was never disclosed on official documents or at settlement as required. To date, about half of the 100 mortgages have gone into foreclosure, which has resulted in claims of almost \$5 million against the FHA insurance fund.

In **Newark, NJ**, in Federal Court for the District of New Jersey, defendant Shena Fraser, a loan officer, pled guilty to one count of conspiracy to commit mail fraud and false statements. Fraser participated in the purchase of residential homes, which were then sold at falsely inflated prices to unqualified buyers who were recruited to purchase the homes. Fraudulent mortgage applications were

completed, which included false bank statements, appraisals, employment verifications, and gift letter information. As a result of the fraud, loans valued at \$4,100,292 were funded. These loans have, to date, resulted in a \$607,437 loss to HUD.

In **San Juan, PR**, in Federal Court for the District of Puerto Rico, defendant Javier E. Diaz Santiago pled guilty to a one-count information charging him with preparing false and fraudulent FHA loan applications for third parties. The applications were subsequently submitted to and approved by different lending institutions in Puerto Rico. Between 1999 and 2002, Diaz Santiago, doing business as Capital Investment, created false employment records and downpayment information, inflated borrowers' income statements, created false income tax forms, and generated other necessary documents that would allow the borrowers to qualify for the loans. As a result, 13 FHA-insured loans valued in the amount of \$1,184,163 were involved. Diaz Santiago agreed to pay \$69,000 in restitution to HUD. In October, Diaz Santiago was sentenced to 9 months imprisonment and 1 year probation, and a \$2,000 fine was imposed.

In **Denver, CO**, in U.S. District Court for the District of Colorado, defendant and illegal alien Leonor Martinez pled guilty and was sentenced to 144 days in prison and 1 year of supervised release. She was also ordered to pay \$35,620 in restitution. Martinez was arrested in March 2004 for using fraudulent documents when she purchased a home insured through HUD's Section 203(b) program. The investigation began after OIG received allegations that several real estate agents were assisting homebuyers in securing FHA-insured mortgages using

fraudulent Social Security numbers and other counterfeit documents.

In **Milwaukee, WI**, in Federal Court for the Eastern District of Wisconsin, defendant Stacy Orr, a participant in the Officer Next Door (OND) program, was sentenced to 4 years probation and 80 hours of community service and was ordered to pay \$27,180 in restitution to the Department of Veteran Affairs (DVA). Orr is a former City of Kenosha, WI, police officer who was indicted in August 2003 for submitting false statements to the DVA in connection with loan applications used to obtain guarantees on mortgages for two properties in Kenosha, including a property he purchased through HUD's OND program. Both mortgages subsequently went into foreclosure. In addition to causing DVA to pay out \$27,180 for the guarantees, Orr failed to complete his 3-year OND residency requirement. In November 2003, Orr pled guilty to the second count of this two-count indictment, which related to the OND property.

In **Seattle, WA**, in U.S. District Court for the Western District of Washington, defendant Ive Ramirez was sentenced to 12 months and 1 day in prison and 5 years supervised release and was fined \$5,000. Ramirez's codefendant, her husband Dino Ramirez, received the same sentence in May 2004. The defendants previously pled guilty to one count each of wire fraud. The couple owned and operated an unlicensed mortgage brokerage business under the name Mortgage 200 in the State of Washington. In order to process their loans through the lender, Flagstar Bank, the Ramirezes assumed the identity of Liberty Financial, a licensed mortgage brokerage that was no longer in business. In addition to using the false broker identification, the defendants

prepared and submitted loan applications containing false employment and income information for borrowers in order to get the loans approved by Flagstar Bank. In return, the defendants collected various fees from the borrowers during the processing of the loans. They collected more than \$129,000 in fees while processing 11 loans that were closed with Liberty Financial's broker identification.

In **Lake Success, NY**, in Federal Court for the Eastern District of New York, defendant Patrick Cardeanas was sentenced to 6 months time served and 1 year probation. Defendant Nicholas Graham pled guilty to conspiracy and making false statements. Both Cardeanas and Graham were contractors working with American International Mortgage Bankers and helped it in ensuring that questionable homebuyers located in the New York metropolitan area, including Nassau and Suffolk Counties, would qualify for FHA-insured loans. Over 90 percent of these loans contained one or a variety of altered documents, including false pay stubs, bank statements, IRS W-2 forms, rent verifications, verifications of employment and deposit, credit worthiness letters, gift letters, and credit reports. The Section 203(b) loans were subsequently endorsed by HUD. This investigation disclosed that 174 properties valued at \$47.1 million were acquired through false documentation, resulting in a loss of \$4,905,073 in FHA-insured funds.

In **Greenbelt, MD**, defendants Lynn Kromminga, a settlement attorney; John Bryant, a speculator/investor; Valerie Borders, a loan processor; and Scott Davis, a loan officer, pled guilty to conspiracy to defraud. Defendants admitted that, from early 1998 until late 2000, they conspired among themselves and with

others to submit false documents to enable otherwise unqualified borrowers to obtain FHA-insured and conventional mortgages. Bryant created false employment and income documents that were provided to Borders for processing and underwriting approval. Kromminga prepared and certified at settlement that the mortgagors had provided sufficient personal funds to settle, when in fact they had not. Kromminga also prepared fraudulent title policies to facilitate settlement. Davis purchased three homes from Bryant, using false documents, and then allowed Bryant to collect rental income until the homes went into foreclosure. Their fraudulent actions involved 26 properties valued at \$2.5 million with a loss of \$467,441.

A superseding indictment was filed against defendants Torina Collins, a loan officer, and Ronald Brvenik, an appraiser, charging them with conspiring with defendant Bryant, et al, to sell FHA-insured homes to unqualified buyers at inflated prices. To date, six defendants have pled guilty, with four additional defendants pending adjudication.

Also in this case, defendants Richard Minor and Brendan Reilly, both loan officers, pled guilty to assisting in the preparation of false documents to enable strawbuyers and others to qualify for FHA-insured and conventional mortgages. The strawbuyers and other buyers purchased the properties from defendant John Bryant, a speculator who has already pled guilty as a result of this ongoing OIG/FBI investigation. Minor and Reilly admitted that, from 1999 to 2000, they approved mortgages on behalf of individuals whom they knew were qualified only through the use of false employment information. Further, they

admitted knowing that the sales prices of the homes had been inflated with false appraisals. FHA suffered more than \$100,000 in losses as a result of the defendants' illegal activities. They are the seventh and eighth out of 10 defendants to plead guilty in this case.

In **Dallas, TX**, defendant Rene Salinas, a real estate broker, and Green Homes Realty, his company, were suspended from further procurement and nonprocurement transactions with the Executive Branch of the Federal Government, including HUD. The suspension was the result of the defendant's previous guilty plea in Dallas, TX, in Federal Court for the Northern District of Texas, to one count of mail fraud. Salinas assisted borrowers by preparing and filing false IRS W-2 forms, pay stubs, tax returns, credit letters, employment letters, loan applications, and other loan documents. He also supplied false Social Security numbers to borrowers and collected payments of \$200 to \$500 from borrowers for the false loan documents. Salinas entered into a plea agreement by admitting to originating three false loans that resulted in \$55,936 in claims.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Paul Crutchfield, Executive Director of Omega Housing, a HUD-approved nonprofit, pled guilty, as part of an agreement with the U.S. Attorney's Office, to one count of conspiracy and agreed to be liable for \$376,190 in repayments to HUD. Crutchfield and defendants Sandra Mayfield, an owner/investor, and Yinka Otabor, Executive Director of Hope, another HUD-approved nonprofit, were previously charged in a four-count indictment relative to HUD's Direct Sales Program. Crutchfield was a member of

the alumni chapter of the Omega Psi Phi fraternity in Chicago. Omega Housing was an Illinois nonprofit organization operated by the alumni chapter of Omega Psi Phi. Although Crutchfield was aware of HUD's program rules prohibiting nonprofits from selling discounted properties to investors, Crutchfield used his position at Omega Housing to purchase between 20 and 25 properties as an investor for his personal financial benefit in violation of HUD's Direct Sales Program. He fraudulently concealed the nature of the transactions from HUD and made materially false misrepresentations to HUD relating to the purchase, ownership, and disposition of the properties.

Crutchfield admitted keeping several of the properties for himself as investment properties. In one instance, he used his wife's maiden name to hide his true ownership of the property. In some instances, he rented the properties out to Section 8 tenants. Finally, he used the properties on subsequent real estate purchases as evidence of properties he owned in order to bolster his credit scores and ability to qualify.

In **Philadelphia, PA**, in Court of Common Pleas, Philadelphia County, defendants Ronald Banks and Denea Langston were sentenced to 56 months incarceration, to be followed by 5 years probation, and ordered to pay restitution of at least \$28,000 to at least five victims of a scam that they perpetrated using documents containing the forged signature of former HUD Secretary Henry Cisneros. The defendants had been previously convicted of engaging in a scheme to solicit money from various individuals on the pretext that the money would be used to purchase vacant lots and abandoned properties in Philadelphia that

would then be developed into low-income housing using HUD grants. The defendants created false deeds and tax statements, in addition to a false, forged letter purportedly signed by then HUD Secretary Henry Cisneros, promising HUD funds to renovate the properties, in support of the scheme. At least five investors contributed \$135,000, which the defendants used for such things as vacations, purchase of fine clothing, and the purchase of a Jaguar automobile.

### **Money Laundering**

In **Scottsdale, AZ**, State Court, Harold V. Fields was indicted for allegedly recruiting investors, through advertisements in newspapers, to give him \$25,000 to \$100,000 to purchase HUD REO properties. Fields told the investors that the funds would be held in escrow and used for downpayments and closing costs for up to 12 properties. Often because of financing issues, many of the loans did not close, and the properties were recycled back into HUD's inventory. Many of the investors began demanding that Fields return their money after he failed to provide closing costs for several homes. Fields was indicted on 24 counts for which investors lost \$1.4 million dollars. Later, Fields was indicted on additional charges resulting from the discovery of four additional victims who lost a total of \$65,750.

In **Newark, NJ**, U.S. District Court in New Jersey, defendant Steven Freeman pled guilty to conspiracy to embezzle from a welfare benefit fund in violation of Title 18, U.S. Code, Sections 371 and 664. Previously a six-count Federal indictment was unsealed against Stanley Rothman, Joseph Nardone, Jr., and Peter Hasho. Rothman was also charged with money

laundering relating to payments he received in violation of Title 18, U.S. Code, Section 1956 (money laundering). Subsequent to the indictment being unsealed, Rothman, Nardone, Jr., and Hasho were arrested. Joseph Nardone Sr., was also previously indicted on charges of Title 18, U.S. Code, Sections 371 and 664 (conspiracy to embezzle from a welfare benefit fund). Nardone Sr., was the former President of the Novelty Production Workers Union.

Rothman used Steven Freeman as a strawbuyer to purchase HUD properties in Florida, which Rothman later resold for a profit in violation of Title 18, U.S. Code, Section 371. Some of the strawbuyers used by Rothman were members of his family, and others worked or were associated with the Novelty Production Workers Union 148 Welfare Fund. There were 31 properties valued at \$4.1 million involved in the scheme, totaling losses of \$700,000 to HUD.

### ***Conversion of Government Property***

In **Grand Rapids, MI**, in Federal Court for the Western District of Michigan, defendants John and Emalee Birnie, HUD contractors, were each sentenced to 41 months imprisonment and 36 months probation and were ordered to pay \$286,000 in restitution joint and several. The Birnies were previously convicted on 10 counts of wire fraud, 10 counts of conversion of government property, and 1 count of money laundering for their role in converting 11 properties from HUD's property disposition inventory for their personal use. Emalee Birnie had been a long-term HUD contractor for the Grand Rapids Field Office in the capacity of a real estate asset manager and a closing

agent. She received payments of over \$1.5 million from the Department during the period she held these positions. Defendant Terry Hansen, former Chief Property Officer for the HUD Grand Rapids Field Office, previously pled guilty in this case and is awaiting sentencing. Two indictments against defendants Jack Brown and Tim Doctor, who were principals of a nonprofit, remain outstanding in the case.

### ***False Statements***

In **Baton Rouge, LA**, Middle District of Louisiana, Jimmie Lee Matthews was indicted on 12 counts including Title 18, U.S. Code, Section 1344 (bank fraud), Title 18, U.S. Code, Section 1001 (false statements), and Title 42, U.S. Code, Section 408(a)(7)(B) (illegal use of a Social Security number). Matthews fraudulently obtained a HUD-insured loan in the amount of \$108,850 for a single-family residence located at 808 Kenon Street, Baker, LA, through First Mortgage Services in Baton Rouge, LA. Through investigative efforts, it was discovered that Matthews had also obtained several other loans and lines of credit with car dealerships and credit unions, also located in the Baton Rouge area. Matthews was obtaining these various loans by providing one of several false or stolen Social Security numbers. It was further uncovered that, not only did Matthews provide a stolen Social Security number on his loan application to HUD, he also provided false income and employment information. Agents transported Matthews from the Dixon Correction Facility, where he was serving time on a separate State charge, to the custody of the United States Marshals Service in Baton Rouge for his initial appearance. On September 20, 2004, Matthews was arraigned and entered a plea of not guilty. Trial on the matter is pending.

In **Los Angeles, CA**, in the Central District of California Federal Court, Western Security Group was debarred by HUD. During the period of debarment, for a 3-year period beginning on April 2, 2004, Western Security Group is excluded from procurement and nonprocurement transactions as either a principal or participant with HUD and throughout the Executive Branch of the Federal Government. Greg Phillips, Tony Hicks, and Ben Tyler owned Western Security Group and used the company in a fraud scheme directed at commercial lending institutions and the HUD/FHA Title I program. The defendants used the personal information of others to fraudulently obtain single-family mortgage loans and Title I loans insured by HUD/FHA for estimated losses of \$1.5 million. They obtained loans through the fraudulent use of the victims' Social Security numbers, dates of birth, and other personal and credit information. Phillips, Hicks, and Tyler have all been convicted and sentenced.

In **Santa Ana, CA**, in Federal court, defendant Manny Frias pled guilty to 1 count of Title 18, U.S. Code, Section 1343 (wire fraud), 2 counts of Title 18, U.S. Code, Section 2(b) (aiding and abetting), and 1 count of Title 18, U.S. Code, Section 1010 (false statements); defendant Frank Gonzalez pled guilty to 1 count of Title 18, U.S. Code, Section 1343 (wire fraud), and Title 18, U.S. Code, Section 2(b) (aiding and abetting); defendant Oscar Gonzalez pled guilty to 2 counts each of Title 18, U.S. Code, Section 1343 (wire fraud), and Title 18, U.S. Code, Section 1344 (bank fraud), and 4 counts of Title 18, U.S. Code, Section 2(b) (aiding and abetting). Manny Frias, Frank Gonzalez and Oscar Gonzalez were remaining defendants from the Andy Ocampo case. They bought fraudulent documents from Ocampo and caused them to be submitted into FHA loan files. Andy Ocampo was sentenced in 2001 to 4 months confinement, \$599,860 in restitution, and 36 months supervised release.







## Chapter 3: HUD's Public and Indian Housing Programs

The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to approximately 4,200 public housing authorities (PHAs) nationwide. About 3,200 PHAs manage public housing units and another 1,000, with no public housing, manage units under Section 8 programs. Many PHAs administer both Public Housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills programs. 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.

## Audits

During this reporting period, the Office of Inspector General (OIG) issued 23 reports: 2 internal audits, 17 external audits, and 4 external memoranda, in the Public and Indian Housing program area. These reports disclosed nearly \$2.7 million in questioned costs and about \$52.3 million in recommendations that funds be put to better use. During this reporting period, we reviewed the Public and Indian Housing Information Center (PIC); the Welfare to Work Section 8 Voucher program; and public housing activities, including PHA activities with related nonprofit entities, Section 8 Housing Choice Voucher program activities, and other public housing activities. In

Chart 3.1: Public and Indian Housing Program Reports Issued

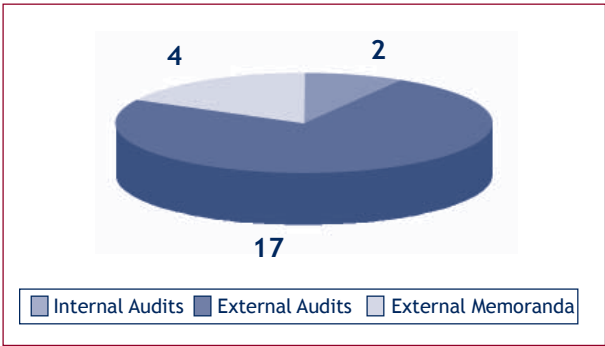
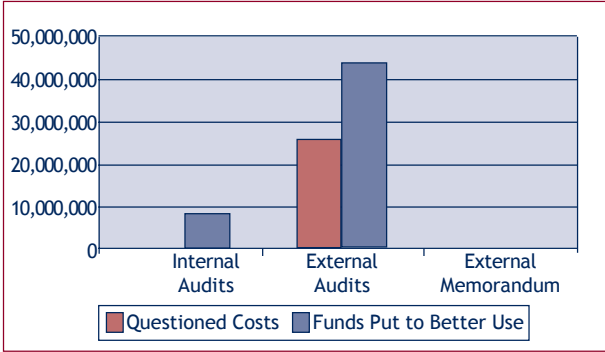


Chart 3.2: Public and Indian Housing Program Dollars



addition, we are reporting on our work that resulted in the firing of a PHA officer.

## Public and Indian Housing Information Center

PIC was designed to facilitate a more timely and accurate exchange of data between PHAs and Local HUD offices by allowing the PHAs to submit information to HUD over the Internet. The OIG audited controls over the validity, accuracy, and completeness of data within the PIC as it relates to (1) the Form HUD-50058 module, which collects and stores data on families that participate in Public

The cost figures in the charts above represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

Housing or Section 8 rental subsidy programs; (2) the Section 8 Management Assessment Program (SEMAP), which measures PHA management performance in 14 key areas of the Section 8 tenant-based assistance programs; and (3) the building and unit inventory data in PIC, which provides information on the more than 1.2 million units managed by PHAs. We found the following:

- Adequate controls are not in place over the identification of tenants. Specifically, tenant names and Social Security numbers are kept on a Web server outside HUD's secure network, making them highly vulnerable to hackers for identity theft, and HUD does not sufficiently identify tenants who are not citizens or tenants who are citizens but do not provide a valid Social Security number, increasing opportunities for fraudulently obtaining housing benefits.
- Certain controls over the accuracy of data within PIC have been inadequate. PIC was initially populated with data that were not entirely complete and accurate, the annual reexamination process that would update and correct inaccurate and incomplete data within the PIC system is not enforced, controls over the calculation of total tenant payments are not functioning, and PIC's Building and Unit module (inventory of public housing units) contains inaccurate data.

Current efforts to address these problems are insufficient. As a result, PIC data alone would not be a reliable source of information for HUD's assessment of PHA performance and the

calculation of funding for the Capital Fund.

We recommended that HUD establish adequate controls over PIC data quality before attempting to implement planned enhancements to PIC. (Report No. 2004-DP-0003)

### ***Welfare to Work Section 8 Voucher Program***

The OIG's audit of the Welfare to Work (WtW) Section 8 Voucher program disclosed that because HUD did not perform a front-end risk assessment of the WtW program, the program's design did not adequately emphasize family selection and monitoring requirements and established unrealistic timeframes for leasing units with WtW vouchers. This caused conflicting priorities for PHAs in issuing vouchers. As a result, the WtW program was not properly implemented or monitored, and program requirements were not met.

In implementing the WtW program, HUD did not ensure PHAs complied with statutory and Notice of Funding Availability (NOFA) family eligibility requirements in establishing criteria for selecting among eligible WtW families or determine that a WtW voucher was critical for a family to successfully obtain or retain employment. As a result, PHAs issued WtW Section 8 vouchers to families before verifying their eligibility to participate in the program. We estimate that about \$7 million in WtW funds allocated to the Seattle Housing Authority for fiscal year (FY) 2004 will be put to the use Congress intended once HUD brings its program into compliance with statutory and NOFA requirements.

We recommended that HUD require a front-end risk assessment for any new Section 8 Voucher programs in accordance with HUD's Departmental Management Controls Program Handbook and that HUD ensure that the WtW Section 8 Voucher program is terminated in accordance with departmental requirements. (Report No. 2004-SE-0001)

### ***Public Housing Authority Activities with Related Nonprofit Entities***

In our previous semiannual report, we reported that HUD was often unaware of the extent to which development activities with related nonprofit organizations impacted PHA operations and of the numerous Annual Contributions Contract (ACC) and other violations associated with them. In the previous period, we identified PHAs with indicators of possible unauthorized development activities from PHA financial statements. We also reported that we would continue to assess the impact of ACC and other requirement violations as they related to PHA activities with related nonprofit entities. During the current period, we completed reviews of an additional nine PHAs. Improper activities were found at eight of the nine PHAs, resulting in questioned costs of nearly \$13.4 million and funds that could be put to better use of about \$39.7 million. Details of the eight PHAs where improper activities occurred are discussed below.

The Puerto Rico Public Housing Administration (Authority) in **San Juan, PR**, improperly withdrew and used over \$1.1 million in operating subsidies for program activities not related to the administration of its public housing projects. In addition, the Authority did not provide

support to document the purpose of over \$4.2 million owed to its Low-Income Public Housing Program by the Puerto Rico Public Buildings Authority and its public housing management agents.

We recommended that HUD require the Authority to reimburse \$1.1 million to the appropriate projects from nonfederal funds for ineligible expenses and submit all supporting documentation for and determine the accuracy of the \$4.2 million owed by the Puerto Rico Public Buildings Authority and its management agents. Any amounts determined ineligible must be reimbursed to the projects from nonfederal funds. In addition, we recommended that the Authority be required to implement policies and procedures to ensure that grant funds are used solely for authorized purposes. Further, HUD should work with the Authority to identify and refer the officials responsible for the mismanagement of HUD funds to the Departmental Enforcement Center. (Report No. 2004-AT-1006)

The Housing Authority of the City of **Asheville, NC**, violated its ACC with HUD by inappropriately advancing funds and pledging assets for nonfederal development activities. HUD did not approve these development activities. As of September 30, 2002, the Authority's management had advanced over \$1.8 million of public housing funds for development expenses on behalf of the owners of two developments. The advances reduced funds available to operate and maintain the Authority's conventional public housing and other HUD programs and resulted in cash flow problems. Management further violated the ACC by pledging the Authority's full faith and credit for a \$1.3 million letter of credit obtained to fund development activities. In addition, the Authority pledged a \$649,000 certificate

of deposit as collateral for a loan. The Authority also entered into inappropriate development and guarantee agreements that placed assets at further risk. These agreements were extremely one-sided in favor of the investors. Lastly, the Authority did not properly allocate costs attributable to the nonfederal properties.

We recommended that HUD (1) require the Authority to collect and reimburse its public housing program the remaining \$977,000 of the \$1.8 million due from its affiliates or provide support showing the funds were repaid or were the result of accounting errors, (2) determine whether the Authority properly retained and subsequently pledged the \$649,000 certificate of deposit and require the Authority to remit any improperly retained funds to the U.S. Department of the Treasury, and (3) require the Authority to assure that it will no longer pledge assets. In addition, HUD should take administrative sanctions against the Authority's Executive Director and Board of Commissioners. (Report No. 2004-AT-1007)

The **Cookeville, TN**, Housing Authority violated its ACC with HUD by inappropriately guaranteeing the performance of its related nonprofit corporation, Holladay Homes, Inc. Also in violation of its ACC, the Authority advanced nearly \$393,000 to Judge O.K. Holladay Homes, L.P., prior to obtaining approval of its mixed-finance proposal from HUD Headquarters. Further, the Authority incurred questionable costs of \$367,000, \$43,000 for the L.P.'s operating costs and \$324,000 for development costs, in excess of HUD-approved expenditures. The Authority's Executive Director, who was also the Executive Director and Secretary/Treasurer of Holladay Homes, Inc., violated conflict of interest restrictions.

We recommended that HUD require the Authority to furnish evidence of repayment of ineligible costs, provide written evidence of HUD approval to fund cost overruns, provide support for the source of the \$324,000 in excess of the amounts originally authorized by HUD, and obtain written HUD approval prior to any future pledge or encumbrance of Authority assets. In addition, HUD should ensure the Board of Commissioners takes appropriate measures to prevent future conflicts of interest, require the Board to establish adequate controls to monitor Authority interactions with its nonprofit, and ensure that transactions comply with the ACC and other HUD requirements. (Report No. 2004-AT-1004)

The Housing Authority of the City of **Durham, NC**, violated its ACC by inappropriately advancing funds to its related nonprofit and other entities. As of September 30, 2003, the Authority had inappropriately advanced at least \$1.99 million from its conventional public housing general fund. The Authority also violated its Turnkey III Administrative Use Agreement when it inappropriately advanced or failed to require loan repayments totaling at least \$2.8 million. In addition, the Authority inappropriately guaranteed a \$350,000 loan obtained by a limited liability company (LLC) and executed a promissory note for a \$1.5 million line of credit on behalf of another LLC. The audit disclosed that the Authority failed to properly allocate operating costs to other entities. Further, the Authority has not completed several of its development efforts, and as a result, we question its ability to successfully complete its Housing Opportunities for People Everywhere (HOPE VI) Revitalization Plan.

