



I am pleased to provide this copy of our latest Semiannual Report to the Congress.

If you would like additional information or copies of the report, please call at
(202) 708-3444, x 195.

The report is also available
on our internet site at
www.hud.gov/oig/oigindex.html

Susan Gaffney

OIG MISSION STATEMENT AND VALUES

The OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive changes in the integrity, efficiency, and effectiveness of HUD operations.

OIG values are as follows:

- ★ Relationships among OIG components and staff are characterized by teamwork and respect.
- ★ Diversity is valued and promoted in the workforce.
- ★ Excellence in the workforce is fostered through continuing concern for professionalism and career development.
- ★ As a general rule, emphasis is placed on "*doing*" rather than reviewing, by delegating operational authority, responsibility, and accountability to the lowest appropriate level.
- ★ Identifying and meeting client needs in a timely fashion are a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.
- ★ OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.

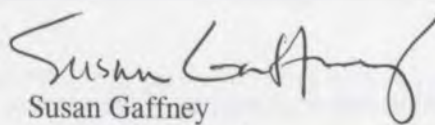
INSPECTOR GENERAL'S MESSAGE

For many years, the Office of Inspector General (OIG) has been reporting that HUD operations suffer from systemic management weaknesses. For the past couple of years, the OIG has been reporting that the HUD 2020 Management Reform Plan, which was designed in large part to correct the systemic management weaknesses, was far from achieving that goal. In Chapter One of this report, we present two graphic examples of just how far HUD's management reform has to go:

- Previously, we reported that HUD's downsizing and resultant reliance on contractors had negatively affected HUD's ability to dispose of properties acquired under the Single Family Mortgage Insurance Program, which, in turn, negatively affected communities throughout the country. In this report, initial results from the OIG's Housing Fraud Initiative are being disclosed, and they indicate massive fraud schemes surrounding the origination of single family loans insured by HUD. At the same time, OIG Auditors are reporting a very significant breakdown in the programmatic controls that were designed to prevent such fraud. We attribute the breakdown in controls largely to downsizing, inadequate staff expertise resulting from staff reassignments associated with the downsizing, and over-reliance on contractors.
- In 1999, the OIG issued an unqualified opinion on HUD's financial statements. This year, we issued a disclaimer of opinion. What changed: as part of HUD 2020, HUD attempted to implement a departmentwide standard general ledger system, but the attempt failed in significant respects. The failure resulted principally from uncorrected problems in feeder systems and unforeseen incompatibilities between the feeder systems and the new standard general ledger system. Proper accounting for HUD funds on an ongoing basis simply was not possible. In addition to disclaiming an opinion, our attempt to audit HUD's 1999 financial statements reported essentially the same material weaknesses and reportable conditions that we have been reporting since 1991.

Apart from Chapter One, this report reflects the OIG's continuing commitments to: i) pursuing our Operation Safe Home goals of reducing violent crime and drug trafficking in public and assisted housing, equity skimming in multifamily insured housing, and fraud in the administration of public housing; and ii) evaluating the progress of specific HUD 2020 management reforms. In the latter regard, we present the results of audits of the Enforcement Center, the HUD Storefronts, Down Payment Assistance Programs for Single Family and use of Real Estate Assessment Center data.

The people of the OIG are independent and objective and tough-minded, but we are also great believers in HUD's mission. We trust that you will be able to use our report in furtherance of that mission.


Susan Gaffney
Inspector General

Reporting Requirements

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

<i>Source/Requirement</i>	<i>Pages</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	81-86
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-80, 87-98
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	11-80
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports 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.	11-80
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.	11-80
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 C
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	93-94
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	94-97
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	97-98

Table of Contents



Chapter 1 - HUD Management Issues

Single Family Program Risks	2
Attempt to Audit HUD's Fiscal Year 1999 Financial Statements	5
Material Weaknesses	6
Other Reportable Conditions	10



Chapter 2 - Housing Fraud Initiative

11



Chapter 3 - Audits

Public and Indian Housing Programs	22
Single Family Housing Programs	32
Multifamily Housing Programs	36
Community Planning and Development Programs	41
Enforcement Center/Storefronts	46
Information Technology	48