We recommended that the Authority be required to repay over \$3.4 million, obtain release of any currently encumbered assets, establish adequate controls, and develop and implement an acceptable cost allocation plan. We also recommended that HUD continue reviewing all drawdowns of funds until it determines that the Authority is properly administering its programs. HUD should also issue a Notice of Substantial Default in accordance with Section 17(C) of the ACC and take administrative actions against the former Executive Director, interim Executive Director, and Board of Commissioners. Further, HUD should perform a comprehensive review of the Authority's capacity and ensure the Authority takes appropriate measures to address any capacity issues to successfully complete activities in accordance with the HOPE VI Grant Agreement and Revitalization Plan. If the review finds that the Authority does not have the capacity to complete the activities or finds the Authority in serious default of the grant agreement or regulations, HUD should terminate the grant and recapture the remaining \$27.5 million or current balance of unused funds. (Report No. 2004-AT-1012)

The Housing Authority of the City of **Lakeland, FL**, paid at least \$296,000 for ineligible expenses that were not authorized under its HOPE VI grant. This included \$270,000 for legal fees and \$26,000 for financial consultant fees. Also, the Authority failed to obtain timely repayment of \$990,000 it advanced to the lead developer, The Communities Group. As of December 31, 2003, The Communities Group still owed the Authority more than \$704,000, which is at risk of nonpayment. On January 23, 2004, the Authority issued a Notice of Default to The Communities Group for failure to adequately

perform. The Authority assumed the role of lead developer for the remaining phases. However, the Authority has not demonstrated the capacity to serve as lead developer, and as a result, we question whether the Authority has the capacity to complete its HOPE VI Revitalization Plan. Further, the Authority and The Communities Group are currently involved in legal disputes that could affect completion of the remaining phases, and we are concerned as to whether there are sufficient funds to complete all the remaining phases and whether they can be completed in a timely manner. Accordingly, successful completion of the remaining phases of the HOPE VI Revitalization Plan and the remaining \$7.6 million of grant funds are at risk.

We recommended requiring the Authority to repay from nonfederal funds \$296,000 to its HOPE VI grant and closely monitoring the Authority's attempts to recover the remaining \$704,000 from The Communities Group. If the Authority fails to aggressively seek recovery or jeopardizes its legal rights to recover the funds, it should be required to repay the funds to its HOPE VI grant from nonfederal funds. In addition, we recommended performing a comprehensive review of the Authority's capacity to perform its duties under the grant agreement, performing reviews of all drawdowns of HOPE VI funds until HUD determines the Authority has the capacity to successfully complete its activities, and taking appropriate administrative actions against The Communities Group, its principals, and any known related entities. (Report No. 2004-AT-1013)

The **West Palm Beach, FL**, Housing Authority improperly encumbered low-income housing properties as collateral for a \$3 million line of credit. In addition,

the Authority used \$150,000 in Capital Funds to defray expenses associated with housing development activities without HUD approval.

We recommended that the Authority remove the improper encumbrance of the low-income housing assets, reimburse \$150,000 to its contract projects from its Section 8 program excess administrative fees, and establish and implement adequate policies and procedures to ensure the proper use of capital funds and that low-income housing assets are not encumbered without HUD approval. (Report No. 2004-AT-1014)

The City of **Northport, AL**, violated its ACC by improperly advancing nearly \$435,000 of public housing funds for a nonfederal development and inappropriately guaranteeing performance for its tax credit properties. Subsequent repayments of \$375,000 left nearly \$60,000 due to the Authority. However, HUD should recapture over \$78,000 of the \$375,000 in repayments since these funds should have been in the Capital Account previously recaptured by HUD because they were not obligated within a 2-year period. Additionally, the Authority did not allocate costs, including salaries and rental space, attributable to nonprofit activities. As a result, nearly \$435,000 of ineligible advances reduced funds for the Authority's Low-Rent Housing and Capital Fund programs. Further, the Authority's Executive Director signed guaranty agreements and loan obligations without HUD approval. The Executive Director also signed other documents that included inappropriate guarantees by the Authority as a guarantor or key principal and violated the ACC's conflict of interest provision by functioning as the Authority's Executive Director while also serving as president of both general partnerships.

We recommended that HUD require the Authority to (1) obtain repayment of the \$60,000 balance owed from the \$435,000 advanced; (2) recapture \$78,000 of the repayment; (3) ensure reasonable allocations of salaries and other costs, such as use of office space and equipment, and reimburse any ineligible costs attributable to any non-HUD entity; and (4) pursue terminating inequitable guarantees. (Report No. 2004-AT-1009)

The **Opelika, AL**, Housing Authority improperly sold nearly 10 acres of land for \$116,000 and loaned \$130,000 to its affiliated nonprofit, Opelika Housing Development Corporation, without HUD approval. The Authority sold the land to the nonprofit without a current appraisal of the property. The Executive Director also signed agreements stating that the Authority guaranteed third party obligations for a proposed housing development on the land. Additionally, it improperly paid at least \$56,000 of Opelika Housing Development Corporation's costs and over \$91,000 of ineligible housing assistance payments to the nonprofit.

We recommended that the Authority be required to obtain an appraisal of the transferred property and recover any shortfall in the sale price, amend the agreements to limit Authority liability, and recover any ineligible costs. (Report No. 2004-AT-1011)

## ***Section 8 Housing Choice Voucher Program***

An OIG audit of the Housing Authority of the City of **Houston, TX**, found that the Authority paid Section 8 Housing Choice Voucher funds for tenants to live in larger units than the Authority's policy allowed. Testing showed the Authority

overpaid at least \$797,000 to improperly house at least 352 Section 8 tenants between January 2002 and May 2004. Statistical testing identified over \$172,000 in actual ineligible overpayments and a minimum of \$625,000 in projected overpayments. In addition, the Authority could overpay more than \$3.2 million over the next 3.7 years if it does not implement controls to stop the overpayments.

We recommended that HUD require the Authority to comply with the unit size limitations in its administrative plan. We also recommended that HUD require the Authority to

- Repay \$172,000 in identified Section 8 overpayments;
- Review other identified tenants potentially living in units larger than the Authority's policy allows and repay any ineligible Section 8 assistance, which we project to be at least \$625,000; and
- Implement controls to avoid future estimated overpayments of \$3.2 million. (Report No. 2004-FW-1010)

The OIG audited the Housing Choice Voucher program operated by the Housing Authority of **Kansas City, MO**. Authority personnel did not consistently follow HUD rules and regulations in calculating tenant income and rent or verifying tenant information. The results confirmed problems identified in previous reviews. Further, the Housing Authority did not follow an established quality control plan to ensure that it would identify and correct errors in rents and subsidies.

We recommended that HUD ensure the Authority implements an adequate

quality control plan and makes all appropriate corrections to the tenant files, rents, and subsidies. (Report No. 2004-KC-1006)

We completed an audit of the Housing Choice Voucher program operated by the Housing Authority of Maricopa County located in **Phoenix, AZ**. There are significant problems with the Authority's management of its program. The Authority had not established the management or quality control procedures necessary to ensure compliance with requirements relating to rent reasonableness determinations, utility allowance schedules, housing inspections, and determinations of adjusted incomes and tenant rents; made at least \$87,000 in improper housing assistance payments; incorrectly determined assistance payment amounts for an estimated one-third of the 605 case files processed during the period December 1, 2003, through March 24, 2004; and did not have a cost allocation plan to equitably charge the voucher program for its share of administrative costs that benefited all of its operations.

We recommended that HUD monitor the situation and require the Authority to implement effective quality control and review procedures and ensure that improper payments are recovered. Further, since the Authority inappropriately carried out its administrative responsibilities under the voucher program, we considered the administrative fees received during FY 2003 unearned and recommended that HUD require the Authority to repay administrative fees totaling over \$812,000. (Report No. 2004-LA-1007)

The OIG audited the Low-Rent Public Housing and Section 8 Housing Choice Voucher programs of the Housing

Authority of the City of Greeley and the Weld County Housing Authority located in **Greeley, CO**. The City of Greeley, through a consortium agreement with HUD, administers these program activities for both housing authorities.

The City of Greeley needs to improve the administration of its tenant selection and continued occupancy activities. Operating procedures did not ensure that only eligible tenants were being assisted under HUD programs or that tenants were paying or receiving the proper assistance amounts. Management controls over tenant admissions and continued occupancy requirements were not sufficient to ensure that the applicable housing authority properly (1) determined applicant eligibility and rent/assistance payments; (2) implemented the City of Greeley Income Disregard program; (3) implemented the City of Greeley low-rent applicant waiting list procedures; (4) administered tenant repayment agreements; (5) established/collected security deposits from City of Greeley Low-Rent program tenants; and (6) determined the Weld County monthly Section 8 administrative fees.

We recommended that HUD require the housing authorities to establish the necessary management controls over their operations to ensure that they function in accordance with HUD requirements. (Report No. 2004-DE-1003)

### **Public Housing Authority Activities**

An OIG audit of the **Seattle, WA**, Housing Authority's Moving To Work Demonstration Program found that the Authority's program included 17 activities, 8 of which the Authority actually

implemented. The Authority did not carry out two of the eight activities in full compliance with program requirements. For the Simplification of the Process to Project-Based Section 8 Assistance activity, our sample of 11 of 60 housing projects showed the Authority exceeded the authority granted under the Moving to Work Demonstration Agreement for simplifying the process to project-based Section 8 certificates and vouchers. As a result, the Authority cannot provide HUD with assurance that (1) impacts on environmental quality were properly considered, (2) prevailing wages were paid, (3) relocation and real property acquisition requirements were met, and (4) assistance was the minimum needed to provide affordable housing. For the Site-Based Waiting List activity, the Authority did not collect required information on tenant and applicant nationality and language, resulting in racial concentrations as high as 86 percent.

We recommended that HUD make a determination regarding the issues raised and if appropriate, require the Authority to bring the sampled projects into compliance with Moving to Work program requirements or repay over \$1.5 million in housing assistance payments. HUD should also review projects that were not in the audit sample to determine if program requirements were met, taking appropriate action as needed, and require the Authority to take necessary measures to properly implement its affirmative fair housing marketing activity. (Report No. 2004-SE-1004)

In response to a Congressional request to review allegations concerning the Mirasol and Springview HOPE VI projects, the OIG audited the **San Antonio, TX**, Housing Authority. We found that although some construction methods

sounded substandard, in reality they met San Antonio building codes and were consistent with acceptable industry practices in the area. We also found that the Authority had planned to build on a former landfill, but after testing the site, Authority officials decided to change the plans. The Authority has entered into a clean-up agreement with the State of Texas. The Texas Commission on Environmental Quality has investigated the site, and based on tests to date, the residents of the project are not threatened as long as they use City water and do not use ground water. Our audit did disclose that the Authority limited competition when awarding the contract for the Mirasol development. Further, the Authority (1) inappropriately incurred over \$1.8 million in HOPE VI fund expenditures to design part of the Mirasol development on land that had previously been used as a public landfill, (2) cannot support over \$2 million in payroll expenses, and (3) overpaid more than \$10,000 in overhead and profit on change orders.

We recommended that HUD require the Authority to implement procedures to ensure compliance with all environmental requirements for any future grants, ensure proper contracting procedures are followed to ensure full and open competition, reimburse the HOPE VI grant account over \$1.8 million for ineligible payments made with grant funds, and support all payroll expenses charged to the HOPE VI grants or reimburse the grants appropriately. (Report No. 2004-FW-1006)

Based on a citizen complaint, the OIG audited the **Minneapolis, MN**, Public Housing Authority's supplemental police services. We found that supplemental police services contracts were gener-

ally awarded through full and open competition, but contracts were not always executed or renewed on time. Improvements were needed in the administration of supplemental police services and controls over contractor payments. We also found that the Authority failed to (1) adequately support over \$1.1 million paid to off-duty police officers, (2) consistently follow Federal requirements and its procurement policies in the administration of supplemental police services contracts, and (3) consistently implement effective controls to prevent overpayments of more than \$268,000.

We recommended that HUD assure that the Authority reimburses its appropriate HUD program for the inappropriate use of funds and implements controls to correct the weaknesses cited in the report. (Report No. 2004-CH-1003)

The OIG conducted a limited review of the Micro Loan Program that was sponsored by the Buffalo Municipal Housing Authority (PHA), in **Buffalo, NY**, but administered by the Temple Community Development Corporation (Temple). The review disclosed deficiencies pertaining to the PHA's monitoring and Temple's administration of the Micro Loan Program. Specifically, we found that the PHA (1) did not adequately monitor the contract performance of Temple, (2) paid administration fees to Temple that were unreasonable, (3) overpaid Temple for loan-servicing fees, and (4) did not ensure that Temple had an adequate system in place to track the status and repayment of loans. Additionally, Temple did not meet the performance goals set forth in the contractual agreements. Temple was to administer a minimum of 17 loans for residents of the PHA. Originally, \$87,000 was to be loaned no later



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## HUD doesn't want EHA funds back

By LYDIA X. MCCOY

Courier & Press staff writer  
464-7431 or mccoym@courierpress.com

The Evansville Housing Authority is facing the possibility of having to repay \$1.7 million of federal funds. But, officials of the U.S. Department of Housing and Urban Development said Friday they are not ready to exercise their option to take over the agency.

### Says any reimbursement should go to people

The audit report, which was released Thursday by the U.S. Office of the Inspector General, recommended the housing authority come up with documentation for how \$768,517 in federal funds was spent, or pay it back.

The report also said two former executive directors "circumvented" EHA's "management con-

trols" in dealing with funds intended for very low income people.

The federal audit is EHA's second done in the last 2½ years. The first in 2002 ordered the housing authority to reimburse more than \$900,000 in funds that were used to buy and renovate its administration building at 500 Court St.

A HUD official said as far as the reimbursements, the agency doesn't want the money. Instead, he said, money from the reimbursements should be used for what it originally was intended for — to benefit very low-income people and families.

A family whose annual income does not exceed 50 percent of the area's median income is considered very low-income, HUD said.

See EHA on Page A12

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than October 1, 2001. By the end of the contract in December 2002, Temple was only administering and maintaining nine loans totaling \$39,100. Thus, \$47,900 of program funds was not used for its intended purpose.

We recommended that HUD (1) make a determination on the appropriate accounting and usage of the \$47,900 in unexpected grant funds since the grant has been closed out and (2) determine whether administrative fees of over \$38,000 were excessive since Temple failed to meet established performance goals. If the amount is determined to be excessive, the PHA should require Temple to reimburse the excessive amount to the PHA's Capital Funds program from nonfederal funds. In addition, we recommended that HUD instruct the PHA to (1) reimburse the Capital Funds program from nonfederal funds unearned service fees of over \$13,000 paid to Temple and (2) implement adequate management controls and monitoring procedures over Temple to ensure that adequate records of loan repayment activities are created and maintained. (Report No. 2004-NY-1804)

The OIG audited the Housing Authority of the City of Evansville's Housing Assistance Payment Savings Refunding Agreements in **Evansville, IN**. The audit generally substantiated the allegations with regard to the improper use of Federal funds and lack of adherence to HUD's requirements for the Agreements. Specifically, the Authority (1) did not have adequate controls over HUD funds when it drew down nearly \$797,000 in Housing Assistance Payment Savings funds that did not fulfill the Agreements' requirements, (2) lacked adequate documentation to support that more than \$768,000 in Savings funds benefited very low-income persons and families, and (3) disbursed over \$28,000 for ineligible expenses.

We recommended that HUD ensure that the Authority reimburses the control account from nonfederal funds for the ineligible and unsupported expenses cited in the report and implements procedures and controls to ensure that Housing Assistance Payment Savings funds are used appropriately. We also recommended that HUD take appropriate administrative action against the Authority's former Executive Directors who left the Authority in January 2001 and November 2003, respectively. (Report No. 2004-CH-1006)

<http://www.latimes.com/news/local/la-me-house30apr30,1,5078437.story>

## **No. 2 Official at L.A. Housing Authority Fired**

**Lucille Loyce is removed in a probe of alleged financial irregularities. As much as \$1 million in spending is questioned.**

By Patrick McGreevy and Jocelyn Y. Stewart  
Times Staff Writers

April 30, 2004

An executive with the Los Angeles Housing Authority was fired Thursday as a result of an investigation into alleged financial irregularities, and evidence in the case has been turned over to the U.S. attorney's office for possible prosecution, city officials said.

The firing of Assistant Executive Director Lucille Loyce, the No. 2 administrator, came after investigators questioned as much as \$1 million in agency spending, including billings that appeared to have been for personal expenses, according to sources familiar with the probe.

Deputy Mayor Renata Simril said the dismissal came three weeks after the city got a complaint from an employee alleging misuse of agency resources.

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### ***Public Housing Management/Officials***

The OIG previously completed a review of the procurement activities of the Housing Authority of the City of Los Angeles, CA, including ongoing monitoring and management of contracts as they relate to the Authority's Resident Management Corporations/Resident Advisory Councils (RMC). The review was initiated in response to several citizen complaints alleging irregularities with the Authority's RMCs and related contracting activities. Legal complications have precluded the issuance of a final audit report describing the results of this review. However, as part of the review, we

also identified problems related to the Authority's management of its legal affairs, including failure to advise HUD of significant legal matters. Specifically, it incurred outside legal service fees and entered into a \$1.8 million litigation settlement agreement to resolve an employee lawsuit without required prior HUD notification and approval. It also incurred unnecessary and ineligible attorney fees of over \$119,000 on behalf of a consultant and over \$47,000 in unnecessary attorney fees to monitor information requests and activities of the OIG during our review.

An executive with the Authority was fired as a result of our review.

# Investigations

During this reporting period, the OIG opened 371 investigation cases and closed 378 cases in the Public and Indian Housing program area. Judicial action taken on these cases during the period included \$4,440,517 in investigative recoveries, \$16,963,306 in funds put to better use, 470 indictments/informations, 189 convictions/pleas/pretrial diversions, 281 administrative actions, 3 civil actions, and 828 arrests.

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

## ***PHA Management and Program Officials/ Employees***

In **Springfield, MA**, OIG, the Federal Bureau of Investigation (FBI), and the Internal Revenue Service (IRS) Criminal Investigation Division (CID) executed 13 Federal arrest warrants for Raymond Asselin, Sr., former Executive Director of the Springfield Housing Authority; Arthur Sotirion, the Authority's former Assistant Executive Director of Maintenance; and Peter Davis, John Spano, and Paul Bannick, three contractors who did business with the Authority. Additionally, eight Asselin family members were arrested: Janet Asselin, Raymond's wife; their daughter, Maria Serrazina; their son Raymond Jr.; their son Christopher, who is a Massachusetts State representative, and his wife Merylina; their son, James Asselin; and their son Joseph and his wife Melinda.

These individuals were charged in Springfield, MA, in Federal Court for the District of Massachusetts, in a 100-count Federal indictment. The violations include conspiracy to commit Racketeering Influenced Corrupt Organizations (RICO) crimes, RICO (whereby the indictment identifies the Authority as the criminal enterprise for the RICO violation), conspiracy to commit bribery, bribery, conspiracy to commit theft, extortion, conspiracy to commit mail fraud, money laundering, and obstruction of justice. The investigation revealed over \$1.6 million in alleged kickbacks involving Authority vendors and employees and their families, as well as Authority funds and employees being used to maintain and rehabilitate the personal residences of Raymond Asselin, Sr., and members of his family.

In addition, \$3,448,600 in cash and assets are intended to be seized, including several properties owned by Raymond Asselin, Sr., and family members. A \$1.5 million home located in Chatham, MA, on Cape Cod is included among the assets intended to be seized, as well as a boat valued at \$40,000 and a vehicle.

Inspector General Kenneth Donohue attended the press conference following the arrests, along with U.S. Attorney Michael Sullivan, OIG Regional Inspector General for Audit Barry Savill, OIG Special Agent in Charge Peter Emerzian, and representatives from the FBI and the IRS. The indictment and arrests are the result of a joint ongoing investigation being conducted by the OIG, FBI, and IRS-CID. The HUD Regional Office of Public Housing and the Office of Counsel worked closely with the OIG to minimize the loss to HUD as the fraud schemes were discovered.

# GALL IN THE FAMILY

## Springfield pols, kin face charges in \$1M city scam

By J.M. LAWRENCE

Springfield's public housing director for three decades, his state rep son and 11 others were indicted yesterday on federal charges of milking the housing authority for \$1 million in lavish home improvements, campaign costs and cash kickbacks.

Raymond B. Asselin, 71, and his sidekick assistant Arthur Sotirion, 55, skimmed \$2,200 a month in quarters from the tenants' washers and squeezed housing authority contractors for private work, according to a 127-page racketeering indictment unsealed yesterday. "The residents are stunned," said Carlton Standen, the new housing authority chairman appointed after Asselin resigned last year.

Nine members of the Asselin family were arrested yesterday and pleaded not guilty to racketeering, mail fraud and witness tampering in federal court in Springfield.

Asselin's son, two-time Rep. Christopher Asselin (D-East Springfield) got campaign mailings and signs from housing authority contractors, along with a heated in-ground swimming pool and a \$312 water cooler for his campaign office, prosecutors claim.

The 35-year-old legislator was released on \$50,000 bond yesterday. His office did not return calls for comment. Asselin is on the Committee

for Housing and Urban Development.

According to Standen, the housing authority received clean audits from State Auditor A. Joseph DeNucci during Ray Asselin's long tenure while the director allegedly diverted funds to buy a new oak floor for his \$1.1 million Cape Cod home. The authority hired its own auditor last year.

DeNucci could not be reached for comment late yesterday.

Prosecutors claim he tried to hide \$240,000 in cash in a brief case stashed in his daughter Maria Serrazina's attic in Ludlow and told witnesses to lie to a grand jury. "If the ship goes down, we all go down," he allegedly told one former employee.

The investigation was triggered by documents uncovered during an investigation into son James W. Asselin's spending as a city manager for federal business loans in Springfield. Asselin, who ran up \$170,000 in travel expenses in three years, pleaded guilty to fraud and was sentenced to 41 months.

Also indicted yesterday were Ray's wife Janet K. Asselin, 68; Christopher Asselin's wife Merylina Asselin, 33; Asselin sons James W., 44, Raymond Jr., 42, Joseph T., 40; and daughter Maria (Asselin) Serrazina, 39; contractors Peter Davis, 68, of Newburyport, John Spano, 48, and Paul Bannick, 76, both of West Springfield.

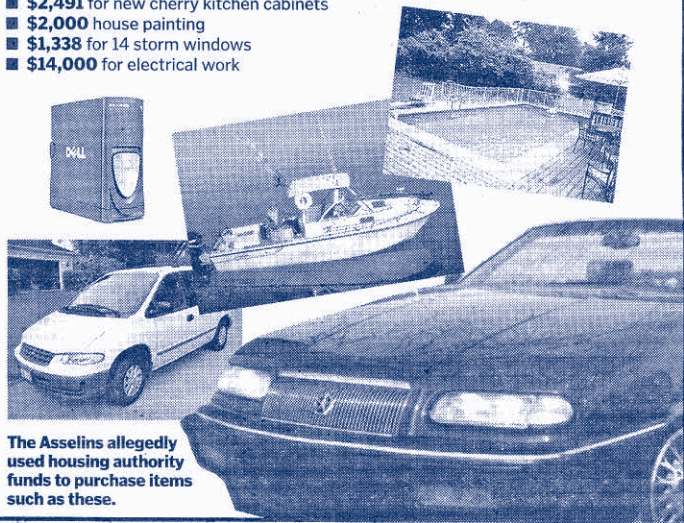
## Oodles of booty

Federal prosecutors claim the Asselin family used Springfield Housing Authority funds over the last decade for items including:

- \$14,000 partial payment for 23-foot boat
- \$15,797 for 1,050 square feet of red oak flooring for vacation home in Chatham
- \$717.90 for paper plates, cups and napkins for Cape home
- \$8,314 new air conditioning system for Raymond Sr.
- \$109 for scallop edging for Raymond Asselin, Sr.'s home
- \$568 for wallpaper and custom blinds for Raymond Sr.
- \$1,135 for three aluminum folding picnic tables
- \$4,100 for dishwasher, refrigerator and stove
- \$3,390 worth of granite countertop for Raymond Sr.
- \$52,500 for Old Farm Road property in Amherst for Joseph and Merylina Asselin
- \$24,000 for lumber and framing of new home for Joseph and Merylina
- \$7,690 worth of cherry kitchen cabinets, \$6,003 for Corian countertops; \$2,518 worth of loam; \$1,094 for chandeliers; and \$4,150 outdoor shed for Joseph and Merylina
- \$20,500 for 1996 Plymouth Voyager Van for James Asselin
- \$1,105 for excise taxes for new van
- \$3,000 for insurance on van
- \$482 for new tires on Janet Asselin's Chrysler LeBaron
- \$792 for new deck for James
- \$99 for cedar glider
- Campaign expenses for State Rep. Christopher Asselin including mailings, catering, a water cooler and a \$7,122 copier.
- \$3,139 for Dell computer, highback leather chair and table for his office
- \$10,200 for in-ground swimming pool and slide for Christopher's home
- \$3,502 for washer and dryer, Big E tickets and digital camera for Christopher
- \$2,491 for new cherry kitchen cabinets
- \$2,000 house painting
- \$1,338 for 14 storm windows
- \$14,000 for electrical work



MERYLINA AND CHRISTOPHER ASSELIN



The Asselins allegedly used housing authority funds to purchase items such as these.