Chapter 4 - Investigations

Multifamily Housing Programs	52
Single Family Housing Programs	56
Public and Indian Housing Programs	61
Community Planning and Development Programs	69
Violent Crime in Public and Assisted Housing	70
Other Significant Investigations	78



Chapter 5 - Legislation, Regulations and Other Directives

Legislation	82
Regulations	83
Notices of Funding Availability (NOFAs)	84
Other HUD Directives	85



Chapter 6 - Audit Resolution

Delayed Actions	88
Revised Management Decisions	93
Reopened Recommendations	94
Significant Management Decisions with which OIG Disagrees	94
Federal Financial Management Improvement Act of 1996 (FFMIA)	97

Appendix 1 — Audit Reports Issued

Appendix 2 — Table A - Audit Reports Issued Prior to Start of Period with No Management Decision at 3/31/00

Table B - Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/00

Table C - Inspector General Issued Reports with Questioned and Unsupported Costs at 3/31/00

Table D - Inspector General Issued Reports with Recommendations that Funds Be Put To Better Use at 3/31/00

Appendix 3 — Profile of Performance

Chapter 1

HUD Management Issues



The Single Family Mortgage Insurance Program and the Department's Financial Statements were two major areas of OIG emphasis this semiannual reporting period. Our work in these areas identified serious internal control weaknesses that expose the Department to fraud, waste, and abuse. In many instances, untrained or inadequate HUD staffing allowed systemic problems to go unchecked.

Single Family Program Risks

The OIG devoted significant audit and investigative effort this semiannual reporting period to the Federal Housing Administration's (FHA's) Single Family Mortgage Insurance Program. HUD has undertaken major structural and organizational changes in single family operations over the last 5 years. These include the consolidation of field operations into four Homeownership Centers (HOCs), significant staffing cuts in headquarters and field operations, and the contracting out of major portions of the workload. During this period of change, the Single Family Program has been particularly vulnerable to fraud, waste and abuse. Fortunately, a high mortgage insurance premium structure, FHA's abandonment of traditional insurance fund mutuality principles, and a very strong economy have enabled FHA to more than meet its capital reserve requirements. However, a future economic downturn could seriously affect the financial well-being of FHA's mortgage insurance fund.

In the last year, through our audits, investigations and Housing Fraud Initiative activities, we have examined nearly every aspect of the Single Family Program. This work clearly demonstrates: (1) a high incidence of fraud, waste, and abuse in FHA's single family operations; and (2) a clear need for HUD to tighten controls over this multi-billion dollar insurance operation.

In our previous Semiannual Report to the Congress, we discussed two single family audits. Our audit of the Property Disposition Program found HUD facing a growing inventory of foreclosed properties to sell. Contractors hired by HUD to manage and sell these properties were experiencing difficulty keeping up with the workload. By the end of Fiscal Year 1999, the inventory of unsold properties was at its highest level in the last 10 years, 51,500 properties. This is more than double the inventory of 3 years earlier. Our audit of the Loss Mitigation Program found a growing use of loss mitigation tools by servicing lenders and a lack of program oversight by HUD staff. Loss mitigation tools are intended to help in preventing foreclosures. Yet, while the use of these tools has more than tripled in Fiscal Year 1999, HUD's foreclosure rates continue to rise. The National Delinquency Survey conducted by the Mortgage Bankers Association (MBA) shows a 39 percent rise in FHA foreclosure rates over the last 5 years (from 1.45 percent at the end of calendar year 1994 to 2.01 percent at the end of calendar year 1999). Similarly, during the same period, MBA data show an increase of about 19 percent in FHA delinquency rates (from 7.26 percent to 8.61 percent). At the same time that FHA foreclosure and delinquency rates were increasing, conventional foreclosure and delinquency rates have either remained relatively constant or declined.

In March 30, 2000 testimony before the Senate Appropriations Committee, the Secretary said, "The economic boom which has produced the highest homeownership rate in history has a downside and that is predatory lending." The



Audit and Investigation Results

Secretary testified that “evidence indicates that the vast majority of mortgage fraud and predatory lending activities — including excessive fees, provision of credit life insurance and prepayment penalties — occurs in the conventional subprime lending market.” The Secretary further said that, “HUD’s FHA has already taken a number of steps to eliminate predatory lending practices from its programs. The Homebuyer Protection Plan protects borrowers from bad appraisals, and the Credit Watch Program terminates lenders with excessive default rates from FHA programs.”