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In **Pittsburgh, PA**, in U.S. District Court for the Western District of Pennsylvania, defendant Patty Braun, a former accountant at the Clarion County Housing Authority, pled guilty to a one-count information charging her with theft from a program receiving Federal funds. Braun admitted that, over a 10-year period, she wrote at least 139 fraudulent checks to herself totaling more than \$140,000, which she covered up by altering the electronic check register files to indicate that the checks were made payable to legitimate Authority vendors. Braun's scheme was discovered after the Authority began receiving complaints from vendors who had not been paid. Even after an exhaustive review of Authority records by the OIG, FBI, and Pennsylvania State Police, the actual amount of the embezzlement may never be completely known, as the banks with whom the Authority did business only maintained records that dated back 10 years, whereas Braun was employed at the Authority for more than 15 years.

In **Deerfield Beach, FL**, in Broward County Circuit Court, defendant Fumiko Jackson, a former Section 8 administrator for the Deerfield Beach Housing Authority, pled guilty to organized fraud and was sentenced to 2 years house arrest and 13 years probation and was ordered to pay \$162,500 in restitution to the Authority. Jackson defrauded the Authority of more than \$125,000 in rental subsidies from June 1993 through February 1999 by designating her 8-year-old nephew a "landlord" of four properties, depositing the rental subsidies in his bank account, and ultimately transferring the money to herself.

In **Newark, NJ**, in Federal Court for the District of New Jersey, defendant Miladys Gomez, a former assistant

administrator for the Perth Amboy Housing Authority, was charged with four counts of embezzling Federal funds. Gomez was responsible for the printing and issuing of housing subsidy checks to landlords on the behalf of Section 8 recipients. She used her access to the checks to steal \$407,603 in Section 8 funds. Further legal action against Gomez is pending.

In **Beaumont, TX**, in Federal Court for the Eastern District of Texas, defendant Jimmie L. Woodard, former Accountant at the Diboll Housing Authority, was sentenced to 5 months confinement and 2 years supervised release, fined \$10,000, and ordered to pay \$78,000 in restitution for theft from a program receiving Federal funds. An OIG investigation found that Woodard embezzled over \$78,000 by failing to deduct Federal withholding taxes from her own payroll checks and making personal loan payments to a credit union for over 5 years.

In **Fort Lauderdale, FL**, in Federal Court for the Southern District of Florida, defendants Genevieve Smith, Constance Devoe-Drayton, and Chiquita Blue pled guilty. Genevieve Smith was the Section 8 coordinator for the Pompano Beach Housing Authority. She took bribes for Section 8 vouchers and received a voucher for herself under a false name. Smith further assisted two other defendants in stealing \$16,000 in housing assistance payment checks by posing as fictitious tenants. Constance Devoe-Drayton conspired with Smith. Devoe-Drayton operated a beauty salon where she solicited people to pay between \$500 and \$1,500 for the vouchers. Chiquita Blue is charged with taking \$1,000 for a fraudulent Section 8 vouchers. The pleas resulted from a 30-count indictment, which charged employees of the Pompano Beach Housing

Authority with conspiring to steal funds. Smith and Devoe-Drayton pled guilty to one count each of racketeering and conspiracy. Blue pled guilty to one count of extortion.

Defendant Valerie Campbell was sentenced to 8 months incarceration and 36 months supervised release and was ordered to pay \$35,960 in restitution. Campbell previously pled guilty to one count of conspiracy after being charged with stealing funds from the Authority. Campbell, a Section 8 coordinator at the Authority, had the Authority to issue \$21,000 in checks to a codefendant, the father of one of her children, for fictitious tenants. Other checks were issued to a family friend for more than \$25,000 for rent subsidies to people who did not live in Section 8 housing.

In **Tahlequah, OK**, in State Court for Cherokee County, OK, defendant Vickie Crook was indicted for embezzlement. This investigation began after OIG received allegations that Crook was involved in a scheme to embezzle funds from the Stilwell Housing Authority. In her capacity as Executive Director of the Authority, Crook allegedly collected cash rental proceeds from tenants and kept a portion for herself. The embezzled rental proceeds totaled nearly \$40,000.

In **Oklahoma City, OK**, in Federal Court for the Western District of Oklahoma, defendant Gwendolyn Terrapin was sentenced to 6 months confinement and 5 years probation and was ordered to pay \$24,508 in restitution. This investigation began after OIG received allegations that Terrapin was embezzling HUD funds from the Otoe-Missouria Indian Housing Authority while she was Executive Director. Terrapin admitted that she used the Housing Authority's credit card to make

personal purchases and pay personal bills. She then authorized the Authority to pay the personal credit card charges. HUD's loss due to the fraud was \$23,683.

In **Albuquerque, NM**, in U.S. District Court for the District of New Mexico, defendants Jerry Nieto and Howard Tenorio were each sentenced to 5 years probation. Nieto was ordered to pay \$7,200 in restitution, while Tenorio was ordered to pay \$10,500. The defendants, both of whom are former board members of the Santo Domingo Tribal Housing Authority, previously pled guilty to one count of embezzlement and theft from Indian Tribal Organizations and aiding and abetting. They were charged in September 2003, along with former Authority Executive Director Joe R. Calabaza and former board member Lorenzo Coriz, with embezzling over \$200,000 from the Authority. Calabaza and Coriz are still awaiting sentencing. Funds were embezzled through the use of an unauthorized bank account at Century Bank in Santa Fe, NM, with Authority funds. Several Certificates of Deposit belonging to the Authority were used to purchase three cashiers' checks totaling \$68,872. The three checks were used as the initial deposit into the unauthorized bank account. Calabaza transferred additional funds from other Authority accounts. He cashed numerous unauthorized checks from the Authority written out to him.

### ***Investigations Involving Public Officials***

In **San Juan, PR**, in Federal Court for the District of Puerto Rico, defendant Jose A. Acevedo-Martinez was indicted on three counts of bribery concerning HUD funds from the Drug Elimination Grant Program, three counts of extortion

under color of official right, and two counts of tampering with a witness. Acevedo was the Administrator for the Puerto Rican government's Mental Health and Anti-Addiction Services Administration from July 1999 through December 2000. Acevedo used his position to influence contracts with the Puerto Rican Housing Authority, which were paid with the Drug Elimination Grant Program funds. He allegedly committed extortion by demanding and/or receiving money and services from contractors who were seeking to obtain contracts with the Administration. Acevedo solicited monies and services in excess of \$120,000 from private contractors.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, the U.S. Attorney's Office unsealed a 22-count indictment charging defendant Emmanuel Onunwor, the Mayor of the City of East Cleveland, with violating Federal RICO Act conspiracy, mail fraud, public corruption, witness tampering, and tax laws. Onunwor was arrested on the same day. The indictment charged Onunwor with conspiring with others to conduct the affairs of East Cleveland, OH, as a racketeering enterprise while he held various positions in the East Cleveland government from 1990 to the present. He is also charged with defrauding the residents and City of East Cleveland and the State of Ohio of their right to his honest services as a public official, extorting payoffs from vendors and contractors in violation of the Hobbs Act, witness tampering, and filing false tax returns for the years 1998 through 2002.

Specifically, the indictment alleged that Onunwor solicited and received numerous bribes, kickbacks, and payoffs over his career as a City official, often funneled through "intermediaries" and

concealed from regulators and law enforcement officials. Specific payoffs allegedly occurred while Onunwor served in his current position as Mayor as well as while he served as President of the City Council and Director of Community Development, the City office which disburses HUD Community Planning and Development funds. According to the indictment, Onunwor also filed false disclosure forms with the Ohio Ethics Commission to conceal such payments from regulators and the public, and conspired to obstruct justice through both witness tampering and failure to turn over documents that were subpoenaed by a Federal grand jury. Additional false disclosure allegations included Onunwor's purported failure to report to the IRS as well as the Federal Bankruptcy Court that he had collected housing assistance payments from the Cuyahoga Metropolitan Housing Authority as a Section 8 landlord.

### ***Identity Theft***

In **Lancaster, PA**, in the Commonwealth of Pennsylvania District Court for Lancaster County, a criminal complaint was filed charging defendant Sandra Derr with one count of theft by deception and one count of forgery. Allegedly, Derr fraudulently obtained \$39,879 in Section 8 rental assistance from the Lancaster Housing and Redevelopment Agency from 1992 to 2002. Derr claimed she was leasing her assisted property from her half brother, Robert Weatherholtz, when in fact she owned the property. Derr allegedly signed Weatherholtz's name on a lease agreement, thus enabling her to collect rental assistance from the Agency and also forged her half brother's name and Social Security number on an IRS form. This investigation was initiated following a referral from the District

Attorney's Office for Lancaster County, after it received a complaint from the Agency. The Agency discovered the fraud after the IRS contacted Weatherholtz requiring payment of taxes on lease payments received from the Agency.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Pamela Phillips, a Section 8 tenant, was indicted on nine counts of misuse of a Social Security number. Phillips allegedly used another person's identity to obtain motor vehicle registrations, vehicles, titles to vehicles, and drivers' license identification cards between 1999 and 2002. At the same time, Phillips resided in the same unit as her landlord, Aubrey Benjamin, and failed to disclose his presence and income to the Cuyahoga Metropolitan Housing Authority.

### ***Check Fraud Through Counterfeiting Scheme***

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendants Donte Wade, Tina Cannon, and Gregory Carr were sentenced for their participation in a counterfeit check ring, which included false and forged checks from the Cuyahoga Metropolitan Housing Authority. Wade was sentenced to 21 months incarceration, 36 months supervised release, and \$49,600 in restitution. Cannon was sentenced to 24 months probation and \$3,507 in restitution. Carr was sentenced to 12 months incarceration, 36 months probation, and \$6,955 in restitution.

The defendants were previously charged in a 14-person indictment for their role in a conspiracy to defraud the Authority, local banks, and merchants as part of a loosely connected ring formed to

counterfeit payroll and business checks. The investigation found that Vaden Anderson, who had recently been released from State prison for attempting to cash a counterfeit check using a false identity, sought others whom he used as "recruiters," who in turn would seek out individuals who were willing to provide their identification and in some cases their own bank accounts to deposit counterfeit checks which Anderson made on a home computer. Anderson, the recruiters, and the check "passers" would then split the proceeds, with Anderson receiving the lion's share of the proceeds. Counterfeit check amounts ranged from as little as \$300 to more than \$16,000. Loss estimates exceeded \$49,500. The other remaining defendants, Raysheen Sharp, Preston Sales, Sharon Smith, Anthony Norman, Leona McDonald, Keona McDonald, Tina McDonald, Sharita Clayton, Sylvia Kind, and Lekita Hall, all previously pled guilty and are awaiting sentencing.

### ***Narcotics Conspiracy***

In **Chicago, IL**, Melvin Herbert, James Stewart, LaSean Ford, Antoine McDaniels, Deon Holloway, Delarris Reynolds, Willie Turner, Gregory Hampton, and Juanell Copeland, fugitive felons wanted on outstanding warrants, were arrested. These individuals were fugitives from a May 2004 law enforcement round-up during which 33 members of the *Black Disciples* street gang were arrested. The arrests were the result of a 185-page Federal criminal complaint wherein 47 members of the *Black Disciples* street gang were charged with participating in a 15-year, multimillion dollar narcotics conspiracy with the intent to possess and distribute crack cocaine and heroin. This complaint documents the intense investi-

gative efforts put forth by multiple law enforcement agencies in an attempt to dismantle the narcotics distribution network of the *Black Disciples* at the Randolph Towers public housing development and the west side of Chicago. The complaint describes how Marvel Thompson, a gang leader, purchased a multiunit, Section 8 subsidized building. This structure was purportedly purchased by a strawbuyer within the *Black Disciples* in order to launder drug proceeds from the gang. Following the purchase, the building is alleged to have been the headquarters of its apartment building management company for the administration of dozens of Section 8 properties. It was at these locations that law enforcement seized \$300,000 in cash, radio transmitters, gang paraphernalia, and boxes of records containing Chicago Housing Authority housing assistance payments contracts, leases, and other tenant/rental information.

### ***The Office of Inspector General's Enforcement Actions in Support of the Rental Housing Integrity Improvement Program***

The Office of Investigation (OI) supported the Rental Housing Integrity Improvement Program throughout the year by initiating many investigations of tenant voucher fraud in public and assisted living housing units. The OIG implemented a year-end initiative where OI regional offices around the country worked in a cooperative arrangement with many other Federal, State, and municipal agencies to target housing crime, combat voucher fraud, and ferret out fugitive felons living in public housing. Listed below are just a few of the many successful operations.

During September, a joint task force, also known as Operation HEAT (Housing Enforcement Action Team), arrested a total of 141 individuals in **New York City, NY**. Operation HEAT consists of HUD-OIG Special Agents and Forensic Auditors, Investigators of the New York City Department of Investigation, and the United States Marshal's Regional Fugitive Task Force. The first part of the operation consisted of Federal prosecutions of those involved in fraud of the Section 8 Housing Subsidy program. The New York City Department of Housing Preservation and Development and the New York City Housing Authority administered the Section 8 housing subsidy. Concurrently an ongoing joint effort with the Regional Fugitive Task Force occurred in which HUD-OIG Special Agents worked with the task force to remove dangerous fugitive felons from New York City's housing.

Thirty-seven individuals were charged by the U.S. Attorney's Office, Southern District of New York, and one remains a fugitive. Of these 37 individuals, 29 were charged in separate Federal indictments while 8 were charged with Federal complaints. Those arrested are alleged to have fraudulently obtained Federal housing subsidies in the amount of \$786,000. In addition, there were 105 fugitive felons arrested within government-subsidized apartments. All of the fugitives were arrested within the five boroughs of New York City except for two arrested in Yonkers, NY. The combined efforts of the Task Force will allow benefits to be distributed to deserving tenants within the community where the average time on the waiting list is 11 years.

**In Pittsburgh, PA**, on September 28, 2004, a 3-month investigation culminated in the issuance and execution of arrest

warrants for 25 rental assistance and public housing program participants in Pittsburgh. The investigation was based upon a comparative analysis of wages reported by program participants in both Section 8 and Public Housing programs administered by the Allegheny County Housing Authority versus “Upfront Income Verification” data supplied by the Pennsylvania Department of Labor and Industry, which indicated that specific Section 8 and Public Housing tenants failed to report employment and income to the Authority.



Police arrest suspect in Allegheny County, Pittsburgh.

Twenty-four persons, including 21 Section 8 recipients and three Public Housing residents, who hailed from various parts of Allegheny County, were arrested on State charges of felony theft by deception. One landlord was also arrested for collecting rent subsidies for a Section 8 tenant who had died 6 months prior. This enforcement operation received extensive print and television media coverage, which resulted in the Authority receiving numerous phone calls from other Authority Section 8 and Public Housing assistance recipients who voluntarily wanted to confess income they had previously failed to report. OIG has

also received requests from other housing authorities, requesting that similar endeavors be undertaken in their respective locales. This was an OIG-led investigation, in which the FBI, Authority Police, and Allegheny County Police also participated.

In early July 2004, IG Kenneth Donohue traveled to **Worcester, MA**, to meet with the Executive Director of the Worcester Housing Authority, the Worcester Police Chief, and the Worcester County District Attorney’s Office to get their commitment to participate in the National HUD-OIG Section 8 Fraud Initiative.

HUD-OIG had been working with the Worcester, MA, Housing Authority for many years in an effort to assure that eligible tenants are safe and that they are reporting all sources of income and all those residing with them. The Authority has been proactive in reporting to HUD-OIG those tenants who may not be reporting all sources of income and/or not reporting all individuals living with them.

As a result of IG Donohue’s visit, HUD-OIG, the Authority, and the Massachusetts Department of Revenue (DOR) signed a memorandum of understanding to match State wage data with information provided by the Authority. HUD-OIG will provide the State wage data to the Authority for it to match income claimed by tenants with DOR wage data. This was necessary because HUD and the DOR had not signed the Upfront Income Verification Agreement.

In concert with ferreting out tenant fraud, HUD-OIG has initiated a local fugitive felon initiative. The names of the heads of households of Authority Public

Housing and Section 8 tenants were provided to the Massachusetts State Police Violent Fugitive Apprehension Section (MSP - VFAS).

Since IG Donohue's visit, approximately 70 heads of household have been determined to have warrants on them. HUD-OIG, the MSP - VFAS, the Worcester Police Department, and the Authority's Public Safety Department have conducted enforcement operations on September 14, 21, and 28 and have arrested 44 wanted individuals; 27 were Section 8 voucher tenants, 13 were Public Housing tenants, 1 was a project-based Section 8 tenant, and 3 were unauthorized Public Housing residents. They were wanted for State charges including assault, identity theft, narcotics violations, public assistance fraud, and motor vehicle violations. Lease action is anticipated against the tenants arrested. Additional enforcement operations are anticipated.

In **Cleveland, OH**, on August 31, 2004, the culmination of "Operation Overworked" resulted in the arrest of 13 Cuyahoga Metropolitan Housing Authority maintenance workers. Those arrested, including supervisors Gerald Ford and Lenard McClain, will face potential charges of bribery, complicity, theft in office, tampering with records, forgery, and misuse of a credit card.

The operation was a 9-month joint investigative effort between the HUD-OIG and the Authority's Police Department, Internal Affairs Division. The investigation revealed payroll and overtime fraud; specifically, employees being paid for working on personal residences during regular work hours, stealing Authority materials, and using agency gas credit cards for personal use. The amount of loss assigned to the employees was

\$20,000. The results of the initiative were 9 convicted tenants, 5 convicted landlords, 13 housing authority employees under indictment, and \$270,000 in restitution from landlords and tenants.

In **Indianapolis, IN**, the HUD-OIG worked in a collaborative effort with Indianapolis authorities. Specifically, the initiatives occurred in Marion County, IN, and were focused on all levels of the Indianapolis Housing Authority. To this point, the following results have been achieved: 17 tenants under indictment, 1 Authority employee under indictment, and 3 convicted tenants. Loss to the government due to tenant fraud was \$50,000.

One subject, who once worked for the Iranian government on nuclear programs, is wanted on an accusation that he fraudulently obtained subsidized housing from the Indianapolis Housing Authority. This individual, Hooshang Hajimoshammadi, 64, a resident alien who worked part-time as an instructor at Ivy Tech State College, faces charges of welfare fraud and theft. He claimed to be needy and disabled when he applied for Federal housing assistance. However, authorities learned he had the job at Ivy Tech State College and was receiving Social Security benefits and, therefore, was not eligible for the housing money.

Another subject is suspected of bilking the Indianapolis Housing Authority of housing assistance funds by receiving subsidies in Indianapolis, IN, and Miami, FL.

In **Dallas, TX**, in an early morning raid, 19 individuals were arrested for providing false statements in connection with underreporting their income to the Dallas County Housing Authority. The Dallas grand jury indicted a total of 32

persons. Loss to the government was over \$300,000. The investigation revealed that some of those arrested had been defrauding the government for more than 2 years.

In **Kansas City, MO**, the Kansas City Regional Office of Investigation conducted a Section 8 Warrant Sweep at the Cloverleaf Apartments. Cloverleaf is a project-based Section 8 development with 180 assisted units. In preparation for the initiative, law enforcement identified 57 occupants with outstanding warrants and 121 potential fraud cases.

As a result of the initiative, 29 individuals were arrested, including five parties charged with fraud and one individual charged with auto theft. Pursuant to the arrests, crack cocaine, marijuana, and one stolen automobile were

recovered. The 29 individuals accounted for 72 outstanding State and local arrest warrants. Concurrent with the arrests, 37 “knock and talks” were initiated in furtherance of ongoing fraud investigations. Both the Deputy Inspector General Michael Stephens and Special Agent in Charge Rebecca Kiser addressed press issues brought to them by the area newspaper and television stations during the sweep. Tenant feedback and television coverage provided positive information relating to the operation.

Participating law enforcement agencies included the Kansas City, MO, Police Department, State of Missouri Division of Social and Rehabilitative Services, Grandview, MO, Police Department, Raytown, Missouri Police Department, Missouri State Highway Patrol, U.S. Department of Agriculture Office of Inspector General, Jackson County Sheriff’s Department, Missouri Probation and Parole, Kansas City Southern Railroad Police, Jackson County Prosecuting Attorney’s Office, and the Division of Family Services. Representatives from the Blue Springs, MO, Police Department, Lenexa, Kansas Police Department, Independence, MO, Police Department, and the Omaha, NE, Housing Authority Department of Public Safety participated as observers in attempts to replicate this initiative.



Agent Karen Gleich briefing in Kansas City, MO.





## Chapter 4: HUD's Multifamily Housing Programs

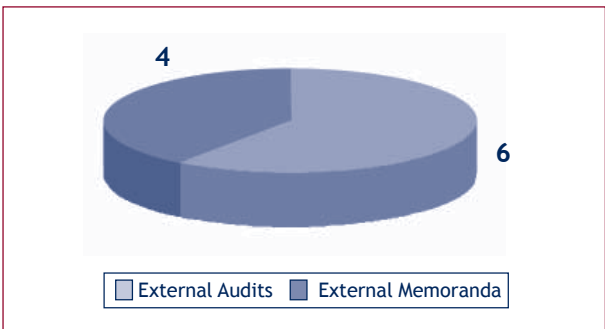
In addition to multifamily housing developments with the U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation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

## Audits

During this reporting period, the Office of Inspector General (OIG) issued 10 reports in the Multifamily Housing Program area: six external audits, and four external memoranda. These reports disclosed nearly \$17.2 million in questioned costs and over \$906,000 in recommendations that funds be put to better use.

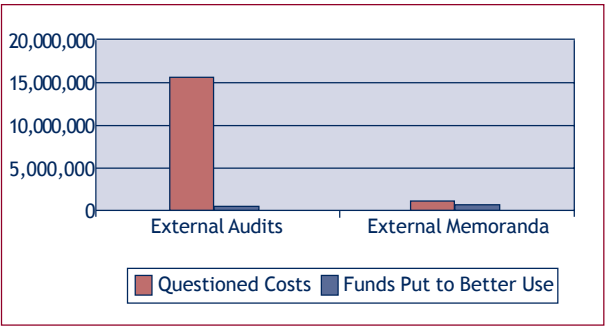
Over the past 6 months, we audited owner and management agent operations at multifamily projects, a lender participating in the Multifamily Accelerated

**Chart 4.1: Multifamily Housing Reports Issued**



The cost figures in the charts above represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

**Chart 4.2: Multifamily Housing Dollars**



Processing Program, and a Section 8 contract administrator. The results of our more significant audits are described below.

## Owner and Management Agent Operations

The OIG audit of Mays Property Management, Inc., in Little Rock, AR, determined that Mays officials disbursed project-operating funds for items that violated project regulatory agreements with HUD. They charged management agent expenses to projects, paid for unsupported expenditures, diverted project funds to Mays and a property owner, and overcharged expenses to projects. In addition, Mays split its management fee with a project owner and transferred project funds to other projects having cash-flow problems. As a result, Mays' officials misspent over \$979,000 of project-operating funds and made unauthorized advances of over \$20,000 from five projects to other projects.

We recommended that HUD require Mays to (1) repay ineligible payments and (2) furnish supporting documentation or

repay the funds for unsupported payments. If Mays does not repay amounts officials misspent, we recommended that HUD impose administrative sanctions against the former principals of Mays. (Report No. 2004-FW-1009)

The OIG audit of United Properties Management, Inc., a Multifamily management agent in **Little Rock, AR**, determined that United officials disbursed project funds for items that violated project regulatory agreements with HUD. Officials used project funds to pay United's supervisory expenses, unsupported accounting costs, and a property owner's debt. In addition, an official made erroneous payments, loaned money to a site manager, and made unsupported payments. As a result, United officials misspent nearly \$446,000.

We recommended that HUD require United's owners to (1) repay the projects for ineligible payments and (2) furnish supporting documents or repay the projects for unsupported payments. If the owners do not pay back amounts they misspent, we recommended that HUD impose administrative sanctions against them. (Report No. 2004-FW-1008)

In response to a request from HUD's Pittsburgh Field Office, Office of Multifamily Housing, the OIG audited Lambeth Apartments in **Pittsburgh, PA**. Episcopal Residences, Inc. (Owners) owns the property. We found the Owners did not manage the property in accordance with the terms of the regulatory agreement, housing assistance payments contract, and other applicable HUD rules and regulations. Specifically, the Owners distributed property funds without HUD's approval, used project funds to pay for unauthorized structural changes to the property, and made payments for ineligible and unsupported

miscellaneous expenses. Further, the Owners did not properly manage the property to maximize rental income or maintain proper documentation to support the housing assistance payments it received from HUD. These deficiencies resulted in the Owners using project funds to pay for more than \$209,000 of ineligible and nearly \$259,000 of unsupported expenditures. In addition, the Owners received over \$284,000 of unsupported housing assistance payments from HUD.

We also estimate that the property lost over \$280,000 in potential income due to the unauthorized changes in how the property was used and managed. Therefore, Lambeth Apartments may have lost \$748,000 in project funds that could have been used to pay for reasonable and necessary operating expenses and needed repairs. Further, these actions placed Lambeth Apartments in a nonsurplus cash position and limited the availability of affordable units to eligible low-income households.

We recommended that HUD take appropriate administrative action against the Owners of the project and recover ineligible and unsupported payments of over \$752,000 from Lambeth Apartments. (Report No. 2004-PH-1010)

An OIG review of HAPI Management, Incorporated, **Beverly Hills, CA**, found that HAPI inappropriately used over \$409,000 from three projects it managed, Ashland Manor, King Towers, and South Park, between January 1998 and December 2002. The inappropriate expenses included over \$130,000 for disbursements to HAPI Management and more than \$279,000 for unsupported expenses. The projects were in a nonsurplus cash position and/or not in compliance with all outstanding notices of requirements for

proper maintenance when the funds were used. As a result, fewer funds were available for the projects' normal operations. The projects deteriorated, causing residents to live in substandard conditions that were hazardous to their health and safety.

Additionally, HAPI Management failed to disclose to HUD that Ashland Manor and King Towers funds were used to repay advances to HAPI Management and an owner distribution. Project officials for Ashland Manor and King Towers certified in fiscal year (FY) 1999 audited financial statements that no unauthorized distributions of project revenue were made. The repayment of advances to HAPI and the owner distribution while the projects were in a nonsurplus cash position are considered unauthorized distributions.

We recommended that HUD ensure that HAPI Management, Incorporated, and/or Ashland Manor Apartments, King Towers, and South Park Apartments Limited Partnerships (1) reimburse a reserve capital account over \$130,000 for the ineligible payments and (2) document the \$279,000 of unsupported payments or repay the project if the payments can not be supported. (Memorandum No. 2004-CH-1802)

An OIG review of Somerset Point Nursing Home in **Shaker Heights, OH**, disclosed that the Somerset Point Limited Partnership and/or Associated Motor Inns inappropriately used more than \$329,000 of project funds between December 1998 and October 2003. The inappropriate expenses included over \$160,000 to repay advances made by SOMSOL, Inc., the general partner; nearly \$94,000 in excessive management fees paid to

Associated Motor Inns; and more than \$75,000 in legal fees unrelated to the project's operations. The project was in a nonsurplus cash position and/or had defaulted on its Federal Housing Administration (FHA)-insured mortgage when the funds were used. As a result, fewer funds were available to fund the project's normal operations and debt service.

We recommended that HUD ensure that the Somerset Point Limited Partnership and/or Associated Motor Inns reimburse HUD for the inappropriate payments cited in this report, and pursue double damages remedies if the Limited Partnership and/or Associated Motor Inns do not reimburse HUD for the inappropriate payments. We also recommended that HUD pursue administrative sanctions against the Limited Partnership and/or Associated Motor Inns and impose civil money penalties against the Limited Partnership and/or Associated Motor Inns for the inappropriate payments made while the project was in a nonsurplus cash position and/or in default on its FHA-insured mortgage. (Report No. 2004-CH-1803)

An OIG audit of the Mustang Nursing Center in **Mustang, OK**, owned by Mustang Nursing Center, Inc., found that Nursing Center officials violated their regulatory agreement with HUD by using project operating funds to pay owners' debts, repay owner's loans, make owner's car lease payments, and pay for the architectural design of another living center. In addition, Nursing Center officials overpaid and made unsupported payments to the management agent. As a result, the Nursing Center misused nearly \$172,000.

We recommended that HUD require repayment of all misused funds and sanction the owners and management agent of Mustang Nursing Center, Inc. (Report No. 2004-FW-1005)

The OIG reviewed Legacy Management and Development Corporation in **Edina, MN**, and found it inappropriately used over \$305,000 from six projects under its management. The inappropriate payments included over \$70,000 in double-billings, over \$34,000 in overcharges, nearly \$3,000 for work claimed while employees were absent, and almost \$198,000 in charges for nonitemized maintenance tasks.

We recommended that Legacy Management reimburse HUD for the inappropriate payments. If Legacy Management does not reimburse HUD for the inappropriate payments, HUD should pursue appropriate civil actions and administrative sanctions against Legacy Management. (Report No. 2004-CH-1804)

An OIG review of Groton Community Health Care Center, Inc. (Groton) located in **Groton, NY**, found that Groton officials executed a 10-percent promissory note payable, totaling nearly \$327,000, without prior HUD approval in violation of the regulatory agreement. While the costs associated with the principal amount of the promissory note were incurred for eligible services, the additional interest of nearly \$64,000 paid on the note represented an ineligible payment.

We recommended that HUD recover the unallowable interest payments from Groton. (Report No. 2004-NY-1802)

## ***Multifamily Accelerated Processing Program***

We completed an audit of Continental Securities, LLC's, performance under the Multifamily Accelerated Processing (MAP) program in **Syracuse, NY**. Continental Securities underwriters' estimates of project occupancy, revenue, and expenses were essentially accurate in four of the six loans we reviewed. One loan had inaccurate estimates (Hudson Valley Care) and one project had no actual data for comparison since it did not achieve operational status (Amber Court Apartments). However, Continental Securities did not have adequate management and quality control procedures in place to ensure that loans processed under the MAP program complied with departmental requirements. Continental did not correctly analyze a construction contractor's financial capability and allowed financing in excess of HUD limits. Consequently, Continental submitted at least two loans for FHA insurance that resulted in over \$13.2 million in losses to the Department. By authorizing a MAP lender to prepare much of the documentation for a loan submission for mortgage insurance, HUD places confidence in the lender's integrity and competence. However, in the process of performing this work, Continental Securities placed HUD at risk.

We recommended that HUD seek indemnification of the loans for Amber Court Apartments and Hudson Valley Care and determine whether the lender and underwriters should retain the authority to use the MAP process. (Report No. 2004-SE-1005)

## ***Multifamily Section 8 Contract Administrator***

An audit of the **Jersey City, NJ**, Housing Authority's performance as contract administrator for the Section 8 program at two HUD-insured projects found that the Authority did not establish sufficient controls to carry out its Section 8 contract administrator responsibilities. The Authority (1) paid ineligible and erroneous claims of nearly \$152,000; (2) failed to ensure that units met Housing Quality Standards, resulting in payments of over \$245,000 in housing assistance payments for units that do not meet decent, safe, and sanitary housing standards; and (3) did not properly determine and document tenant eligibility, resulting in ineligible and unsupported housing assistance payments of nearly \$73,000.

We recommended that HUD require the Authority to recover ineligible payments and claims, support or recover unsupported payments, and stop housing assistance payments associated with units that do not meet Housing Quality Standards. Further, since the Authority inadequately performed its contract administrator responsibilities, we recommended that HUD determine whether the Authority properly earned the nearly \$228,000 in contractor administrator fees paid during FY 2002 and 2003 and require repayment if fees are found to be improper. (Report 2004-NY-1005)

# Investigations

During this reporting period, the OIG opened 104 investigations and closed 98 cases in the Multifamily Housing program area. Judicial action taken on these cases during the period included \$834,204 in investigative recoveries; \$21,865,748 in funds put to better use; 76 indictments/informations; 45 convictions, pleas, and pretrial diversions; 121 administrative actions; and 260 arrests.

Some of the investigations discussed in this Report were conducted by the OIG, while others were conducted jointly with Federal, State, and local law enforcement agencies. The results of our more significant investigations are described below.

## Lead-Based Paint Disclosure Violation

In **Minneapolis, MN**, in Federal Court for the District of Minnesota, a civil agreement was reached between the U.S. Attorney's Office and Dominion Management Services, Inc. Dominion agreed to pay \$1 million to remove lead-based paint from rental units, pay \$10,000 in civil penalties to the Federal Government for violating a Federal lead-based paint disclosure law, and give \$70,000 to the Sustainable Resource Center in Minneapolis for lead-based paint abatement work. In the same case, Minneapolis landlord Robert Zeman also reached a settlement with the Government and agreed to pay \$250,000 to test and clean up all lead-based paint hazards on his properties and pay a \$2,000 civil penalty. Dominion currently owns 4,500 apartments in Minnesota, South Dakota, Wisconsin, and Indiana, 3,838 of which are in Minnesota. Zeman currently owns

19 properties containing 22 rental units in Minneapolis. Specifically, Dominion and Zeman were cited for not adhering to the Residential Lead-Based Paint Hazard Reduction Act of 1992. This Act requires landlords with housing built before 1978 to give each tenant a lead hazard pamphlet, divulge any information about lead-based paint hazards on their properties, and sign a warning statement with the tenant.

## Equity Skimming

In **Fort Worth, TX**, in Federal Court for the Northern District of Texas, defendant Richard Harmon pled guilty to one count of mail fraud and aiding and abetting. Harmon used HUD-insured draw funds designated for the construction of Hillsboro Harmony House, a 46-unit multifamily assisted living center, to pay Internal Revenue Service (IRS) employee back taxes, other business expenses, and bank loans relating to other projects. Harmon was the owner of Everspan, Inc., the general contractor for Hillsboro Harmony House, which received \$1,999,425 in construction loan proceeds for the HUD project. Harmon caused the fraudulent diversion of \$761,000, which amounted to over one-third of the \$2.7 million HUD-insured loan amount. Everspan, Inc., filed for Chapter 11 bankruptcy (reorganization) in January 2000 and then Chapter 7 bankruptcy (liquidation) in March 2000, causing its bonding company to ultimately settle its remaining unpaid vendor claims.

## Conspiracy

In **Boston, MA**, in U.S. District Court of Massachusetts, Joseph O'Connor was indicted by a Federal grand jury on one count of conspiracy (Title 18, U.S. Code, Section 371). This indictment is the

result of a HUD-OIG investigation in which Janet Gaibl and Joseph Cassidy were indicted by a Federal grand jury in the District of Massachusetts on November 19, 2003, and charged with one count of conspiracy (Title 18, U.S. Code, Section 371); Gaibl was also charged with two counts of making false statements (Title 18, U.S. Code, Section 1001). Gaibl's cooperation has allowed the court to issue the current indictment against O'Connor. The indictment alleges that between 1988 and mid-2000, Gaibl and Cassidy, former employees of First Realty Management, and O'Connor, former contractor for First Realty, combined to cause false statements to be submitted to HUD relating to a rent subsidy program at Cummins Towers, a HUD-insured multifamily complex managed by First Realty. Gaibl, Cassidy, and O'Connor allegedly identified certain federally subsidized units at the development for their own use or the use of friends and then caused false statements to be made on related HUD forms and supporting documents to be fabricated, all for the purpose of obtaining subsidized units for individuals who would not otherwise qualify. By their actions, Gaibl, O'Connor, and Cassidy caused a loss to HUD in excess of \$140,000 and also deprived qualified families of use of the subject units.

## ***Bank and Tenant Fraud***

In **Lincoln, NE**, in U.S. District Court for the District of Nebraska, defendants Elizabeth Rivera-Colley and Phillip Colley were sentenced for their participation in a bank and tenant fraud scheme involving \$207,000. The Colleys were representative payees for various handicapped people. The handicapped people received payments from various government programs. The Colleys failed to declare the income from the other government programs. Phillip Colley was sentenced to 12 months confinement, 5 years supervised release, and community service. Elizabeth Rivera-Colley was sentenced to 7 months confinement, 5 years supervised release, and community service. Phillip Colley was also arrested at the sentencing for violation of another pretrial release for mortgage fraud.

## ***Theft/Embezzlement***

Defendant Neuil Edwards, the former operations manager for the Roosevelt Towne Apartments and the Union Sarah Rehab scattered rental sites, pled guilty in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to theft of government funds. Roosevelt and Union Sarah are Section 8 project-based rental properties. Edwards admitted stealing tenant rent receipts, misappropriating monies for his day care business, writing checks for his personal use, and remitting funds to a fraudulent vendor. In total, between August 2000 and March 2002, Edwards misappropriated \$135,314 from the two properties.



# Chapter 5: HUD's Community Planning and Development Programs

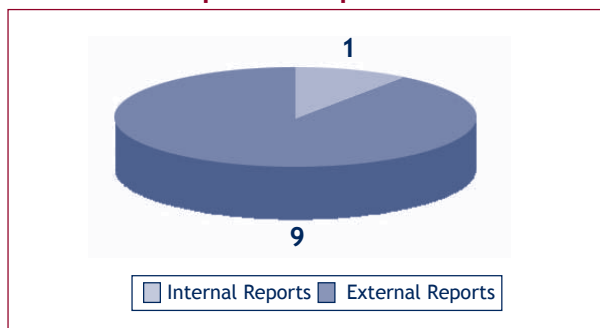
The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, as suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the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

## Audits

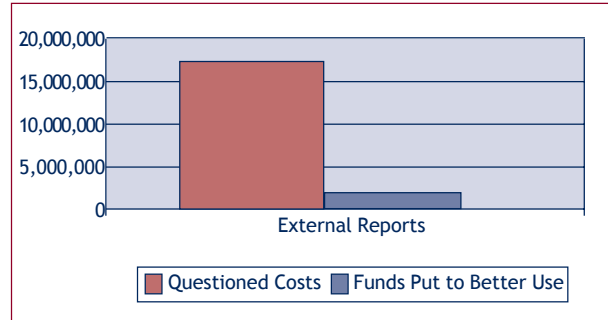
During this reporting period, the Office of Inspector General (OIG) issued 10 reports in the CPD program area: one internal audit and nine external audits. These reports disclosed nearly \$17.6 million in questioned costs and over \$1.9 million in recommendations that funds be put to better use.

The OIG audited management controls over grantee and subgrantee capacity, the Community Development

**Chart 5.1: Community Planning and Development Reports Issued**



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



Block Grant (CDBG) Disaster Assistance Funds in the State of New York, Home Investment Partnership (HOME), CDBG, Housing Opportunities for Persons with AIDS, Supportive Housing, and Shelter Plus Care programs.

## Management Controls Over Grantee and Subgrantee Capacity

In response to a congressional inquiry related specifically to management controls over nonprofits, the OIG audited CPD's management controls over the capacity of entities participating in their programs. Specifically, we looked at CPD's management controls over selection and oversight of grantees and subgrantees. We found that CPD's management controls are not sufficient to provide reasonable assurance that only grantees and subgrantees with capacity participate in its programs. CPD has controls to minimize the risk of grantees and subgrantees lacking capacity. However, unverified assumptions, incomplete and outdated guidance, and limited onsite monitoring undermine these controls.

The cost figures in the charts above represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

For competitive grants, CPD incorporates capacity into the Notice of Fund Availability as both a threshold factor and a rating factor. However, if the applicant is new or CPD has not monitored the applicant onsite, it accepts without verification that the application accurately reflects the applicant's capacity. Further, for some competitive grants, CPD sets the threshold factor too low to be effective and excludes field office staff, who should be the most familiar with the grantees, from the selection process. As a result, CPD cannot be reasonably assured that it only funds grantees and subgrantees capable of effectively carrying out its programs in accordance with applicable laws and regulations.

CPD bases its monitoring goals and grantee risk analyses on unverified assumptions. It has never evaluated the aggregate risk associated with its programs or made a decision as to what level of risk is acceptable. Further, CPD has not tested its grantee risk analysis process to ensure it accurately identifies the highest risk grantees. As a result, CPD lacks assurance that it has the resources to perform the appropriate level of monitoring. Additionally, CPD cannot demonstrate that it is focusing limited resources on the highest risk programs and grantees.

We recommended that CPD provide guidance for grantees to evaluate capacity, involve field office personnel in decisions where appropriate, and increase minimum threshold requirements for capacity for competitive grant programs. Further, we recommended that CPD document the basis for establishing monitoring goals, evaluate risks, test its risk assessment process, schedule monitoring based on risks, increase training for field staff responsible for monitoring, and provide

field offices with appropriate financial analyst capabilities. (Report No. 2004-FW-0001)

## ***Disaster Assistance Funds - State of New York***

The OIG performed an audit of the Lower Manhattan Development Corporation's (LMDC) administration of the CDBG Disaster 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. This review is the third in a series of reviews that the OIG plans to conduct of LMDC's administration of the CDBG Disaster Assistance Funds. We plan to issue an audit report every 6 months and include the results of each review in the Inspector General's Semiannual Report to Congress.

The results of our review disclosed that LMDC generally disbursed the CDBG Disaster Assistance Funds to eligible applicants in accordance with U.S. Department of Housing and Urban Development (HUD)-approved action plans and has a financial management system capable of adequately safeguarding the funds. Our review did not disclose any exceptions regarding grant disbursements under the Disproportionate Loss of Workforce or the Utility Restoration and Infrastructure Rebuilding programs.

However, we noted processing deficiencies in the Employment Training Assistance Program (ETAP) that need to be resolved to enhance the efficiency of LMDC's administration of the funds and prevent other related administrative deficiencies from occurring. Contrary to the program's application instructions and program guidelines, the program adminis-

trator approved and disbursed grant payments as reimbursement for training costs to businesses without adequate supporting documentation. Thus, training costs totaling over \$87,000 are considered unsupported, pending an eligibility determination by HUD.

We recommended that HUD instruct LMDC to obtain and maintain all missing documentation to support the grantee training costs charged to the ETAP and pursue reimbursement from those grant recipients who cannot support their costs. (Report No. 2004-NY-1004)

### ***Community Development Block Grant Programs, Home Investment Partnership, and Section 108 Loan Program***

The OIG completed a review of the Desire Community Housing Corporation as part of our audit of the City of New Orleans' housing and economic development programs, **New Orleans, LA**. As a subrecipient of the City, Desire received HUD funding through the City's Division of Housing and Neighborhood Development. We concluded Desire did not effectively and efficiently administer its programs in accordance with the terms of the grant agreements with the City and applicable HUD regulations. Desire did not develop and implement a sound internal control environment to administer its programs and as a result, did not provide adequate oversight and management of its HUD-funded projects. Further, Desire mismanaged \$1.1 million of HOME funds on its Bayou Apartments rehabilitation project and over \$2 million of program income from Liberty Terrace. In addition, Desire made unsupported disbursements totaling nearly \$92,000 and

violated HUD procurement regulations. The City should have provided sufficient monitoring of Desire to detect these problems sooner and possibly mitigate Desire's mismanagement of limited HOME funds.

We recommended that HUD and the City ensure that Desire has the necessary controls before awarding it any additional grants. Further, Desire should repay the City the \$1.1 million and either support or repay over \$322,000 of unpaid loans from program income and \$92,000 in unsupported disbursements. We also recommended that HUD aid the City in establishing appropriate controls, reprogramming funds, and taking appropriate administrative actions. (Report No. 2004-FW-1007)

At the request of HUD's Detroit Field Office Director of Community Planning and Development, the OIG audited the Home Investment Partnership Program (HOME) of Pontiac Neighborhood Housing Services, Inc. (Housing Services), in **Pontiac, MI**. Housing Services did not follow HUD requirements and its development agreement with the City of Pontiac for the Martin Luther King residential project. Specifically, Housing Services (1) used over \$871,000 in HOME funds and nearly \$458,000 in program income to pay for the construction of nine homes that did not meet the City's building code and (2) did not return \$368,000 of program income directly generated from the use of HOME funds.

We recommended that HUD ensure the City completes construction and obtains Certificates of Occupancy on the nine homes that did not meet code or return the funds to the HOME program. (Report No. 2004-CH-1004)

In response to a request from HUD's Pittsburgh Office of Community Planning and Development, the OIG reviewed the CDBG program for the City of **McKeesport, PA**. Our review concentrated on the City's oversight of the Home Improvement Loan Program by its subrecipient, the McKeesport Housing Corporation, from January 2000 through December 2002. The City did not adequately monitor the performance of the McKeesport Housing Corporation to ensure it administered its Home Improvement Loan Program in compliance with HUD requirements. Specifically, the City did not review quarterly status reports submitted by the McKeesport Housing Corporation to ensure program income generated through its Home Improvement Loan Program was used to fund eligible activities. As a result, the City did not identify that the McKeesport Housing Corporation violated Federal procurement regulations and requirements when it procured consultants for accounting, legal, computer, financial audit, and loan underwriting services as well as rehabilitation contractors. We also found that the subrecipient failed to establish a cost allocation plan to ensure that indirect costs were equitably distributed to the Home Improvement Loan and other CDBG programs. As a result, the McKeesport Housing Corporation could not support over \$694,000 in consultant contract costs, rehabilitation contract costs, and indirect costs.

We recommended that the City of McKeesport provide adequate support or reimburse HUD for any unsupported expenditures and establish and implement a comprehensive system to monitor its subrecipients to ensure they administer their programs in accordance with HUD requirements. (Report No. 2004-PA-1007)

OIG and the City Auditor for **Kansas City, MO**, audited Kansas City's Housing Program and the role of the Housing and Economic Development Financial Corporation (HEDFC) in that program. Two previous HUD-OIG/City Auditor joint reports raised concerns about HEDFC, the City's largest subrecipient of Federal housing funds, and recommended that the City develop a housing policy including strategies and goals, develop mechanisms for gathering information on housing conditions, and strengthen processes for selecting and monitoring subrecipients. The objectives for this audit were to determine what system the City used to implement its housing policy, what role HEDFC played in the system, how well HEDFC carried out that role, and whether changes in the system could improve the City's performance and its ability to meet its housing goals.

The City's system is fragmented and overly complex, resulting in higher than necessary administrative costs, lack of information, poor communication, delays, and lack of accountability for poor performance. In addition, the City has failed to adequately define HEDFC's role in providing affordable housing, causing it to concede decisions about the use of public funds to HEDFC and preventing it from fulfilling its responsibilities as a recipient of Federal grant funds. As a result, HEDFC spent more than authorized by contract on the Beacon Hill Housing Development Project and used program income without authorization. Also, HEDFC failed to fully repay the Section 108 loan for the Westside Business Park. We also noted significant deficiencies in HEDFC's operations. Since HEDFC is an integral component of the City's housing program, financial and operational problems result in underperformance for the program as a whole.

We recommended that HUD ensure that the City develops and implements the procedures necessary for an effective and efficient housing program and recovers from HEDFC the \$900,000 in Beacon Hill program income it used without authorization and the \$600,000 balance of the Westside Business Park Section 108 loan. (Report No. 2004-KC-1005)

### ***Housing Opportunities for Persons with AIDS, Supportive Housing, and Shelter Plus Care Programs***

At the request of CPD, the OIG audited the Safe Haven Outreach Ministry, Inc., in **Washington, DC**, and found that Safe Haven could not substantiate how it used over \$1.16 million of the \$1.6 million (72 percent) in grant funds it received from HUD under its Housing Opportunities for Persons with AIDS, Supportive Housing, and Shelter Plus Care programs. The audit also disclosed that Safe Haven officials spent nearly \$4,000 in HUD funds on ineligible activities such as movie tickets, cigarettes, Christmas gifts, and bingo games. As a result, there is no assurance that Safe Haven used funds to assist the homeless with housing and supportive services or addressed the specific housing and other supportive needs of persons living with HIV/AIDS and their families as required.

We recommended that HUD initiate appropriate administrative actions against current and/or former members of the Board of Directors, Executive Committee, and other responsible officials of the Safe Haven Outreach Ministry. Safe Haven should also provide HUD with adequate documentation to support unsupported expenditures or reimburse HUD from nonfederal funds and reimburse HUD

nearly \$4,000 from nonfederal funds for ineligible costs. (Report No. 2004-PH-1008)

An audit of the U.S. Veterans Initiative, Inc., a Supportive Housing program grantee based in **Inglewood, CA**, disclosed that U.S. Veterans (1) did not meet cash-matching fund requirements for \$7.2 million in Supportive Housing program funds expended, (2) spent over \$633,000 in Supportive Housing program funds for ineligible and unsupported expenses, and (3) did not administer its Supportive Housing program grants in accordance with requirements.

We made a number of recommendations to address the deficiencies, including requiring U.S. Veterans Initiative and/or its continuums Los Angeles Homeless Services Authority and City of Long Beach to repay HUD from nonfederal funds for the Supportive Housing program grant expenditures that did not have the required matching funds, unless it can provide supporting documentation and reimburse the Supportive Housing program grants and/or repay HUD from nonfederal funds for the ineligible and unsupported expenses. (Report No. 2004-LA-1008)

At the request of HUD's Richmond Office, Community Planning and Development Division, the OIG audited Peninsula AIDS Foundation, Inc., in **Newport News, VA**. The Foundation could not substantiate how it used nearly \$340,000 of the \$353,000 (96 percent) in grant funds it received from HUD under a Supportive Housing program renewal grant and a Housing Opportunities for Persons with AIDS grant. It did not retain, nor did it provide the organizations assigned the grants, auditable financial records or related documentation. As a result, there

is no assurance that the Foundation used the funds to assist the homeless with housing and supportive services or addressed the specific housing and other supportive needs of persons living with HIV/AIDS and their families as required by the grant agreements.

We recommended that HUD initiate administrative actions, as appropriate, against former members of the Board of Directors and Executive Committee of the Peninsula AIDS Foundation to preclude them from participating in any future Federal awards. We also recommended that HUD request guidance from the Office of General Counsel on the possibility of recovering the unsupported costs from the former members of the Board of Directors and Executive Committee. (Report No. 2004-PH-1006)

In response to a request from HUD's Chicago Regional Office of Community Planning and Development, the OIG audited the Supportive Housing grant program of Connexions Enterprise, a nonprofit organization located in **Chicago, IL**. Although Connexions met its cash-matching requirements under the program, it lacked adequate management controls to ensure that program costs were eligible and adequately supported and that program participants received the required services. Connexions (1) used nearly \$31,000 of program funds for ineligible costs, (2) lacked sufficient documentation that its use of another \$173,000 benefited the program, (3) did not receive the in-kind services for its program participants as set forth in the HUD-approved grant application, and (4) did not ensure that its Chief Executive Officer followed its financial management policies and procedures.

We recommended that HUD declare Connexions in default and recapture any ineligible program funds used. We also recommended that HUD take administrative action against Connexions' Board of Directors and its Chief Executive Officer for failing to administer the Supportive Housing program in accordance with Federal requirements. (Report No. 2004-CH-1005)

## Investigations

During this reporting period, the OIG opened 38 investigation cases and closed 33 cases in the CPD program area. Judicial action taken on these cases during the period included \$4,404,416 in investigative recoveries, \$4,598,827 in funds put to better use, 23 indictments/informations, 20 convictions, pleas, and pretrial diversions, 45 administrative actions, and 20 arrests.