While the Homebuyer Protection Plan and the Credit Watch Program are two measures that may strengthen the FHA program, both initiatives are in their infancy. The Homebuyer Protection Plan is making strides to improve the quality of appraisals, yet the enforcement aspect of the plan is still not fully developed. Also, the Credit Watch Program, started last summer, will only take action against those lenders with the most egregious default records, and very few actions have been taken to date. Neither of these initiatives substitutes for the need for HUD staff to better monitor lender performance.

Our audit and investigative work this period disclosed that HUD’s current procedures for monitoring lenders and oversight of contractors are less than effective. This lack of oversight clearly contributes to the type of predatory lending practices the Department is trying to prevent. The following recent cases are examples of fraud against the FHA program attributed to ineffective monitoring of origination activity.

Thirty-nine individuals involved in a \$110 million fraudulent loan scheme were indicted in December 1999 in the Central District of California. This case involved a property “flipping” scheme where properties were bought and quickly resold at inflated prices based on fraudulent appraisal values. In this type of scheme, large loans are made based on the inflated appraisals, and sellers and those participating in the scam line their pockets with the extra cash. If the buyer obtains an FHA insured loan and defaults, HUD will likely sustain a major loss. At the press conference announcing the indictments, the U.S. Attorney said that “this type of fraud takes money from parents in need, those who dream of providing a house for their children, and puts it in the pockets of people who have been licensed as professionals but who really are just criminals — and greedy ones at that.” Had appropriate controls been in place, the fraudulent activities could have been identified and the losses minimized.

Rampant fraud in the loan origination area is evidenced by numerous other criminal indictments and convictions this reporting period. In Los Angeles, a mortgage broker pled guilty to conspiracy and loan fraud by obtaining false verifications of employment, income, and gift letters on behalf of alleged mortgagors for the purpose of obtaining FHA insured loans. He used strawbuyers to act as purchasers of the properties which were insured for over \$1 million. In Baltimore, a property speculator, two loan originators, an appraiser and a settlement attorney were indicted for engaging in a prolific scheme to acquire inexpensive homes and fraudulently qualify buyers to purchase the properties at much higher prices. The vast majority of over 100 settlement statements contained false information about the buyers’ and sellers’ monetary contributions to the transactions. Appraisals often overstated property values and misrepresented ownership at the time of the sale. In one Los Angeles case, 2 individuals were charged in a 24-count indictment with



Post Endorsement Technical Reviews

obtaining approximately \$30 million in FHA insured loans through a conspiracy with a mortgage company that involved strawbuyers and bogus double escrow accounts. And in Chicago, IL, and Long Island and Staten Island, NY, criminal charges continue to be filed in investigations that have disclosed massive volumes of false and fraudulent documentation used to qualify borrowers for FHA insured mortgages.

HUD's mortgage insurance risk depends almost exclusively on the reliability of work performed by its direct endorsement (DE) lenders. DE lenders underwrite nearly all FHA insurance. HUD mitigates its risk through lender oversight. Three important HUD monitoring tools should be working to prevent the insurance of fraudulent loans: post endorsement technical reviews of loan underwriting documentation, field reviews of appraisals, and quality assurance reviews of lenders. When used effectively, these tools can highlight problem loans or lenders. This period, however, our audit of HUD's single family loan processes found that HUD monitoring was not focused on lender and appraiser high risk indicators. Rather, HUD's focus was on meeting numerical review goals as set out in its Business and Operating Plan.

Post endorsement technical reviews of underwriting and property appraisals are key controls in monitoring direct endorsement lenders. These technical reviews are typically a desk review of FHA case documentation after insurance endorsement. These reviews assess lender compliance with HUD underwriting and appraisal requirements. Most of this work is contracted out with contract costs ranging from \$15 to \$35 per case. If problems are found during these technical reviews, HUD is to take remedial action.