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

### ***Disaster Assistance Funds - State of New York***

In the OIG's last three Semiannual Reports to Congress, we reported on both our audit and investigative work into the misuse of HUD funds provided in the aftermath of the September 11, 2001, terrorist attacks in New York City. During this reporting period, we continued to find instances of fraud and abuse involving these funds. Our results are as follows:

In **New York, NY**, in Federal Court for the Southern District of New York, defendant David Zimmer, a resident of Maryland, pled guilty to two counts of theft of government funds for obtaining two Business Recovery Grants totaling \$450,000. Zimmer was previously arrested by the OIG in Bethesda, MD, and charged with theft of government funds and wire fraud in connection with a scheme to defraud HUD and the Empire State Development Corporation of

\$270,000 in Federal grant money. The World Trade Center Business Recovery Program was established by the Empire State Development Corporation after the September 11, 2001, terrorist attacks to provide assistance to certain businesses in Lower Manhattan. The Business Recovery Grant Program is funded through a \$375 million appropriation from HUD. Zimmer created a fake office lease for his company DZ Investments in Lower Manhattan. DZ Investments was actually located in Bethesda, MD, and reported gross receipts of \$2.7 million for tax year 2000. Zimmer created a false corporate return for his father's business. His father actually was a tenant at the Lower Manhattan address of Zimmer's business scheme. Zimmer created a corporate return which inflated his father's business gross receipts to \$1.8 million. Further investigation by the OIG after Zimmer's initial arrest revealed that he had obtained another fraudulent grant totaling \$180,000.

In **New York, NY**, in Federal Court for the Southern District of New York, defendant Alexander D. Koltovskoy, also known as Alexander Kolt, was sentenced to 51 months incarceration, 3 years supervised release, \$373,228 in restitution, and an \$1,800 special assessment. In October 2003, Koltovskoy was found guilty of defrauding numerous private and government agencies that provided relief after the September 11, 2001 terrorist attacks on the World Trade Center. Koltovskoy and Vincent Pizzi were principals of Alexander Edwards Global Search, Inc. Koltovskoy, the president of the company, applied for grants, stating that the company was at 2 World Trade Center, Suite 2112, when in fact, it was located in Mid-Town Manhattan, out of the grant zone. HUD was defrauded of \$64,390.

In **New York, NY**, in Federal Court for the Southern District of New York, Jobim Rose, who previously pled guilty to one count of theft of government money (Title 18, U.S. Code, Section 641), one count of false statements (Title 18, U.S. Code, Section 1001), and two counts of mail fraud (Title 18, U.S. Code, Section 1341) in connection with a scheme to defraud HUD and Lower Manhattan Development Corp (LMDC) of Federal grant money, was sentenced to 48 months of probation and ordered to pay restitution of \$7,963.79. LMDC was created by the State and City of New York after the September 11, 2001, terrorist attacks to coordinate the rebuilding and revitalization of Lower Manhattan. It received over \$2.7 billion from HUD. Rose devised a scheme to fraudulently obtain money from one of the grant programs established by the LMDC, which aimed to retain and attract residents to Lower Manhattan. Jobim Rose, a resident of the Bronx, kept a second residence in the Mitchell-Llama Apartments within the eligible zone in Lower Manhattan. After the September 11, 2001, terrorist attacks, Rose applied for a grant, stating that he lived in Lower Manhattan, when in fact, he had been renting out the apartment to a tenant since August of 2001. Rose fraudulently stated that he was residing in Lower Manhattan.

In a second case involving LMDC in **New York, NY**, in Federal Court for the Southern District of New York, defendant Denise O'Connor was sentenced to 2 months incarceration. O'Connor, an inmate in Rikers Island, pled guilty in February 2004 to one count of theft of government money and one count of mail fraud in connection with a scheme to defraud HUD and LMDC of Federal grant money. O'Connor devised a scheme

to fraudulently obtain money from a grant program established by LMDC to retain and attract residents to Lower Manhattan. O'Connor fraudulently stated that she resided in Lower Manhattan within the eligibility area, when in fact, she just stayed with a relative in Lower Manhattan for a short period.

In a third case involving LMDC in **New York, NY**, in Federal Court for the Southern District of New York, Michael Fraraccio pled guilty to one count of mail fraud in connection with a scheme to defraud HUD and LMDC of Federal grant money. Fraraccio devised a scheme to fraudulently obtain money from a grant program established by the LMDC to retain and attract residents to Lower Manhattan. Fraraccio, a resident of New Jersey, kept a second apartment in Lower Manhattan. Fraraccio was renting the unit out when he applied for and received the residents grant, stating that he was living in Lower Manhattan.

In a fourth case involving LMDC in **New York, NY**, in Federal Court for the Southern District of New York, Ivy Horn pled guilty to one count of mail fraud (Title 18, U.S. Code, Section 1341) in connection with a scheme to defraud HUD and LMDC of Federal grant money. Horn devised a scheme to fraudulently obtain money from a grant program established by LMDC to retain and attract residents to Lower Manhattan. Horn, a resident of Florida and Brooklyn, with an apartment in the eligibility area in Lower Manhattan, applied for and received a residents grant. Horn was renting the apartment to two individuals and fraudulently stated that she was residing in Lower Manhattan.

## ***Investigations Involving Public Officials***

In **Mineola, NY**, in New York State, District Court of Nassau County, defendant former Deputy Nassau County Executive Peter Sylver, who headed Nassau County's HUD-funded Economic Development Agency (EDA), pled guilty to charges of misconduct, coercion, and harassment. Sylver misappropriated HUD and other funds to pay personal expenses, including lodging, meals, and entertainment; directed an EDA employee to participate in political activities; and physically harassed the employee. During the course of the investigation, HUD conducted a review of EDA-administered programs and directed Nassau County to repay HUD \$1.2 million. Sylver resigned from office at the onset of the investigation.

In **Newark, NJ**, in U.S. District Court for the District of New Jersey, defendant Joseph Barry pled guilty to theft or bribery concerning programs receiving Federal funds. Barry, a real estate developer, bribed Robert Janiszewski, the former Hudson County Executive, to help secure Federal and State grants and loans for some of Barry's development projects. Barry secured \$1 million in HUD grants and loan guarantees under the Economic Development Initiative, as well as \$6,690,000 in Section 108 loan guarantees for these projects. Barry was previously indicted on 16 counts of fraud and swindling, using a fictitious name or address, and theft or bribery concerning programs receiving Federal funds. The indictment detailed \$8.8 million in Federal and State grants that Barry and his enterprise, the Applied Companies, secured through bribery. Barry maintained a "payoff sheet" of bribe amounts, dates, and

notations, indicating to which government loan or grant the payoffs were connected.

In **Houston, TX**, in Federal Court for the Southern District of Texas, defendants Diana Cortez, the former Mayor of the City of LaGrulla, TX, and Sandra Lopez, a former bookkeeper for the City, were indicted on one count each of theft of government funds. They allegedly used more than \$60,000 in City funds to pay for the services of a psychic tarot card reader.

In **Little Rock, AR**, in U.S. District Court for the Eastern District of Arkansas, defendant Billy Freeman, a Pine Bluff City Alderman, pled guilty to one count of violating the Hobbs Act and aiding and abetting extortion. In June and July 2002, the City of Pine Bluff advanced \$71,648 to Freeman's corporation, Southeast Arkansas Development Corporation, which was funded by HUD and the Department of Health and Human Services. The advances were made with the assumption that a grant from HUD would be made later, and this grant would be used to reimburse the City. The HUD grant was made in December 2002, but the money was signed over to Freeman's corporation. Freeman then wrote a check from the nonprofit's bank account, post-dated for December 26, and gave it to the City; the check bounced. In order to obtain the funds necessary to repay the City, Freeman sold his City Council vote on a property zoning issue for \$72,000.

In **McAllen, TX**, in Federal Court for the Southern District of Texas, defendant Israel Sagredo, former City Administrator for Alton, TX, was found guilty of extortion and accepting a \$10,000 bribe. Sagredo negotiated and accepted two separate payments of \$5,000 each from an individual who posed as a potential bidder

on a contract to furnish the City of Alton Recreation Center. The funds designated to furnish the center were part of a \$3 million Section 108 loan, guaranteed by HUD and administered by Hidalgo County's Urban County Program.

## Conspiracy

In **Concord, NH**, in New Hampshire Superior Court in Concord, NH, defendant Kevin Craffey pled guilty to one count of unlawful disposal of regulated asbestos containing material and one count of unlicensed asbestos abatement. He was sentenced to 2 months in jail and 150 hours of community service and ordered to pay a \$150,000 voluntary forfeiture to the New Hampshire Asbestos Management Fund and an \$82,000 reimbursement to the State of New Hampshire for forensic excavation. Craffey also received an additional 22-month sentence, deferred for 2 years upon his release. After 2 years, he must return to the court and demonstrate that he complied with the terms of his sentence. In addition, Jose Fonseca of Duxbury, MA, pled guilty to unlawful disposal of regulated asbestos containing material in Coos County Superior Court. Fonseca received a 3-month jail sentence in the

Grafton, NH, House of Corrections, 100 hours of community service, a \$4,000 fine, plus nine months supervised release. Fonseca was a business partner of Kevin Craffey, a developer, who received a \$1 million Community Development Block Grant made to the Town of Whitefield, NH, to enable Craffey to purchase and rehabilitate a historic hotel.

In **Springfield, MA**, in U.S. District Court, four defendants were charged in a 19-count superseding Federal indictment. This indictment had previously been handed down by a Federal grand jury in January 2004. The indictment included violations of conspiracy (Title 18, U.S. Code, Section 371), program fraud (Title 18, U.S. Code, Section 666), wire fraud (Title 18, U.S. Code, Section 1343), obstruction of justice (Title 18, U.S. Code, Section 1503), false statements (Title 18, U.S. Code, Section 1001), threatening a witness (Title 18, U.S. Code, Section 1512), and aiding and abetting (Title 18, U.S. Code, Section 2). The four charged were associated with the Massachusetts Career Development Institute, an organization partially funded with HUD CDBG funds. The Institute provided educational and job-training programs for income-eligible individuals in the Springfield, MA, area. Those charged are the Institute's

## Duxbury developer jailed in New Hampshire

By Robert Knox  
GLOBE CORRESPONDENT

The president of the design and construction company that renovated a prominent building on Plymouth's Main Street has pleaded guilty to two felony counts for removing and disposing of asbestos without a permit while renovating a 137-year-old resort hotel in New Hampshire.

Kevin Craffey of Duxbury, CEO of Craffey and Co., agreed to a plea bargain involving a prison term, fines, community service, and other penal-

ties last week. He entered Coos County jail in New Hampshire last Friday to begin serving his two-month sentence. The deal spares him the possibility of a longer sentence, according to the prosecutor's office.

Craffey & Co. bought and renovated the old Buttner's building in Plymouth's town center, one of the first department stores in the country, for use as its corporate headquarters at a cost of \$2.4 million.

New Hampshire Attorney General Peter W. Heed said Craffey illegally re-

moved and disposed of asbestos during the extensive renovation of the Mountain View Grand Resort in Whitefield in 2001. According to a statement released by Heed Friday, the Coos County Superior Court sentenced Craffey to serve the two months, with an additional 22-month sentence deferred for two years upon his release. After the two years, Craffey must return to the court and demonstrate that he complied with the terms of the sentence.

Craffey was also ordered to pay a \$150,000 fine to the Asbestos Manage-

ment and Control Fund maintained by New Hampshire's Department of Environmental Services, pay \$82,000 in restitution to the state, create an interactive educational program for developers, complete 150 hours of community service in Coos County, and comply with all other environmental regulations pertaining to the Mountain View hotel.

Senior Assistant Attorney General Jennifer Patterson said that during the renovation Craffey placed materials

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former Executive Director Gerald Phillips, former Administrator Giuseppe Polimeni, former no-show employee Luisa Cardaropoli, and former Secretary Jamie Dwyer. The investigation concerned no-show employees. During the course of the investigation, Phillips allegedly threatened, intimidated, and corruptly persuaded a witness to prevent the testimony of this witness in a Federal grand jury. This superseding indictment included additional information required under the Blakely decision. On September 13, 2004, the four defendants pled not guilty to the charges in this indictment.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendants Cecelia George, the former Director of the City of East Cleveland Department of Community Development (DCD); Charles Reed, Sr., her father; Charles Reed, Jr., her brother; and Willie George, her son, each pled guilty to one count of conspiracy. Celia George and her coconspirators orchestrated a scheme to funnel HUD CPD funds to her family. The fraud was carried out through rigging bids, illegally awarding contracts to family members through “sham” or “front” companies, providing false information to HUD regarding the expenditure of funds, and forging signatures on checks in order to profit directly from DCD funds. They also used DCD funds for office entertainment. The fraudulent contracts included the emergency door and lock contract; emergency furnace contract; emergency roof contract; and the emergency heating, ventilation, and air conditioning contract, as well as HOME funds. Approximately \$69,000 in DCD funds were misappropriated through one or more of these schemes.

## ***Equity Skimming***

In **Las Vegas, NV**, a Federal grand jury in the District of Nevada indicted John Everett, an investor, for conspiracy (Title 18, U.S. Code, Section 371) to commit wire fraud (Title 18, U.S. Code, Section 1341) and money laundering (Title 18, U.S. Code, Section 1956) in the furtherance of loan fraud. According to the indictment, Everett purchased homes, using strawbuyers, from individuals who were on the verge of foreclosure and set up nonprofit companies alleging to the sellers that these companies were purchasing the homes to use as halfway houses. At closing, Everett withdrew amounts equal to the equity available in the homes, identifying these disbursements as costs to convert the homes to halfway houses. Fraudulent documentation was prepared and submitted for each strawbuyer, including false bank account statements, Internal Revenue Service (IRS) W-2 forms, gift letters, verifications of employment, and bills of sale to support the source of down payments. Everett was allegedly involved in 18 fraudulent loans valued at over \$6 million through National City Mortgage Company. All of the loans have gone into default.

## ***False Statements***

In **Cedar Rapids, IA**, a Federal grand jury indicted Joyce Ashcraft on one count of making false statements to HUD. Ashcraft allegedly submitted false documents to Cedar Rapids Housing Services to obtain a \$24,660 housing rehabilitation grant. Ashcraft is also being investigated on allegations of credit card fraud, bank fraud, identity theft, welfare fraud, and making false statements to the Social Security Administration.

## **Embezzlement/Theft**

In **Springfield, MA**, in Federal Court for the District of Massachusetts, defendant James Asselin, former Director of the Greater Springfield Entrepreneurial Fund, a nonprofit organization, was sentenced to 41 months confinement and 36 months supervised release and was ordered to pay \$723,553 in restitution. Asselin and his coconspirators illegally collected over \$300,000 in travel and consulting fees on top of their city salaries. Asselin used Springfield Housing

Authority employees to maintain and repair his personal properties. Authority contract bids were rigged and involved kickbacks to Asselin and related contractors. Numerous schemes were used to defraud HUD and the Authority. Asselin previously pled guilty to conspiracy and other charges relating to the embezzlement and theft of over \$700,000 in funds received from the Small Business Administration and the Department of Commerce. The Greater Springfield Entrepreneurial Fund had also received \$697,000 in Urban Development Action Grant

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## **Two plead guilty to corruption**

Monday, March 22, 2004

**By JACK FLYNN, Staff writer**  
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**SPRINGFIELD** - Two former city employees will face more than three years in prison and \$597,000 in combined restitution after pleading guilty to swindling a taxpayer-financed loan program.

The defendants - James W. Asselin, 44, and James Krzystofik, 47, both of Springfield - pleaded guilty today to theft, money laundering and conspiracy to defraud the federal government during a hearing before Judge Michael A. Ponsor in U.S. District Court. Krzystofik also pleaded guilty to making a false statement.

The pleas marked the first convictions in a three-year federal corruption probe.

Assistant U.S. Attorney William Welch II told Ponsor that the defendants agreed to accept prison terms of between 41 and 51 months and pay \$597,000 in restitution under a plea deal reached last week. In exchange the government agreed to drop nearly 100 other charges against the two defendants.

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(UDAG) funds for its start-up costs. The investigation found that a large portion of the UDAG funds had been used to cover shortages in the books, which had to be presented to the Small Business Administration and Department of Commerce on a monthly basis.

Also in the same case, defendant Salvatore Anzalotti, former Accountant with the Greater Springfield Entrepreneurial Fund, was sentenced to 6 months home confinement and 4 years probation and was ordered to pay \$68,000 in restitution. Anzalotti was previously convicted, along with codefendant Cornell Lewis, on charges of conspiracy.

### ***Wire and Mail Fraud and Money Laundering***

In **East St. Louis, IL**, in Federal Court for the Southern District of Illinois, defendant Phillip Cohn was indicted on 20 counts of mail fraud, money laundering, bank fraud, wire fraud, and environmental crimes. Cohn, a real estate developer, was charged with mail fraud and money laundering in connection with a \$1,195,000 sale of real estate to the East St. Louis school district. Cohn allegedly created false invoices and falsely endorsed checks in order to obtain portions of the \$1 million placed in escrow for the environmental cleanup of school property. Cohn was charged with bank fraud for allegedly obtaining over \$620,000 in loans using the environmental escrow funds as collateral. The lending bank was unaware that the escrow funds had to be used for environmental cleanup as well as the fact that Cohn was creating false invoices to obtain the escrow funds for his personal use. Cohn was charged with environmental crimes in connection with the illegal

removal of asbestos containing materials from the Spivey Building, which he owned. Also in connection with the Spivey Building, Cohn was charged with wire fraud for making false statements to the Greater St. Louis Regional Empowerment Zone when he applied for \$1,260,000 in HUD CPD funds through the Empowerment Zone program for the development of the Spivey Building. Cohn's wife, Katrina Cohn, was also charged in one of the bank fraud counts.

In **Albany, NY**, in Federal Court for the Northern District of New York, defendants Charles M. Barber and his son, Charles H. Barber, were sentenced to 48 months in prison, while Helen Barber was sentenced to 33 months in prison. The sentencings followed the defendants' earlier convictions on bankruptcy fraud, wire fraud, money laundering, and misuse of public funds. All three defendants have entered into criminal forfeiture agreements, whereby they agreed to forfeit the following previously seized assets: a money judgment in the amount of \$850,000, one vehicle and one motorcycle, and \$240,554 from seven bank accounts and two stock accounts. The defendants owned AMG Industries and received \$370,000 in CDBG funds for the construction of a new metal fabricating facility. The defendants submitted fraudulent and misleading invoices in support of the CDBG loan and then diverted the funds for their personal use. The three were also ordered to collectively pay \$1.9 million in restitution and were sentenced to 5 years supervised probation upon their release from prison. Additionally, they were ordered to forfeit 25 percent of their prison wages.

## ***Grand Larceny***

In **Riverhead, NY**, in New York State Superior Court, defendant Carrie Wilson, Bishop of New Life Christian Mission Ministries, Inc., pled guilty to grand larceny in the third degree and agreed to pay \$300,000 in restitution. Wilson was involved in the theft of New York State and Federal program money earmarked for homeless women and children. HUD provided the money to New York State, which then distributed the money to different charities via the county welfare systems. Carrie Wilson, a managerial agent of New Life Christian Mission Ministries, Inc., a nonprofit homeless shelter, knowingly submitted a fraudulent financial statement for the fiscal year ending 2000. This financial

statement stated that certain costs were incurred in excess of \$500,000, which were not incurred. Wilson also submitted to the Suffolk County Comptroller's office two lease agreements with fraudulent information indicating that contracts existed to pay the lessors of these premises a certain amount of rent for a specific period of time. This caused New Life Christian Mission Ministries, Inc., to receive money it was not entitled to receive. Also, Wilson wrongfully obtained and withheld a property from the true owner. It is anticipated that Wilson will be making restitution of approximately \$300,000 and will be sentenced next year. The business, New Life Christian Mission Ministries, Inc., also pled out on the same day as Wilson.





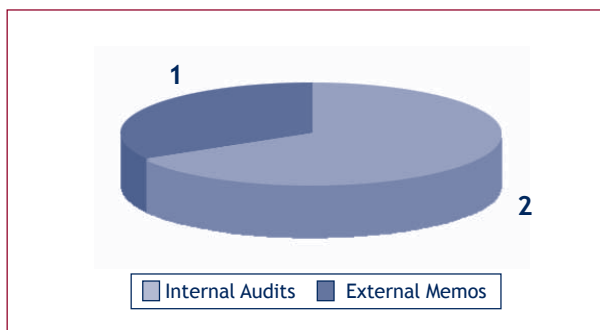


## Chapter 6: Other Significant HUD Audits and Investigations/ OIG Hotline

## Audits

**D**uring this reporting period, the Office of Inspector General (OIG) issued three reports: two internal audits and one internal memorandum 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.

**Chart 6.1: Other Reports Issued**



The OIG audited the Departmental Enforcement Center's (DEC's) enforcement actions, Office of Federal Housing Enterprise Oversight, and HUD's funds management function. Our more significant audits are discussed below.

### Effectiveness of the Departmental Enforcement Center's Enforcement Actions

The OIG conducted an audit to assess the effectiveness of the DEC's enforcement actions. The DEC had positive impacts in (1) improving the physical condition of HUD's multifamily portfolio, (2) imposing civil money penalties against multifamily project owners who fail to submit annual financial statements in a timely manner, and (3)

implementing debarments against program violators. However, the audit identified the following conditions that warrant corrective action by the DEC.

The DEC is not functioning pursuant to its planned mission as the Department's single enforcement authority and has not implemented consistent enforcement standards for all HUD programs. The DEC assigned its operating division staff almost exclusively to multifamily housing cases and allowed the Office of Housing to control certain criteria for referrals to the DEC and certain enforcement decisions.

The DEC needs to improve its development and pursuit of administrative and civil sanctions and referral of potentially criminal violations to the OIG. The DEC did not pursue equity skimming violations that may have warranted enforcement sanctions. Audit tests identified 24 cases with violations under the equity skimming and double damage statutes, but the DEC did not document whether sanctions were considered and did not pursue enforcement actions beyond partial or full repayment of the misused funds. The DEC did not refer these equity skimming cases to OIG as required by HUD policy.

Further, the DEC needs to eliminate certain unwarranted referrals from the Office of Housing and a premature case closure policy. These conditions inflated the DEC's workload and reported accomplishments and wasted staff resources that could have been used on other referrals.

Since the merger of the Office of General Counsel (OGC) and the DEC,

The cost figures in the chart above represent the actual monetary benefits for all reports issued during this semiannual period. The monetary benefits shown in the Profile of Performance represent only those reports with management decisions reached during this semiannual period. Because there is a time lag between report issuance and management decisions, the two totals will not agree.

OGC has not filled five key vacant DEC positions because OGC had exceeded its overall staff ceiling. DEC also could not document some reductions in its staff ceiling that resulted from the merger. The vacant OGC/DEC positions and reduced DEC staffing may have increased the burden on existing staff and hindered OGC/DEC's ability to manage and reduce its backlog of referred cases.

We recommended that OGC/DEC (1) revise its operations to conform with its published plans as HUD's one enforcement authority or obtain written HUD authorization to revise its mission, (2) establish uniform enforcement standards for all HUD offices, (3) revise DEC procedures to ensure appropriate consideration of sanctions and referrals to OIG when required by HUD policy, (4) eliminate unwarranted referrals and a premature case closure policy, (5) fill key vacant positions, and (6) document the DEC staff ceiling. (Report No. 2004-AT-0002)

### **The Office of Federal Housing Enterprise Oversight Exceeds Its 60-Percent Statutory Requirement But Has Cost Weaknesses in Its Controls Over Allocating Costs for That Requirement**

The Chairman of the Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies of the Senate Committee on Appropriations asked that we determine whether the Office of Federal Housing Enterprise Oversight (OFHEO) was complying with a statutory requirement that it use at least 60 percent of its total funds appropriated for fiscal year (FY) 2004 for the examination, supervision, and capital oversight of Fannie Mae and Freddie Mac, the Government Sponsored Enterprises.

We were also asked to determine whether OFHEO is using its funds to meet the 60-percent requirement in a manner consistent with other financial regulators of financial institutions, such as the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Further, the request asked us to determine whether the other regulators are using substantially more than 60 percent of their funding for the examination, supervision, and capital oversight of financial institutions.

The OFHEO is exceeding this statutory requirement. However, neither OFHEO nor HUD can be certain whether OFHEO has significantly exceeded the 60-percent requirement, as it has reported, because OFHEO cannot adequately support its method for allocating employee expenses or the resulting use of funds reported in its annual reports and budget requests.

The OFHEO is allocating its funds using a method consistent with other financial regulators, including the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. In addition, OFHEO uses approximately the same percentage of its funds as these regulators for the purposes of examination, supervision, and capital oversight.

We recommended that OFHEO establish and implement controls to ensure accurate allocation and reporting. These controls should include a reliable method of maintaining actual employee time spent on each strategic objective and a method of ensuring that actual expenses are reflected in its reporting of funds used. (Report No. 2004-KC-0001)

# Investigations

During this reporting period, the OIG opened 73 investigation cases and closed 40 cases involving areas of HUD operations that do not fall under specific program categories. Judicial action taken on these cases during the period included \$962,939 in investigative recoveries, \$1,088,611 in funds put to better use, 9 indictments/informations, 13 convictions/pleas/pretrial diversions, 150 administrative actions, and 31 arrests.

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

In **Washington, DC**, as a result of an OIG investigation, the Department reached settlement agreements with former Assistant Secretary for Policy Development and Research Mr. Albert Trevino and his friend and former contractor Mr. John Gilchrist. Trevino and Gilchrist conspired to defraud the government of over \$14,000 in travel funds. The U.S. Attorneys' Office declined criminal prosecution. Trevino agreed to repay \$14,120 in travel reimbursements, pay a penalty of \$5,000 and be debarred for a period of two years. Gilchrist agreed to pay a penalty of \$11,000 and be debarred for a period of three years. HUD sued both Trevino and Gilchrist under the Program Fraud and Civil Remedies Act for the submission of four false travel vouchers seeking reimbursement of Gilchrist's lodging expenses claimed at the "Dent Place Bed and Breakfast" which was a fictional entity and in actuality a townhouse rented by Trevino in the Georgetown section of Washington, DC.

Trevino created the false lodging invoices using his government computer.

In **Richmond, VA**, a HUD employee was removed from Federal service based on evidence uncovered during an OIG investigation. The investigation was based on a request from the employee's supervisors who had obtained information indicating that the employee was using a government computer to operate a personal business during the workday. The OIG determined that the employee had been using a HUD computer to view and download pornography, to store material that ridiculed others on the basis of race, and for commercial for-profit and fund raising activities. OIG also documented the employee's use of government computers to visit prohibited Internet sites during a period of time in which the employee's computer access had been suspended, which led to a finding of insubordination. HUD's Deciding Official sustained all of the previously listed charges against the employee.

Defendant Christopher Jones was convicted in **New Brunswick, NJ**, in Middlesex County Superior Court of burglary and fraudulent use of a credit card. Jones was arrested in April 2003 for breaking into a HUD-OIG vehicle and stealing a HUD-OIG credit card. He then made several unauthorized purchases with the credit card, totaling more than \$5,000. One of the merchants had a videotape of Jones using the credit card without authorization. This videotape was used to identify Jones and his accomplice, Frank DeMarc. Jones and DeMarc were indicted in May 2003. DeMarc pled guilty in February 2004 and was sentenced to 5 years in jail and 1 year probation and was fined \$15,000.

## 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 eight full-time OIG employees, who take allegations of waste, fraud, abuse, or mismanagement in HUD or in HUD-funded programs from HUD employees, contractors, and the public and coordinate reviews with internal audit and investigative units or with HUD program offices.

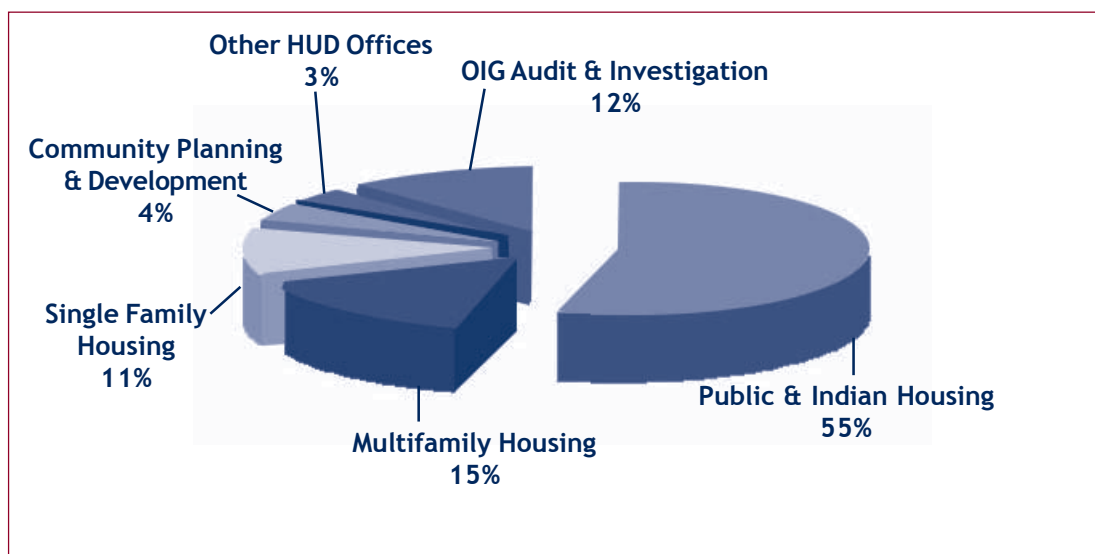
During this reporting period, the Hotline has received and processed 9,181 complaints — 76 percent received by telephone, 21 percent by mail, and 3 percent by e-mail. The Hotline also interviewed two individuals who visited HUD headquarters to register complaints about program operations. Every allegation received by the Hotline is logged into a database and tracked.

Of the complaints received, 1,021 were related to the mission of the OIG and were addressed as Hotline cases. Hotline cases are referred to the 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 622 cases this reporting period. The closed Hotline cases included 124 substantiated allegations. The substantiated allegations resulted in 18 administrative sanctions against HUD employees for personnel violations or investors for improprieties involved in the purchase of a home. The Department also took 106 corrective actions that resulted in \$63,584 in recoveries of losses and \$2,260,654 in HUD funding that could be put to better use.

The recoveries included Section 8 tenants who must reimburse housing authorities for assistance to which they

**Chart 6.2: Hotline Cases Opened by Program**



were not entitled, based on improper reporting of income or household composition. Some of the funds that could be put to better use were the result of cases in which homebuyers falsely claimed they

were owner-occupants when purchasing homes financed by Federal Housing Administration loans. The following chart illustrates the issue breakdown of the substantiated allegations by percentage.

Chart 6.3: Hotline Dollar Impact from HUD Program Offices

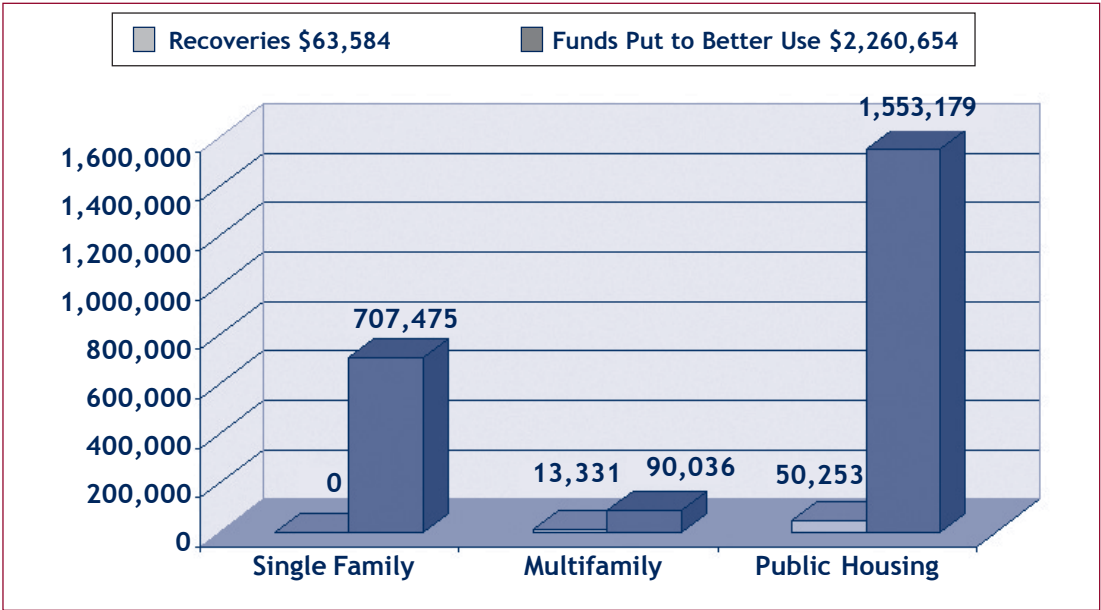
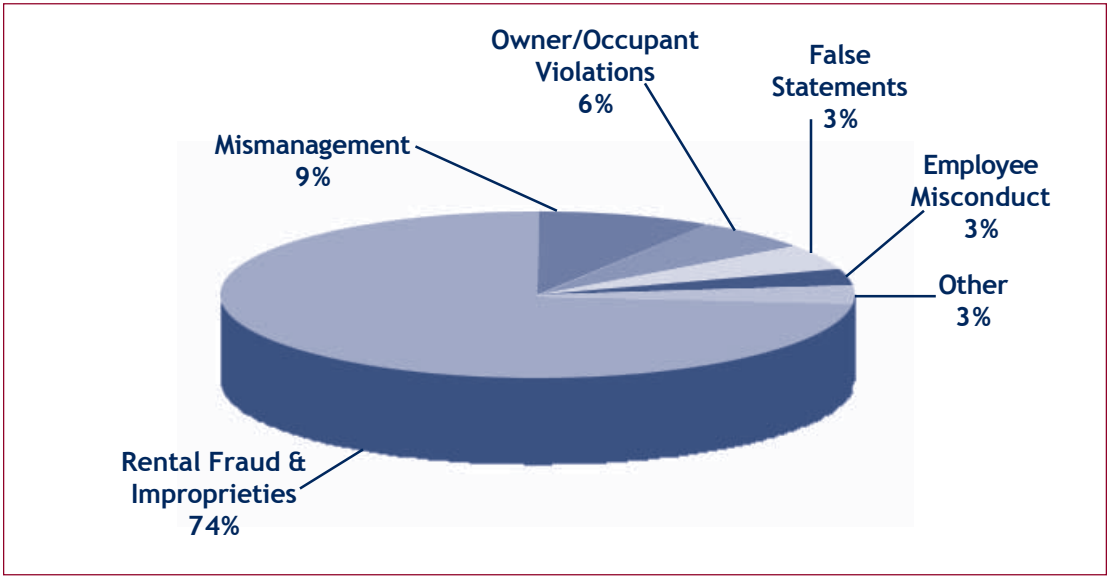


Chart 6.4: Substantiated Cases by Type of Complaint





## Chapter 7: Outreach Efforts

In order to foster cooperative, informative, and mutually beneficial relationships with agencies and organizations whose intent is to assist in the accomplishment of the 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 our regular coordination with Federal, State, and local law enforcement agencies, other OIGs, and various congressional committees and subcommittees. During these outreach efforts, we not only present the results of our audit and investigative work and discuss our goals and objectives; we also provide information about the OIG's role and function.

Inspector General (IG) Kenneth Donohue was the keynote speaker at the 2004 Tri-State Conference of Public Housing Authorities (PHAs) in **Bar Harbor, ME**, which consists of approximately 100 PHA officials from the States of Maine, New Hampshire, and Vermont. IG Donohue provided insight into the goals of the OIG and spoke on the benefits of cooperation between the OIG and PHAs. In addition, IG Donohue and New England Region Special Agent in Charge (SAC) Peter Emerzian participated in a round table discussion with the Executive Directors (ED) from the largest PHAs in the Tri-State area. IG Donohue discussed the Federal budget process and the role OIG will play in helping HUD achieve its goals. The PHA EDs and IG Donohue also discussed quantifying the benefits of OIG/PHA cooperation, and the EDs offered several suggestions.

During one of the breakout sessions, Assistant Special Agent in Charge (ASAC) Maureen Nelting and Assistant

Regional Inspector General for Audit (ARIGA) Cristine O'Rourke made a presentation on fraud in public housing as it relates to tenants, landlords, and PHA employees. They also discussed the role of the IG and the responsibilities of both the OIG Offices of Investigation and Audit. Special Agents (SA) Edward Redmond and Brian Gosselin participated in the presentation and shared "best practices" about investigating tenant fraud.

IG Donohue, along with U.S. Attorney Michael Sullivan, Federal Bureau of Investigation (FBI) Special Agent in Charge (SAC) Kenneth Kaiser, OIG SAC Emerzian, OIG Regional Inspector General for Audit (RIGA) Barry Savill, and OIG ASAC Diane Dechellis, met with Springfield Mayor Charles Ryan in **Springfield, MA**, to discuss the challenges facing the City of Springfield in the wake of the indictment of employees from the Community Development Office, the Economic Development Office, and the Springfield Housing Authority. IG Donohue promised OIG's continued support to eliminate corruption in HUD-funded programs.

In **Worcester, MA**, IG Donohue, RIGA Savill, SAC Emerzian, ASAC Nelting, and SA Gene Westerlind met with Worcester Housing Authority ED Raymond Mariano to discuss strategies to address tenant fraud in Authority developments. ED Mariano thanked IG Donohue for the OIG's support in addressing tenant fraud, and IG Donohue pledged continual OIG support through the Authority's Section 8 Fraud Initiative.

On the same day, IG Donohue, RIGA Savill, SAC Emerzian, ASAC Nelting, and SA Westerlind met with Worcester District Attorney John Conte and First



Inspector General Kenneth Donohue addresses the Worcester Housing Authority

Assistant James Regan to discuss prosecutive strategies to address tenant fraud in Authority developments.

On the same day, IG Donohue, RIGA Savill, SAC Emerzian, ASAC Nelting, and SA Westerlind met with Worcester Police Chief Gerald Vizzo and Lt. Steven Sargent to discuss investigative strategies to address tenant fraud and violent crime caused by illegal tenants in Authority developments. After the meeting, IG Donohue was invited to visit the summer camp sponsored by the Worcester Police Department Gang Unit for children living in Worcester public housing developments. IG Donohue addressed approximately 50 children and let them know that they could create their own destiny by following their dreams and by staying in school and away from drugs.

John Dupuy, Executive Assistant (EA) to the IG, conducted a single-family fraud awareness training course at the Federal Housing Administration (FHA) training event in **Denver, CO**. This is the third such event conducted by FHA for mortgage lenders; about 150 individuals were in attendance. The fraud awareness

training covered common single family fraud schemes and the OIG's role in investigating these crimes. Also covered was OIG's interaction with the Department in ensuring that administrative sanctions are taken against the offenders.

**In Indianapolis, IN, and Pittsburgh, PA**, EA Dupuy addressed the annual Indiana Public Housing Authorities conference with a presenta-

tion of a fraud awareness course focused on current OIG initiatives, including the Section 8 and Fugitive Felon Initiatives. In attendance were 300 representatives of PHAs in the State of Indiana. SAC Barry McLaughlin also addressed the conference, thus allowing an opportunity to meet and discuss issues with staff and directors of all PHAs in his region and offering assistance in investigating fraud cases.

EA Dupuy also made a presentation in Pittsburgh to a combined group of appraisers and mortgage bankers at a joint Appraisal Institute/Mortgage Banking Association meeting. EA Dupuy spoke about the ongoing efforts of the OIG to fight fraud in single-family housing and emphasized case studies involving appraiser fraud, property flipping, and bankruptcy fraud to an audience of over 80 attendees. This marks a continuing effort to highlight the OIG's emphasis on single family fraud and outreach to industry groups, specifically lenders and appraisers. SA Donrich Young from Pittsburgh also attended. He discussed issues and offered his assistance in fraud investigations to members of the local mortgage industry.

EA Dupuy addressed the American Bankruptcy Institute on the relationship between bankruptcy fraud and single-family fraud in **Washington, DC**. Participants included creditors' lawyers, representing lending institutions, who see their clients impacted by serial filings and fractionalized interest schemes wherein bankruptcies cause automatic stays on foreclosure proceedings. EA Dupuy addressed these issues along with the Chief of the Criminal Enforcement Unit, Executive Office of U.S. Trustees.

In **New Orleans, LA**, EA Dupuy made a presentation of OIG activities at the annual Public Housing Authorities Directors Association (PHADA) conference. Topics included the OIG's role in the Rental Housing Integrity Improvement Project, focusing on Section 8 subsidy overpayments. The OIG has been working with the Department and members of PHADA in helping to address this area of concern. EA Dupuy also discussed how single-family fraud schemes, such as flipping and equity skimming, can impact a public housing authority's Tenant-Based Housing Choice program. This marks the second time that the OIG has been invited to make a presentation at the PHADA annual conference.

In **Orlando, FL**, EA Dupuy made a presentation to the Florida Quality Council, which is composed of individuals and businesses involved in single-family lending in the State of Florida. The presentation focused on the role of the OIG in addressing single-family fraud issues. Areas of concern by the group included property flipping schemes, loan origination fraud, and identity theft issues.

EA Dupuy made a presentation of OIG activities at a training course sponsored by FHA in **Philadelphia, PA**. This

is the second of four planned FHA training sessions being held for the mortgage industry, covering all aspects of FHA operations. In attendance were 200 representatives from mortgage institutions, many new to doing business with FHA. EA Dupuy presented an overview of the role of the OIG, focusing on single-family mortgage fraud, and provided examples of both past investigations and warning signs of single-family fraud. This marks a continuing coordination with FHA and the mortgage industry in learning about mortgage fraud.

In **Billings, MT**, EA Dupuy and SAC John McCarty conducted a fraud awareness course for Executive Directors and Board members of Native American housing authorities from the HUD Offices of Native American Programs, Northern Plains Region. Deputy IG Michael Stephens began the course by addressing the audience and highlighting the role of the IG in fighting waste, fraud, and abuse in all HUD programs, including Native American Programs. Deputy IG Stephens continued his site visit with a meeting with the Chair of the Crow Tribe and a discussion covering tribal concerns and their relation to HUD. This fraud awareness course, the first of its kind, marks a new relationship with HUD's Office of Native American Programs and the National American Indian Housing Council. Region 8 ASAC Joseph Clarke and Region 8 SA Theron Hanes were also present and expanded their contacts with the Native American housing stakeholders in the Northern Plains Region.

In **Columbia, SC**, EA Dupuy taught at and attended a Criminal Bankruptcy Fraud course hosted by the Executive Office of the U.S. Trustee at the Department of Justice's National Advocacy Center. Over 60 Assistant U.S. Trustees

and trial attorneys from around the country were present to learn about bankruptcy fraud schemes, specifically, single-family fraud cases investigated by the OIG. The cases include loan origination and flipping schemes as well as equity skimming. These schemes often lend themselves to bankruptcy fraud schemes such as serial filings and fractionalized interest schemes, which cause automatic stays on foreclosure proceedings. Trustees have been a source of referrals for such single-family cases. The OIG continues to enjoy a close working relationship with Trustees around the country. For example, ASAC Geary in Chicago has often taken the lead in coordinating with the Office of the U.S. Trustee.

SAC McCarty and EA Dupuy presented a fraud awareness seminar at the annual National American Indian Housing Council conference in **Anaheim, CA**. This marks a new outreach effort to work in partnership with the Council in providing fraud awareness and program integrity seminars to Native American tribal governments and housing authorities. The seminar focused on the role of the OIG, fraud issues, what housing authorities need to do to combat fraud, and specific case studies. SACs Rebecca Kiser, Lester Davis, James Beaudette, and McLaughlin also attended.

In **Denver, CO**, EA Dupuy, SAC McCarty, and ASAC Clarke attended the annual bankruptcy fraud working group, which is convened and coordinated by the Main Justice Fraud Section, Criminal Division. The focus of the group is to coordinate efforts among Federal law enforcement agencies, Assistant U.S. Attorneys, and U.S. Trustees in an effort to better respond to schemes involving bankruptcy fraud. The OIG is playing a

significant role in bankruptcy fraud as it relates to single-family fraud in that numerous investigations of single-family loan origination schemes, flipping, and equity skimming involve subjects who abuse the bankruptcy code by filing false bankruptcies, which result in automatic stays on foreclosures.

In **Decatur, IL**, RIGA Heath Wolfe and ASAC Geary made a presentation to the Illinois Association of Housing Authorities on issues relating to OIG operations, common fraud schemes at housing authorities, and the process for conducting audits and investigations. It was a successful event that allowed RIGA Wolfe and ASAC Geary the opportunity to share valuable information about the OIG.

SAC McLaughlin and RIGA Wolfe made a presentation to HUD's Eastern/Woodlands Office of Native American Programs at the Chicago Regional Office in **Chicago, IL**. The presentation included an overview of OIG's operations/authority, an explanation of how audits and investigations are conducted, and audit resolution training in conjunction with HUD Handbook 2000.06, REV-3. The presentation was well received, and HUD staff extended their appreciation for the information.

Los Angeles Region SAC Beaudette, ASAC Lori Chan, and SA Eric Huhtala spoke to the Northern California and Nevada Executive Directors at their quarterly meeting in **Oakland, CA**. They discussed the \$1.1 billion reduction in the fiscal year (FY) 2005 assisted housing budget, along with the new Flexible Voucher Program. The importance of housing authorities working in tandem with HUD and the OIG was emphasized, as diminishing budgets will impact everyone.

In **Baltimore, MD**, Mid-Atlantic Region SAC Robert Brickley participated with representatives from the FBI and the U.S. Attorney's Office in a panel discussion sponsored by the Baltimore Community Law Center, regarding enforcement efforts in predatory lending cases. Before an audience of approximately 30 attorneys, community activists, and representatives from the mortgage and real estate industries, SAC Brickley talked about common FHA fraud schemes, including property flipping and inflated appraisals, and the impact of predatory lending on local neighborhoods. He emphasized the partnerships that have been formed with other Federal agencies to address and reduce fraudulent activity in and around Baltimore.

In **New Haven, CT**, ASAC Dechellis and ARIGA O'Rourke were the luncheon speakers for the Connecticut National Association of Housing and Redevelopment Officials. They presented common fraud schemes that could be perpetrated by tenants, landlords, and PHA employees. They also discussed the role of the IG and the responsibilities of the OIG Offices of Investigation and Audit.

In **Waterville, ME**, SAC Emerzian, ASAC Nelting, and ARIGA O'Rourke spoke at the Residential Initiatives for Maine. Their presentation, "Protecting your Agency from Fraud," discussed how fraud harms the needy families that HUD helps. The audience included local housing authorities, community directors, commissioners, low-income housing developers, and independent public accountants and others doing business with housing providers.

Amy Durso, OIG Kansas City Region SA, and SAC Karen Sweet, Missouri Division of Legal Services,

spoke at eight roll calls at the Kansas City Police Department, East Patrol Division, in **Kansas City, MO**. During the roll calls, approximately 65 police officers were trained on how to obtain information from the respective agencies. They were also briefed on ways to get problem tenants evicted and terminated from receiving welfare benefits through the State. Each officer was given a laminated card which contained various ways to reach each agency.

Midwest Region ARIGA Brent G. Bowen was invited by HUD's Chicago Regional Office of Community Planning and Development to speak at its HUD Entitlement Conference in **Chicago, IL**. ARIGA Bowen spoke to about 100 representatives from entitlement communities in the State of Illinois on the mission and functions of the OIG. He also discussed the Chicago OIG Office's focus on housing rehabilitation and new construction in its audits of entitlement and nonentitlement communities.

ASAC Geary made a presentation at the Midwestern Intergovernmental Audit Forum in **Chicago, IL**. This group consists of Federal, State, and county auditors as well as private accounting firms. ASAC Geary discussed common FHA frauds and fraud schemes.

In **Chicago, IL**, ASACs Geary and Ray Espinosa made a presentation to Detectives from the Chicago Police Department. They discussed HUD/FHA single-family fraud and various fraud schemes. Approximately 30 individuals were in attendance.

Mid-Atlantic Region ASAC Robert Gale and SA Daniel Harding attended the Maryland Association of Housing and Redevelopment Authorities' annual

conference in **Ocean City, MD**. During a breakout session attended by over 60 individuals, SA Harding discussed the mission and investigative jurisdiction of the OIG, including new initiatives and joint efforts such as Upfront Income Verification, the U.S. Marshal's Fugitive Felon Program, the National Center for Missing and Exploited Children, and potential joint efforts with local law enforcement offices and district attorneys. Harding also discussed areas of mutual concern and potential cooperative efforts with the various PHA executive directors and their staffs. As a result of this meeting, several PHA representatives have requested to meet with the OIG to discuss particular issues that may ultimately result in the opening of new casework.

In **Harrisburg, PA**, at the request of the Dauphin County District Attorney, Senior SA Daniel J. Ellis conducted an outreach seminar at the Dauphin County Department of Adult Parole and Probation, attended by representatives of various Dauphin County law enforcement agencies. SA Ellis spoke about the OIG's Section 8 Fraud and Fugitive Felon Initiatives and HUD rules and regulations governing Section 8 tenants and landlords, with particular emphasis on situations where termination of assistance would be appropriate. All attendees were provided with pertinent Code of Federal Regulations and HUD handbook citations, along with a list detailing the locations of assisted housing in their jurisdictions and the names of persons to contact with questions or concerns at their housing authorities. Ongoing outreach efforts such as this in and around Harrisburg, PA, have resulted in numerous suspected

cases of fraud being forwarded to the OIG and an increased emphasis on termination of Section 8 assistance to recipients who commit fraud or otherwise violate their lease agreements.

In **Waco, TX**, Senior Forensic Auditor (SFA) Loretta Burns and SA Robert Jones, both from the Southwest Region, made a presentation on single family fraud to the Waco Builders Association. SFA Burns and SA Jones discussed fraud awareness training regarding single-family loan origination fraud, predatory lending, and common schemes used in committing FHA loan fraud. Approximately 50 individuals from the single-family loan industry were in attendance, including appraisers, mortgage company employees, and real estate agents.



Special Agent Robert Jones makes presentation to the Waco Builders Association.

SFA Burns spoke to the Texas Land Title Association at its regional seminar in **South Padre Island, TX**. Approximately 240 attorneys and escrow officers in the title industry doing business in the central Texas region were in attendance. SFA



Forensic Auditor Loretta Burns addresses Texas Land Title Association.

Burns' presentation focused on fraud and was part of a continuing education track, "Legalities of Title: Risky Business." This seminar marked the completion of a five-seminar series given to members of the title industry in Texas.

In **Tacoma, WA**, SA Marc Montague was a guest speaker at the 2004 Northwest Regional Conference for the National Association of Housing and Redevelopment Officials. SA Montague was part of a panel that included Harlan Stewart, the Director of Public Housing for HUD, Region 10. SA Montague made a presentation on combating Section 8 tenant fraud and how public housing agencies can provide quality referrals to the OIG.

In **Compton, CA**, OIG SAs Michael Gibson and Ira Long spoke at the Compton Housing Authority's Annual Section 8 Tenant Briefing. SAs Gibson and Long explained the OIG's Rental Assistance Compliance Enforcement Initiative and expressed a desire to work with Section 8 recipients in detecting and preventing fraud, waste, and abuse in the Section 8 program. They also explained that violations of Section 8 program regulations, such as unreported income,

drug usage/activity, and allowing unauthorized individuals to reside in a subsidized unit, could lead to the loss of subsidized benefits. Residents were assured that the units that are part of the Rental Assistance Compliance Enforcement Initiative were selected based on investigative leads, including complaints/information received from community residents, local housing authorities, and other law enforcement agencies. SAs Gibson and Long fielded several questions regarding the initiative and received positive feedback from residents. Residents were encouraged to contact the HUD-OIG Office of Investigation to report any suspected fraud or abuse related to the Section 8 program. The Compton Housing Authority extended an invitation to the HUD-OIG to speak at future tenant briefings.

OIG SA Kathleen Hatcher made presentations at the United Council on Welfare Fraud's (UCOWF) annual conference in **San Diego, CA**. SA Hatcher explained OIG's Rental Assistance Compliance Enforcement Initiative and expressed a desire to develop collaborative partnerships with UCOWF members. She further discussed fraud trends and schemes encountered by the OIG during rental assistance investigations. Conference participants were interested in rental assistance eligibility requirements and how information can be shared among different agencies. Participants were provided a handout with contact information for each HUD-OIG Region. UCOWF leaders expressed their interest in having OIG make presentations at next year's conference to be held in Des Moines, IA.

At the invitation of the Housing Authority of Billings, SA Hanes gave a lecture entitled "Fraud Awareness in Public Housing" at the Annual Regional

Convention of the National Association of Housing and Redevelopment Officials in **West Yellowstone, MT**. The invitation was the result of a Section 8 Housing Choice Voucher program investigation the OIG conducted with the assistance of the Housing Authority of Billings, which hosted the conference. This lecture was presented to approximately 75 members of various housing authorities that are members of the local Mountain Plains Chapter.

SA George Dobrovic was a representative on a panel discussion for the Northern District of Ohio Law Enforcement Coordinating Committee in **Cleveland, OH**. His panel discussed “Trends in Fraud Prosecutions.” SA Dobrovic provided insight into the HUD-OIG, the Section 8 Initiative, and common frauds in Single Family Housing programs, including property flipping, deed stealing, and bankruptcy.

In **Ocean City, MD**, Randy McGinnis, Director of the Financial Audits Division, made a presentation to the Mid-Atlantic Intergovernmental Audit Forum on “Producing Auditable Financial Statements More Quickly.” The presentation focused on key factors that enabled HUD to have its financial statements completed and audited in a more timely manner in recent years. Attendees included representatives from Federal, State, and local agencies in the Mid-Atlantic region.

Doris Denmon and Bob Ashworth of the Hotline staff manned an OIG exhibit at the annual National Fair Housing Training Conference and Housing Policy Summit at the Marriott Wardman Park

Hotel in **Washington, DC**. The 1,500 participants at the conference included senior officials from the Office of Fair Housing and Equal Opportunity and other HUD program offices, representatives of State and community agencies that contracted fair housing investigations, and advocates from regional and local organizations that promote fair housing compliance and education. The Hotline staff passed out a newly developed, wallet-sized OIG Hotline contact information card that was well received by conference participants. The card includes public assistance telephone numbers for Public and Indian Housing, Multifamily Housing, Fair Housing, and Real Estate Settlement Procedures Act. The new cards will soon be made available to OIG personnel.

OIG SA Hatcher participated in the monthly Orange County Area-Wide Housing meeting with representatives from the Anaheim Housing Authority, Santa Ana Housing Authority, Garden Grove Housing Authority, and Orange County Housing Authority in **Garden Grove, CA**. SA Hatcher explained HUD-OIG’s Rental Assistance Compliance Enforcement Initiative, which is this office’s proactive approach to followup on investigative leads developed regarding various criminal violations within Rental Assistance programs. SA Hatcher further discussed fraud trends and schemes HUD-OIG encounters in Rental Assistance investigations. The desire to develop collaborative partnerships with committee members was stressed. Committee members were interested in how information can be shared among different agencies, and the committee leaders expressed their interest in having HUD-OIG members attend future meetings.







## Chapter 8: Review of Policy Directives

**R**eviewing 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, the OIG reviewed 199 policy notices. This chapter highlights some of the OIG recommendations on these notices as well as other policy directives.

## Notices of Funding Availability

### Revitalization of Severely Distressed Public Housing HOPE VI Revitalization Grants

We did not concur with this draft Notices of Funding Availability (NOFA) because the Office of Public and Indian Housing did not establish controls to assure Moving to Work agencies used Housing Opportunities for People Everywhere (HOPE VI) funds for eligible activities. The housing agencies participating in the Moving to Work demonstration have the authority under the statute to use funds for any housing-related purpose. Consequently, the HOPE VI grant award may not provide the improvement to the targeted development as anticipated in the Appropriation Act. The OIG expressed concern about the statute requirement that as a selection criteria, the U.S. Department of Housing and Urban Development (HUD) must require information about the relationship between the HOPE VI grant and the agency plan. The draft NOFA did not establish as a selection criterion the information about the relationship between the HOPE VI grant and the agency plan.

The Offices of Public and Indian Housing and the Inspector General mutually agreed to change the NOFA. Public and Indian Housing revised the draft NOFA and established the controls needed to mitigate the program risks for Moving to Work participants inappropriately using the grant award on activities not authorized in the statute. The draft NOFA was revised to contain a selection criterion for resident participation.

Public and Indian Housing has improved the control structure to obtain a higher probability that the housing agencies will use the funds to assist the targeted population. The NOFA has been issued.

## Proposed Rules

### FR-4712-01 Disposition of HUD-Acquired Single-Family Property-Good Neighbor Next Door

HUD drafted a proposed rule to expand the eligibility of the Officer Next Door and Teacher Next Door programs (OND/TND) to tribal police officers, firefighters, and emergency rescue workers under a "Good Neighbor Next Door" title. The program gives a first offer to purchase advantage and typically a 50-percent price discount to these potential buyers of HUD single-family properties that are located in urban revitalization areas.

We did not concur with the proposed rule because the program's basic design appears to remain vulnerable to abuse and may never achieve the stated purpose of reducing neighborhood crime rates and urban blight. The program abuses were documented in a previous audit report (Report No. 2001-AT- 0001), individual

guilty pleadings, and criminal convictions. As to achieving the program's purpose, a recent HUD study of OND/TND in Rialto, CA, and Spokane, WA, concluded that there must be a sufficient concentration of OND/TND properties in the revitalization zones to effect reduced crime rates. Many HUD properties sold early in the program simply were not in the targeted areas of greatest need and, therefore, contributed little to the program's goals. While program changes have corrected this problem, HUD has not demonstrated that a sufficient number of properties can be made available in the targeted areas nationwide to effect measurable neighborhood change. Timely and sufficient property availability is a systemic flaw in the program design, not easily corrected, and, consequently, expanding eligibility to other special occupations is not warranted.

The Department was reviewing the nonconcurrency at the end of the semianual reporting period.

### Electronic Submission of Applications for Grants and Other HUD Financial Assistance

HUD issued a new rule to inform potential applicants for HUD grants or other Federal financial assistance how to submit their applications to HUD electronically. The Federal Government now provides American citizens with one online location to find and apply for grants across the Federal Government. *Grants.gov* is the single location to find over 900 grant programs offered by the 26 Federal grant-making agencies. It provides the public with an accurate and reliable location to search for grant information. *Grants.gov* is supposed to streamline the process of awarding over

\$350 billion annually to State and local governments, academia, not-for-profits and other organizations.

We did not concur with this new rule because we found that the system is not being used to the extent predicted, and the proposed rule failed to ensure the internal mechanisms at HUD could accommodate the *Grants.gov* data inflow. The Office of Management and Budget stated that only 327 grants have been processed since the system went online in March 2004 and they were aiming to receive 15,000 grant applications in the first year. We found that HUD had failed to test or record the process of system-to-system interfaces to ensure that data will flow directly into HUD's databases. Without the proper interface, HUD will not be able to use *Grants.gov* in an efficient and effective manner. HUD also did not obtain a risk assessment from system owners in order to mitigate control weaknesses. This program is one of the 24 Federal cross-agency E-Government initiatives focused on improving access to services via the Internet. The vision for *Grants.gov* is to be a simple, unified source to electronically find, apply, and manage grant opportunities.

HUD's Office of Departmental Grants Management and Oversight is in the process of performing an assessment of the *Grants.gov* requirements, and the proposed rules are being finalized.

### Conversion of Developments from Public Stock: Methodology for Comparing Costs of Public Housing and Tenant-Based Assistance

The Office of Public and Indian Housing circulated a draft regulation on the Conversion of Developments from

Public Housing to Tenant-Based Assistance. The statute mandates that when low-income development units cost more to operate than comparable units in the Section 8 Voucher program, the units in the Low-Income program must be converted to the Section 8 Voucher program. The draft regulation is establishing the method for implementing the statute.

We did not concur with this draft regulation because the Department has not conducted a risk assessment on the conversion program. Public Law 108-199 in section 411 states that none of the funds made available in the Consolidated Appropriations Act may be used until a risk assessment is conducted and any risks identified in the study are appropriately mitigated.

Section 9(g)(3) of the Housing Act of 1937, as amended, states that a housing agency may not use any of the amounts allocated from the Capital Fund for the purpose of constructing any public housing if such construction would result in a net increase from the number of units owned or operated by the housing agency at October 1, 1999. To assure that housing agencies are aware of the number of units in their inventory at October 1, 1999, the Office of Public and Indian Housing should publish in the regulation the number of units each housing agency had at October 1, 1999.

Further, the Department should specify in the regulation that as units are converted from the low-income inventory due to conversion, the list should be revised to reduce the number of units the housing agencies have in their inventory. The housing agencies should not be able to replace, through construction, any unit converted from the Low-Income program

because this circumvents the purpose of the statute in reducing units that are not cost effective from the Low-Income program.

The Office of Public and Indian Housing decided to delay the release of the regulation until the risk assessment is conducted and all outstanding and material risks are mitigated. It is also considering our other suggestions.

The draft regulation has not been revised or published.

### Revision to the Public Housing Operating Program

The Office of Public and Indian Housing issued a draft interim regulation on the system for computing the operating subsidy. We provided comments to assist in developing the interim regulation.

HUD allowed a housing agency to use either the first or last day of the month in determining if a unit satisfies the requirements. HUD, however, cannot specify a sufficient control feature to avoid a housing agency from using the option to justify more units to qualify for assistance. We recommend that HUD mandate the first day of the month.

HUD listed documentation needed to support the existence of the unit including street address. The projects often do not have a specific street address. To recognize this reality, the street address should be mandated but an exception allowed if a street address is not available. A note qualifying the mandate should be made, stating that if a street address is not available, the next best documentation should be used to find a unit. We recommend the next best documentation include

rent roll control number and suffix, current rate paid by tenant, number of bedrooms, current occupancy status, modernization status, and mail box identifier.

The interim regulation provides for the payment of subsidy for a maximum number of vacant units. The OIG recommends that operating subsidies not be paid for any vacant unit.

The regulation needs to specify a sanction for not maintaining the utility billings to document the amount of consumption.

We recommend that any housing agencies annually collecting rent receipts from low-income tenants at a rate less than 20 percent of the fair market rent for a two-bedroom unit as a whole, experience a 5-percent reduction in their operating assistance.

The housing agencies should use the audited year-end financial statements to prepare the subsidy calculation.

The OIG recommends that in computing subsidy amounts, housing agencies should not round up to the nearest whole dollar. The larger the unit size of the housing agency, the larger the adjustment the housing agency has in rounding up to the whole dollar amount and the more operating subsidy the housing agency will obtain. Further, we recommend that income from other sources be included in the calculation. Any housing agency with assets to generate income from other sources has obtained the resources from previous grants. The subsidy needs to be reduced to reflect the gain in income from the use of assets.

HUD should establish a requirement that a housing agency will not be funded in advance but on a reimbursable basis if the housing agency has not reduced its backlog of maintenance and increased the rental receipts by 2 percent annually.

We recommend that the Department mandate that the housing agency not be able to obtain any assistance for 1 year for each unit if the unit has not been recertified annually and in a timely manner and if there are any questions concerning income being resolved as an alternative to the Department's plan to withhold funding.

## Mortgagee Letter

### Eligibility of Mortgages on Hawaiian Homelands Insured Under Section 247

HUD drafted a mortgagee letter to implement expanded eligibility of native Hawaiians that apply for Federal Housing Administration (FHA) single-family insured mortgages under the Hawaiian Homelands program (Section 247 of the National Housing Act). The Hawaiian Homelands consist of millions of acres set aside for lease by native Hawaiians similar to Native American Indian programs. To be eligible for a FHA mortgage on homes in the Hawaiian Homelands, a native Hawaiian would need to document a specific blood relationship to the races inhabiting the Hawaiian Islands before January 1, 1778, and have proof of at least a one-quarter native bloodline.

We commented that expanding borrower eligibility, based on native bloodline documentation, would appear to

increase the risk of fraud and corruption in the FHA loan approval process. We recommended the Department conduct a risk assessment before issuing the mortgage letter.

The Department was reviewing our comments at the end of the semiannual reporting period.

## Notices

### Establishment of Amnesty Programs at Public Housing Agencies Resulting from Income and Rent Determinations

The draft Notice PIH 2004 provides requirements to housing agencies that plan to offer tenants amnesty as a result of the Upfront Income Verification System detecting a difference between the tenant claim of income and the income reported by their employers or agencies providing income assistance. The Department initiated the Upfront Income Verification System to address subsidy errors resulting from tenants who are underreporting or not reporting their income.

We did not concur with this notice because it inappropriately empowers housing agencies to decide who will be prosecuted. Title 28, U.S. Code, paragraph 516, states that the Attorney General of the United States is responsible for deciding who will be prosecuted for a Federal offense. In the Tenth Amendment to the United States Constitution, the determination on who will be prosecuted under State law is reserved to State authorities.

During the past 18 months, the OIG has investigated numerous cases involving tenants who falsely reported their incomes. Hundreds of these cases resulted in successful prosecutions or other remedial actions. Currently, the OIG has approximately 700 pending investigations involving tenants who have defrauded Office of Public and Indian Housing assistance programs. The draft notice threatens to jeopardize current investigations and to undermine the fairness of past convictions.

The Office of Public and Indian Housing is reconsidering the decision to issue the notice.





## Chapter 9: Audit Resolution

In the audit resolution process, the Office of Inspector General (OIG) and the U.S. Department of Housing and Urban Development (HUD) management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant pending issues where resolution action has been delayed. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996.

We are proud to note that for the seventh consecutive semiannual period, there are no outstanding management decisions on audit recommendations over six months old to be reported to Congress. In addition to this chapter on audit resolution, see appendix 2, table A, "Audit Reports Issued Prior to Start of Period with No Management Decision at 9/30/04," and table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/04."

## Delayed Actions

### Audits of HUD's FY 1991 through 2003 Financial Statements

*First issued June 30 1992.* HUD has been preparing consolidated financial statements under the requirements of the Chief Financial Officers Act for 13 years beginning with fiscal year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most

recent audit report for FY 2003, we were able to express an unqualified opinion on HUD's principal financial statements. The results of our FY 2003 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to (1) complete improvements to financial systems and (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance. Corrective action plans to resolve these issues have continued to change over the last decade.

### Audits of FHA's FY 1991 through 2003 Financial Statements

*First issued March 27, 1992.* The Federal Housing Administration (FHA) has been preparing financial statements for 13 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2003 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes and (2) continue to improve early warning and loss prevention for single-family insured mortgages. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and application level security controls. FHA's latest action plan continues to report progress toward resolving these remaining long-standing issues, with final actions targeted over the next 1 to 3 years.

## Los Angeles Community Development Bank - Economic Development Initiative Grant/Section 108 Loan Guarantee Program

*Issued September 25, 2002.* The Los Angeles Community Development Bank had not fully complied with HUD regulations and Economic Development Initiative agreements. Seven recommendations concerning the bank's assistance to businesses that had not met a national objective of creating or retaining jobs for low-and moderate-income persons remain unresolved.

In January 2003, the Los Angeles Office of Community Planning and Development (CPD) agreed with our recommendations and agreed to complete actions by September 30, 2003. In conjunction with the agreed-upon actions, in May 2003, CPD requested that HUD's Office of General Counsel provide a legal opinion to be used to determine whether the bank complied with the regulations and national objectives in the provision of economic development assistance. The legal opinion is required because of a difference between OIG's and CPD's interpretation and application of the relevant national objective regulations. The Los Angeles Office of CPD received a response from the Office of General Counsel in April 2004; however, it required CPD to obtain additional information from the City of Los Angeles. CPD subsequently received the additional information from the City of Los Angeles in June and August 2004 and is currently reviewing it. After CPD completes its review, it will determine what action should be taken on the audit recommendations and coordinate the results with the

OIG. The Office of CPD plans to provide OIG with a response and proposed actions to resolve the report in October 2004. (Report No. 2002-SF-1003)

## Federal Financial Management Improvement Act of 1996

The 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 system requirements within 3 years or obtain Office of Management and Budget concurrence if more time is needed. FFMIA requires us to report in our Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in 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 FY 2003, the Department continued to report that 4 of its 46 financial management systems were not in substantial compliance with FFMIA. Our audit of HUD's FY 2003 financial statements cites additional financial management system weaknesses, which address how HUD's financial management systems remain substantially noncompliant with Federal financial management requirements. We also cited weaknesses regarding HUD/FHA's limited ability to integrate its financial processing environment and effectively monitor budget execution related to certain funds control processes. With the implementation of the

FHA Subsidiary System, the Department became substantially compliant with the FFMIA Standard General Ledger provision. Our audit of HUD's Funds Management Function indicates HUD's funds control process is now capable of performing the mandatory Funds Management Function requirements provided by

the Joint Financial Management Improvement Program. The FHA Subsidiary General Ledger Project is a multiphase project to be completed by December 2006 and should remediate weaknesses for HUD to fully integrate its financial processing environment.





# Audit Reports Issued

## Internal Reports

### 7 Audit Reports

#### Community Planning and Development

2004-FW-0001 Management Controls Over Grantee and Subgrantee Capacity, 06/18/2004.

#### General Counsel

2004-AT-0002 Effectiveness of the Departmental Enforcement Center, 07/12/2004.

#### Housing

2004-DE-0002 Use of Independent Contract Loan Officers To Originate FHA-Insured Loans, 04/23/2004.

2004-PH-0004 Contracts for Endorsement and Postendorsement Services, 09/20/2004.

#### Office of Federal Housing Enterprise Oversight

2004-KC-0001 The Office of Federal Housing Enterprise Oversight Exceeds Its 60-Percent Statutory Requirement But Has Cost Weaknesses in Its Controls over Allocating Costs for that Requirement, 09/30/2004.

#### Public and Indian Housing

2004-DP-0003 Application Controls over Data Integrity within the Public and Indian Housing Information Center, 05/07/2004.

2004-SE-0001 Welfare to Work Section 8 Voucher Program, 06/29/2004. Better Use: \$7,000,000

### 1 Audit-Related Memoranda\*

#### Chief Financial Officer

2004-DP-0801 Funds Management Function Compliance with Joint Financial Management Improvement Programs, "Core Financial System Requirements" (JFMIP-SR-02-01, November 2001), 08/25/2004.

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\* The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, to report interim results, or to report the results of civil actions or settlements.

# External Reports

## 50 Audit Reports

### Community Planning and Development (9 Reports)

2004-CH-1004	Pontiac Neighborhood Housing Services, Incorporated's, HOME Investment Partnership Program, Pontiac, MI, 05/05/2004. Questioned: \$876,439.
2004-CH-1005	Connexions Enterprise, Inc.'s, Supportive Housing Grant Program, Chicago, IL, 06/17/2004. Questioned: \$205,371; Unsupported: \$174,583; Better Use: \$174,134.
2004-FW-1007	City of New Orleans, LA, Desire Community Housing Corporation, 06/22/2004. Questioned: \$5,467,648; Unsupported: \$4,043,973; Better Use: \$1,585,097.
2004-KC-1005	The City's Housing Program and the Role of the Housing and Economic Development Finance Agency, Kansas City, MO, 08/11/2004. Questioned: \$1,500,000.
2004-LA-1008	United States Veterans Initiative, Inc., Inglewood, CA, 09/27/2004. Questioned: \$7,253,030; Unsupported: 6,754,332; Better Use: 164,619.
2004-NY-1004	Lower Manhattan Development Corporation, Community Development Block Grant Disaster Assistance Funds, New York, NY, 09/15/204. Questioned: \$87,394; Unsupported: \$87,394.
2004-PH-1006	Peninsula AIDS Foundation, Inc., Newport News, VA, 05/17/2004. Questioned: \$339,661; Unsupported: \$339,661.
2004-PH-1007	City of McKeesport, PA, Community Development Block Grant Program, 05/28/2004. Questioned: \$694,573; Unsupported: \$694,573.
2004-PH-1008	Safe Haven Outreach Ministry, Inc., Washington, DC, 06/03/2004. Questioned: \$1,164,850; Unsupported: \$1,160,873.

### Housing (24 Reports)

2004-AT-1005	Cotton State Mortgage, Inc., Nonsupervised Loan Correspondent, Atlanta, GA, 04/21/2004. Better Use: \$221,007.
2004-AT-1008	American Mortgage Services, Inc., Nonsupervised Loan Correspondent, Millington, TN, 05/03/2004.
2004-AT-1010	First Community Mortgage, Inc., Nonsupervised Loan Correspondent, Fort Myers, FL, 06/17/2004. Questioned: \$700.
2004-CH-1007	A-Pan-American Mortgage Group, Nonsupervised Loan Correspondent, Chicago, IL, 08/09/2004. Questioned: \$273,352; Unsupported: \$128,296; Better Use: \$6,643,810.
2004-CH-1008	Cornerstone Mortgage Group, Limited Nonsupervised Loan Correspondent, Inverness, IL, 09/10/2004. Questioned: \$677,183; Unsupported: \$132, 092; Better Use: \$4,070,036.
2004-CH-1009	Decatur Mortgage Company, LLC, Nonsupervised Loan Correspondent, Indianapolis, IN, 09/23/2004. Questioned: \$1,031,786; Unsupported: \$356,723; Better Use: \$4,070,036.

2004-DE-1004	New Freedom Mortgage Corporation, Single Family Direct Endorsement Mortgagee, Salt Lake City, UT, 09/29/2004. Questioned: \$156,998.
2004-FW-1005	Mustang Nursing Center, Project No. 117-22003, Section 232 Nursing Home Audit, Mustang, OK, 04/19/2004. Questioned: \$171,554; Unsupported: \$1,650.
2004-FW-1008	United Properties Management, Inc., Multifamily Management Agent, Little Rock, AR, 09/14/2004. Questioned: \$445,612; Unsupported: \$181,106.
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR, 09/17/2004. Questioned: \$979,333; Unsupported: \$453,480.
2004-KC-1003	Wells Fargo Home Mortgage, Nonsupervised Direct Endorsement Lender, Des Moines, IA, 07/16/2004. Questioned: \$19,505,405; Better Use: \$246,649,035.
2004-KC-1004	Gershman Investment Corporation, Nonsupervised Direct Endorsement Lender, Clayton, MO, 07/28/2004. Questioned: \$116,402; Unsupported: \$71,010; Better Use: \$2,765,500.
2004-LA-1003	Homewide Lending Corporation, Nonsupervised Mortgagee, Los Angeles, CA, 05/19/2004. Questioned: \$318,872; Better Use: \$3,163,750.
2004-LA-1004	Sahara Mortgage Company, Nonsupervised Mortgagee, Las Vegas, NV, 06/17/2004. Questioned: \$396,106; Unsupported: \$329,762; Better Use: \$1,958,297.
2004-LA-1005	Guild Mortgage Company dba, Residential Mortgage Bankers, San Diego, CA, 07/09/2004. Questioned: \$811,843; Better Use: \$159,865,833.
2004-LA-1006	National City Mortgage Company, LLC, Direct Endorsement Mortgagee, Phoenix, AZ, 08/10/2004. Questioned: \$140,404; Unsupported: \$102,245; Better Use: \$482,410.
2004-NY-1003	Cambridge Home Capital, Nonsupervised Mortgagee, Great Neck, NY, 07/19/2004. Questioned: \$1,746,395; Unsupported: \$1,599,865; Better Use: \$2,258,900.
2004-NY-1005	Jersey City, NJ, Housing Authority, Section 8 Contract Administrator, 09/27/2004. Questioned: \$452,383; Unsupported: \$288,180; Better Use: \$245,076.
2004-NY-1006	Hartford Funding, Ltd., Nonsupervised Mortgagee, Ronkonkoma, NY, 09/28/2004. Better Use: \$445,150.
2004-PH-1009	First Funding, Inc., Nonsupervised Loan Correspondent, Largo, MD, 06/29/2004. Questioned: \$6,058; Unsupported: \$6,058; Better Use: \$371,743.
2004-PH-1010	Lambeth Apartments, Section 236/Section 8, Multifamily Housing Review, Pittsburgh, PA, 08/04/2004. Questioned: \$752,770; Unsupported: \$543,689.
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD, 09/10/2004. Questioned: \$88,856; Unsupported: \$27,718; Better Use: \$2,983,501.

2004-SE-1005 Quality Controls and Underwriter Accuracy under Multifamily Accelerated Processing at Continental Securities, LLC, Syracuse, NY, 06/21/2004. Questioned: \$13,268,851.

2004-SE-1006 Apreva, Inc., Nonsupervised Mortgagee, Bellevue, WA, 08/19/2004. Questioned: \$1,366,483; Unsupported: \$552,199; Better Use: \$2,867,722.

#### **Public and Indian Housing (17 Reports)**

2004-AT-1004 Cookeville, TN, Housing Authority, 04/08/2004. Questioned: \$367,067; Unsupported: \$324,295.

2004-AT-1006 Puerto Rico Public Housing Administration, San Juan, PR, 04/22/2004. Questioned: \$5,332,004; Unsupported: \$4,230,646.

2004-AT-1007 Housing Authority of the City of Asheville, NC, 04/28/2004. Questioned: \$2,499,972; Unsupported: \$649,139.

2004-AT-1009 Housing Authority of the City of Northport, AL, 05/20/2004. Questioned: \$434,735; Better Use: \$78,334.

2004-AT-1011 Opelika, AL, Housing Authority, Public Housing Programs, 07/23/2004. Questioned: \$148,538; Better Use: \$99,843.

2004-AT-1012 Housing Authority of the City of Durham, NC, 08/02/2004. Questioned: \$3,454,660; Better Use: \$31,244,906.

2004-AT-1013 Housing Authority of the City of Lakeland, FL, 08/19/2004. Questioned: \$1,000,682; Better Use: \$7,600,000.

2004-AT-1014 West Palm Beach, FL, Housing Authority, 08/19/2004. Questioned: \$150,000; Better Use: \$631,734.

2004-CH-1003 Minneapolis, MN, Public Housing Authority, Supplemental Police Services, 04/14/2004. Questioned: \$1,387,623; Unsupported: \$1,119,274.

2004-CH-1006 Housing Authority of the City of Evansville, IN, Housing Assistance Payment Savings Refunding Agreements, 06/23/2004. Questioned: \$796,858; Unsupported: \$768,517; Better Use: \$61,515.

2004-DE-1003 Housing Authority of the City of Greeley and Weld County, Housing Authority Tenant Selection and Continued Occupancy Activities, Greeley, CO, 06/22/2004. Questioned: \$10,070; Unsupported: \$10,070.

2004-FW-1006 San Antonio, TX, Housing Authority HOPE VI Program, 04/26/2004. Questioned: \$3,895,441; Unsupported: \$2,022,977.

2004-FW-1010 Housing Authority of the City of Houston, TX, Housing Choice Voucher Subsidy Standards, 09/29/2004. Questioned: \$797,280; Unsupported: \$625,087; Better Use: \$3,232,953.

2004-KC-1006 The Housing Authority of Kansas City, MO, Did Not Consistently Follow HUD Rules over Its Housing Choice Voucher Program, 09/30/2004.

2004-LA-1007 Housing Authority of Maricopa Country, Phoenix, AZ, 09/22/2004. Questioned: \$982,800; Unsupported: \$109,361.

2004-PH-1011	Petersburg, VA, Redevelopment and Housing Authority Did Not Follow Federal Procurement Regulations or Properly Manage HUD Funds, 09/08/2004. Questioned: \$2,826,909; Unsupported: \$1,943,993; Better Use: \$583,357.
2004-SE-1004	Seattle, WA, Housing Authority Moving to Work Demonstration Program, 05/21/2004. Questioned: \$1,516,464; Unsupported: \$1,516,464; Better Use: \$1,714,014.

## 10 Audit-Related Memoranda\*

### Housing (6 Memoranda)

2004-CH-1802	HAPI Management Inc., Multifamily Equity Skimming, Beverly Hills, CA, 05/12/2004. Questioned: \$409,388; Unsupported: \$279,021; Better Use: \$661,380.
2004-CH-1803	Somerset Point Nursing Home, Multifamily Equity Skimming, Shaker Heights, OH, 08/09/2004. Questioned: \$329,225.
2004-CH-1804	Legacy Management and Development Corporation, Multifamily Equity Skimming, Edina, MN, 09/16/2004. Questioned: \$305,038.
2004-FW-1802	Austin Loan Corporation, Nonsupervised Loan Correspondent, Austin, TX, 06/04/2004.
2004-KC-1801	Survey of NovaStar Home Mortgage's Use of Net Branches, Kansas City, MO, 09/30/2004.
2004-NY-1802	Groton Community Health Care Center, Inc., FHA Project Number 013-43055 and 014-10010, Groton, NY, 07/23/2004. Questioned: \$63,512.

### Public and Indian Housing (4 Memoranda)

2004-AT-1804	Survey of Miami Dade Housing Agency, Miami Dade County, FL, 05/04/2004.
2004-AT-1805	Survey of Municipality of Humacao, PR, Section 8 Housing Choice Voucher Program, 06/29/2004.
2004-NY-1803	Buffalo, NY, Municipal Housing Authority, Hotline Complaint, 09/15/2004.
2004-NY-1804	Buffalo, NY, Municipal Housing Authority, Micro Loan Program, 09/15/2004. Questioned: \$51,519, Unsupported: \$38,334; Better Use: \$47,900.

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\* The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, to report interim results, or to report the results of civil actions or settlements.





**Table A**  
**Audit Reports Issued Prior to Start of Period With No**  
**Management Decision at 09/30/2004**

\* 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 Where Final Action Had Not Been Completed**  
**as of 09/30/2004**

Report Number	Report Title	Issue Date	Decision Date	Final Action
1997-CH-1010	Major Mortgage Corporation, Section 203(K) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	06/01/2005
1999-FO-0003	U.S. Dept. of HUD Fiscal Year 1998 Financial Statements	03/29/1999	09/30/1999	Note 1
1999-DE-0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/1999	03/31/2000	Note 1
2000-FO-0002	Federal Housing Administration, Audit of FY 1999 Financial Statements	02/29/2000	08/09/2000	12/31/2005
2000-FO-0003	Attempt to Audit the FY 1999 Financial Statements, U.S. Dept. of HUD	03/01/2000	09/29/2000	Note 2
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	09/30/2005
2001-SF-1802	Audit of HUD Earthquake Loan Program (HELP) Funds, Woodland Hills, CA	02/08/2001	06/14/2001	Note 1
2001-FO-0002	Federal Housing Administration, Audit of Fiscal Year 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	Audit of HUD Fiscal Year 2000 Financial Statements	03/01/2001	07/18/2001	03/31/2005
2001-SF-1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/2001	07/24/2001	Note 1
2001-FO-0004	Review of HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data	03/28/2001	07/24/2001	Note 2
2001-SF-1804	Supportive Housing Program Grant County of Orange, Santa Ana, CA	05/09/2001	09/26/2001	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001-CH-1007	Detroit, MI, Housing Commission, Hope VI Program	05/16/2001	09/13/2001	06/30/2011
2001-PH-0803	Philadelphia, PA, Homeownership Center, Single Family Disposition Activities	06/14/2001	06/14/2001	10/11/2004
2001-AT-0001	Nationwide Audit Results on the Officer/Teacher Next Door Program	06/29/2001	01/29/2002	Note 2
2001-FW-1005	Harmony House, Inc., Supportive Housing Program, Harrison, AR	08/27/2001	12/21/2001	Note 1
2002-SF-0001	Nonprofit Participation, HUD Single Family Program	11/05/2001	08/30/2002	Note 1
2002-CH-1801	Housing Authority of the City of Evansville, IN	01/29/2002	05/18/2002	05/15/2005
2002-FO-0002	Federal Housing Administration, Audit of FY 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
2002-NY-0001	Nationwide Audit Asset Control Area Program, Single Family Housing	02/25/2002	06/17/2002	10/15/2004
2002-FO-0003	U.S. Department of HUD, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/27/2002	08/16/2002	Note 2
2002-PH-1001	Williamsport, PA, Community Development Block Grant and Home Investment Partnership Programs	03/19/2002	08/27/2002	Note 1
2002-BO-1001	City of Worcester, MA, CDBG Program	03/27/2002	08/29/2002	07/01/2005
2002-BO-1003	Newport, RI, Resident Council, Inc	04/30/2002	09/16/2002	01/15/2008
2002-AT-1002	City of Tupelo, MS, Housing Authority Housing Programs Operations	07/03/2002	10/31/2002	04/30/2010

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-AT-1003	National Scholarship Service and Veteran's Opportunity and Resource Center, Atlanta, GA, Supportive Housing Program	07/25/2002	10/21/2002	02/28/2005
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	Note 2
2002-FW-1002	Houma, LA, Housing Authority, Low-Rent Housing Program, Cash & Procurement Controls	09/18/2002	01/16/2003	10/29/2004
2002-AT-1808	Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Training Assistance Grant	09/20/2002	03/31/2003	Note 2
2002-NY-1005	The Legal Aid Society, New York, NY, Outreach and Training Assistance Grant and Public Entity Grant	09/23/2002	03/31/2003	Note 2
2002-DE-1005	Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants	09/25/2002	03/31/2003	Note 2
2002-SF-1003	Los Angeles, CA, Community Development Bank-Economic Development Initiative Grant/Section 108 Loan Guarantee Program	09/25/2002	01/27/2003	Note 2
2002-AT-1005	North Carolina Low-Income Housing Coalition, Inc., Raleigh, NC, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/27/2002	03/31/2003	Note 2
2002-DE-1002	Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-FW-1003	New Mexico Public Interest Education Fund, Albuquerque, NM, Outreach and Training Assistance Grant and Public Entity Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1002	Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1003	Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT0020MD	09/30/2002	03/31/2003	Note 2
2002-PH-1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant Number FFOT98012MD	09/30/2002	03/31/2003	Note 2
2002-SF-1004	Low-Income Housing Fund, Oakland, CA, Intermediary Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-SF-1007	Southern Arizona People's Law Center, Tucson, AZ, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2003-DE-1001	Sicangu Wicoti Awanyakepe Corp, Rosebud, SD, Indian Housing Block Grant Program	10/08/2002	02/28/2003	07/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-AT-1801	South Carolina Regional Housing Authority No. 3, Barnwell, SC	10/09/2002	02/06/2003	04/30/2005
2003-CH-1003	Tenants United for Housing, Inc., Chicago, IL, Outreach and Training Assistance Grants	10/29/2002	03/31/2003	Note 2
2003-SE-1001	Community Alliance of Tenants, Portland, OR, Outreach and Training Assistance Grant	10/31/2002	03/31/2003	Note 2
2003-KC-1801	University Forest Nursing Care Center, University City, MO	11/14/2002	02/24/2003	Note 2
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	Note 2
2003-AT-1001	Northwestern Regional Housing Authority Public Housing Programs, Boone, NC	01/09/2003	06/02/2003	01/09/2005
2003-FO-0002	Federal Housing Administration Audit of Fiscal Year 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	12/31/2006
2003-PH-1002	Philadelphia, PA, Housing Authority, Contracting and Purchasing Activity	01/27/2003	06/11/2003	04/30/2005
2003-FO-0004	Audit of HUD's Financial Statements Fiscal Years 2002 and 2001	01/31/2003	05/22/2003	02/28/2005
2003-NY-1001	Marion Scott Real Estate, Inc., Management Agent, New York, NY	02/12/2003	06/13/2003	Note 2
2003-FW-1001	Housing Authority of the City of Morgan City, LA, Low-Rent Program	02/21/2003	06/20/2003	10/31/2004
2003-BO-1002	People To End Homelessness, Providence, RI, Outreach and Training Assistance Grant	03/12/2003	03/31/2003	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-KC-0801	Inappropriate Home Ownership Center Instructions Denver, CO	03/18/2003	08/08/2003	Note 2
2003-KC-1803	Richmond Terrace Retirement Center, Richmond Heights, MO	03/24/2003	06/19/2003	10/15/2004
2003-NY-1003	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	03/25/2003	07/16/2003	02/28/2005
2003-CH-1014	Coshocton, OH, Metropolitan Housing Authority, Public Housing Program	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 2
2003-CH-1016	City of Cleveland, OH, Empowerment Zone Program	04/25/2003	09/11/2003	Note 2
2003-FW-1004	Spanish Village Community Development Corporation, Houston, TX, Upfront Grant & HOME Loan	04/28/2003	08/18/2003	02/18/2005
2003-CH-0001	HUD's Oversight of Empowerment Zone Program	05/07/2003	09/11/2003	09/30/2005
2003-BO-1003	City Of Bridgeport, CT, Home Investment Partnership Program	05/16/2003	09/16/2003	Note 2
2003-AT-1004	Historic Westside Village, Section 108 Loan and Economic Development Initiative Grant, Atlanta, GA	06/06/2003	09/26/2003	03/31/2006
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL	06/13/2003	10/10/2003	Note 2
2003-KC-0001	Survey of HUD's Administration of Section 3 of the HUD Act of 1968	06/24/2003	07/10/2003	12/31/2004

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-FW-1806	Colonial Oaks Apartments, Project No. 114-11132, Houston, TX	07/03/2003	07/03/2003	10/01/2004
2003-BO-1004	Brockton, MA Housing Authority, Portability Features of the Section 8 Housing Choice Voucher Program	07/17/2003	10/16/2003	Note 2
2003-CH-1018	Chicago, IL, Housing Authority, Outsourced Property Management Contracts Review	07/18/2003	01/14/2004	12/31/2005
2003-NY-1802	Safe Space, Inc., Housing Opportunities for Persons with AIDS and Supportive Housing Program, New York, NY	07/24/2003	11/21/2003	Note 2
2003-CH-1019	Fayette County Housing Authority, Section 8 Housing Program, Connersville, IN	07/25/2003	11/19/2003	10/24/2004
2003-AT-1006	Puerto Rico Department of Housing State HOME Investment Partnership Program, San Juan, PR	07/30/2003	12/24/2003	12/24/2004
2003-AO-0004	Review of the Department of HUD Staffing 9/30 Initiative	08/14/2003	11/03/2003	Note 2
2003-NY-1005	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	09/30/2003	01/28/2004	03/31/2007
2004-KC-1001	East Meyer Community Association, Use of HUD Grant Funds, Kansas City, MO	11/24/2003	03/29/2004	11/30/2005
2004-FO-0001	Federal Housing Administration Audit of Fiscal Year 2003 and 2002 Financial Statements	11/25/2003	02/25/2004	Note 2
2004-CH-1001	Kankakee, IL, County Housing Authority, Section 8 Housing Program	11/26/2003	03/24/2004	11/25/2004

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-CH-1002	Waukesha County CDBG and HOME Investment Partnership Programs, Waukesha, WI	11/26/2003	04/29/2004	06/30/2005
2004-PH-0001	Procedures for Filing Uniform Commercial Code Continuation Statements	11/26/2003	04/14/2004	01/19/2005
2004-DP-0001	Fiscal Year 2003 Review of Information Systems Controls in Support of the Financial Statements Audit	12/01/2003	05/28/2004	06/30/2005
2004-BO-1004	Danbury, CT, Housing Authority, Capital Fund Program	12/05/2003	04/05/2004	12/01/2008
2004-BO-1005	Springfield, MA, Housing Authority	12/10/2003	04/23/2004	12/31/2004
2004-DE-0001	Nationwide Review of Indemnification for Claims on Single-Family Insured Loans	12/15/2003	04/13/2004	01/31/2005
2004-FO-0003	U.S. Department of HUD Audit of Fiscal Year 2003 and 2002 Financial Statements	12/19/2003	07/20/2004	09/30/2005
2004-SE-1002	Scheller-Hess-Yoder and Associates, Nonsupervised Loan Correspondent, Portland, OR	01/09/2004	05/05/2004	05/31/2005
2004-AT-0001	Public Housing Authority Development Activities	01/13/2004	05/20/2004	05/13/2005
2004-AT-1001	Housing Authority of the City of Cuthbert, GA, Administration of Housing Development Activities	01/15/2004	05/14/2004	12/31/2006
2004-BO-0006	Portability Features of the Section 8 Housing Choice Voucher Program	01/15/2004	05/14/2004	10/01/2004
2004-DE-1001	Last Star Homes, HUD Section 8 Project-Based Multifamily Housing, Browning, MT	01/16/2004	02/10/2004	02/01/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-PH-1002	Allegheny County Housing Authority, Public Housing Drug Elimination Grant Program, Pittsburgh, PA	01/16/2004	05/14/2004	11/15/2004
2004-FW-1001	City of Little Rock, AR, Housing Authority, Procurement and Asset Control	01/26/2004	05/25/2004	05/19/2005
2004-AO-0001	Award and Administration of Lead-Based Paint Hazard Reduction Grants	02/06/2004	06/30/2004	07/01/2005
2004-AT-1002	Jackson State University, Historically Black Colleges and Universities Grant, Jackson, MS	02/18/2004	06/17/2004	11/05/2004
2004-BO-1006	Nuestra Casa: Project Management Operations, Boston, MA	02/18/2004	05/24/2004	12/31/2004
2004-PH-1003	The Congress of National Black Churches, Inc., Housing Counseling Program, Washington, DC	02/19/2004	06/18/2004	12/03/2004
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	03/31/2006
2004-FW-1002	Jester Trails Apartment, Multifamily Project, Houston, TX	02/26/2004	05/18/2004	12/31/2004
2004-AT-1802	Saraland Manor Apartments, Gulfport, MS	03/05/2004	03/05/2004	10/15/2004
2004-KC-1002	Timberlake Care Center, Use of Project Funds, Kansas City, MO	03/10/2004	07/08/2004	10/15/2004
2004-DE-1002	Treehouse Mortgage, LLC, Nonsupervised Loan Correspondent, Denver, CO	03/11/2004	07/07/2004	10/31/2005

Report Number	Report Title	Issue Date	Decision Date	Final Action
2004-FW-1003	City of New Orleans, LA, Section 108 Loan Program, Jazzland Theme Park	03/15/2004	09/07/2004	11/30/2004
2004-PH-0003	HUD's Oversight of the Philadelphia, PA, Housing Authority's Moving to Work Program	03/17/2004	08/16/2004	Note 2
2004-LA-1001	Keystone Mortgage and Investment Company, Non-supervised Loan Correspondent, Phoenix, AZ	03/24/2004	06/25/2004	09/15/2005
2004-NY-1001	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	03/25/2004	06/30/2004	05/31/2005
2004-PH-1004	Carbondale Nursing Home, Section 232 Project Operations, Carbondale, PA	03/25/2004	07/23/2004	07/22/2005
2004-PH-1005	Petersburg, VA, Redevelopment and Housing Authority, Nonfederal Entities	03/25/2004	06/01/2004	10/31/2004
2004-FW-1004	Housing Authority of the City of Corpus Christi, TX, Financial Management of HUD Programs	03/26/2004	07/23/2004	10/15/2009
2004-SE-1003	Uptown Towers Apartments, Portland, OR	03/26/2004	06/10/2004	05/01/2005

#### AUDITS EXCLUDED:

23 audits under repayment plans  
24 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 09/30/2204**  
(Thousands)

Reports		Number of Audit Reports	Questioned Costs	Unsupported Costs
<b>Unsupported Costs</b>				
A1	For which no management decision had been made by the commencement of the reporting period	26	56,908	44,845
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	6	14,046	4,883
A3	For which additional costs were added to reports in beginning inventory	-	796	448
A4	For which costs were added to noncost reports	0	0	0
B1	Which were issued during the reporting period	51	87,056	31,667
B2	Which were reopened during the reporting period	0	0	0
Subtotals (A + B)		83	158,806	81,843
C	For which a management decision was made during the reporting period	45 <sup>1</sup>	80,525	60,541
	(1) Dollar value of disallowed costs			
	Due HUD	18 <sup>2</sup>	17,414	12,122
	Due Program Participants	30	57,087	43,540
	(2) Dollar value of costs not disallowed	16 <sup>3</sup>	6,024	4,879
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	15,915	5,066
E	For which no management decision had been made by the end of the reporting period	28 <74> <sup>4</sup>	62,366 <60,333> <sup>4</sup>	16,236 <14,102> <sup>4</sup>

<sup>1</sup> 19 audit reports also contain recommendations with funds to be put to better use.

<sup>2</sup> 6 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 13 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 09/30/2004**  
(Thousands)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	16	1,637,056
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	2	6,302
A3	For which additional costs were added to reports in beginning inventory	-	4,504
A4	For which costs were added to noncost reports	1	2,854
B1	Which were issued during the reporting period	31	490,788
B2	Which were reopened during the reporting period	0	0
Subtotals (A + B)		50	2,141,503
C	For which a management decision was made during the reporting period	27 <sup>1</sup>	1,659,630
	(1) Dollar value of recommendations that were agreed to by management		
	Due HUD	10	1,528,444
	Due Program Participants	16	123,724
	(2) Dollar value of recommendations that were not agreed to by management	3 <sup>2</sup>	7,461
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	13,120
E	For which no management decision had been made by the end of the reporting period	19 <30> <sup>3</sup>	468,753 <468,753> <sup>3</sup>

<sup>1</sup> 19 audit reports also contain recommendations with questioned cost.

<sup>2</sup> 2 audit reports also contains recommendations with funds agreed to by management.

<sup>3</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

## Explanations of Tables C and D

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





# HUD OIG Operations Telephone Listing

## *Office of Audit*

Headquarters Office of Audit, Washington, DC	202-708-0364
Region I, Boston, MA	617-994-8380
Hartford, CT	860-240-4800
Region II, New York, NY	212-264-4174
Albany, NY	518-464-4200
Buffalo, NY	716-551-5755
Newark, NJ	973-622-7900
Region III, Philadelphia, PA	215-656-3401
Baltimore, MD	410-962-2520
Pittsburgh, PA	412-644-6372
Richmond, VA	804-771-2100
Region IV, Atlanta, GA	404-331-3369
Birmingham, AL	205-731-2630
Miami, FL	305-536-5387
Greensboro, NC	336-547-4001
Jacksonville, FL	904-232-1226
Knoxville, TN	865-545-4369
San Juan, PR	787-765-5202
Region V, Chicago, IL	312-353-6236
Columbus, OH	614-469-5737
Detroit, MI	313-226-6190
Region VI, Fort Worth, TX	817-978-9309
Houston, TX	713-718-3199
New Orleans, LA	504-589-7267
Oklahoma City, OK	405-609-8606
San Antonio, TX	210-475-6895
Region VII, Kansas City, KS	913-551-5870
St. Louis, MO	314-539-6339
Denver, CO	303-672-5452
Region IX, Los Angeles, CA	213-894-8016
Phoenix, AZ	602-379-7250
San Francisco, CA	415-489-6400
Region X, Seattle, WA	206-220-5360

## *Office of Investigation*

Headquarters Office of Investigation, Washington, DC	202-708-0390
Region I, Boston, MA	617-994-8450
Manchester, NH	603-666-7988
Meriden, CT	203-639-2810
Region II, New York, NY	212-264-8062
Buffalo, NY	716-551-5755
Newark, NJ	973-622-7900
Region III, Philadelphia, PA	215-656-3410
Baltimore, MD	410-962-4502
Pittsburgh, PA	412-644-6598
Richmond, VA	804-771-2100
Region IV, Atlanta, GA	404-331-3359
Miami, FL	305-536-3087
Greensboro, NC	336-547-4000
Jacksonville, FL	904-232-1226
Memphis, TN	901-544-0644
Nashville, TN	615-736-7000
San Juan, PR	787-766-5868
Tampa, FL	813-228-2026
Region V, Chicago, IL	312-353-4196
Cleveland, OH	216-522-4421
Columbus, OH	614-469-6677
Detroit, MI	313-226-6280
Indianapolis, IN	317-226-5427
Minneapolis-St. Paul, MN	612-370-3106
Region VI, Arlington, TX	817-652-6980
Houston, TX	713-718-3197
Little Rock, AR	501-324-5409
New Orleans, LA	504-589-6847
Oklahoma City, OK	405-609-8601
San Antonio, TX	210-475-6894
Region VII, Kansas City, KS	913-551-5866
St. Louis, MO	314-539-6559
Denver, CO	303-672-5350
Billings, MT	406-247-4080
Salt Lake City, UT	801-524-6090

Region IX, Los Angeles, CA  
San Francisco, CA  
Phoenix, AZ  
Sacramento, CA  
Las Vegas, NV  
Seattle, WA

213-894-0219  
415-489-6683  
602-379-7255  
916-498-5220  
702-366-2144  
206-220-5380





## **Report fraud, waste, and mismanagement in HUD programs and operations by:**

**Calling the OIG Hotline:** 1-800-347-3735

**Faxing the OIG Hotline:** 202-708-4829

**Sending written information to:**

Department of Housing and Urban Development  
Inspector General Hotline (GFI)  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

**Emailing the OIG Hotline:** [hotline@hudoig.gov](mailto:hotline@hudoig.gov)

**Internet:**

[http://www.hud.gov/complaints/fraud\\_waste.cfm](http://www.hud.gov/complaints/fraud_waste.cfm)

**All information is confidential  
and you may remain anonymous.**

Semiannual Report to Congress  
as of September 30, 2004

[www.hud.gov/offices/oig](http://www.hud.gov/offices/oig)

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