We found that HUD over-relied on the work of these contractors and was not reviewing contractor performance. The effects of such over-reliance were demonstrated in a recent case where Allstate Mortgage Company fraudulently originated over 400 FHA loans totaling \$97 million. Seventeen of these loans had undergone post endorsement reviews by a contractor. The contractor found no significant problems with these loans, even though the loan files showed obvious fraud indicators. None of the 17 cases had been reexamined by HUD contract monitors.

Our reexamination of 151 post endorsement reviews found that, in 70 cases, the reviews failed to disclose material underwriting errors. Our review found several reasons why HUD's controls over the post endorsement technical review process were not providing meaningful results, including:

- Inexperienced staff in critical HUD control positions.
- Increased loan volume with fewer staff to monitor lenders.
- No clear operating policies or procedures for HOC operations.
- Outdated handbooks.
- Emphasis on quantitative goals.
- Financial disincentives for contractors to find problem endorsements.

Even when significant technical review problems were noted, HUD implemented few, if any, corrective actions.



Post Endorsement Field Reviews of Appraisals

Another critical control feature is the systematic testing of property appraisals by HUD. The direct endorsement lender selects the appraiser that sets the value of the property for FHA insurance. With the high loan to value ratio of most FHA loans, an accurate appraisal is critical to minimizing HUD's insurance risk. HUD's procedures call for field reviews of 10 percent of all appraisals. Also, there are additional requirements that assure oversight of each appraiser and each lender's performance and follow-up when problems are noted. We found that these controls were not being followed.

Most of the appraisal field review work was performed by contractors. In several HUD field offices, we found there were no contracts in place and reviews were not being performed. We found several other offices where there was an insufficient number of field reviews being performed. Even when appraisal problems were found during field reviews, HUD was not using the results to take action against appraisers. Branch Chiefs at three of the four HOCs commented that they did not have enough staff to monitor appraisers or to sanction poor performers. As a result, HUD lacks assurance about the quality of appraisals supporting loans processed and approved by lenders. Even the appraisers who provided numerous fraudulent appraisals, as documented in a criminal case (Allstate Mortgage Company) were not removed from HUD's approved appraiser listing, issued a Limited Denial of Participation, or debarred. They are still doing FHA appraisals for other lenders.

Quality Assurance Reviews

A third important control over direct endorsement lender activity is the on-site monitoring review. These reviews, which are conducted by the HOCs' Quality Assurance Divisions, are intended to identify and correct poor origination practices. After completion, the Divisions communicate the review results to lenders and request written responses. Lenders are asked to explain the problems noted, list actions taken to prevent future problems, and/or agree to indemnify HUD for possible losses associated with improperly originated loans. While the Quality Assurance Divisions should focus on lenders with high defaults and foreclosures, many low risk lenders were reviewed in order to meet review goals. Even when the Quality Assurance Divisions identified deficiencies during on-site reviews, they were not following-up when the mortgagees did not respond to the findings and recommendations.

Attempt to Audit HUD's Fiscal Year 1999 Financial Statements

The Office of Inspector General (OIG) reported on March 1, 2000, on our efforts to audit HUD's Fiscal Year 1999 consolidated financial statements and issued a disclaimer of opinion. OIG also issued reports on audits of the Government National Mortgage Association (Ginnie Mae) and the Federal Housing Administration on February 24 and 29, 2000, respectively. Those audits were performed by the independent accounting firm of KPMG LLP, under contract with the OIG. KPMG



LLP's reports included unqualified opinions on Ginnie Mae's and FHA's Fiscal Year 1999 financial statements. Although we did not render an opinion on HUD's consolidated financial statements, we identified several material weaknesses and reportable conditions. Also, KPMG LLP's audit of FHA's Fiscal Year 1999 financial statements identified additional material weaknesses and reportable conditions.

As part of HUD's 2020 Management Reform Plan, HUD intended to implement an integrated financial management system with a single general ledger rather than the multiplicity of systems that existed. HUD failed in its efforts to produce a single integrated financial management system during Fiscal Year 1999. Accordingly, financial statements were not available for us to audit and we disclaimed an opinion on HUD's financial position and operating results for Fiscal Year 1999. During the fiscal year, HUD initiated a process to implement a departmentwide general ledger system. This process included replacing the legacy Program Accounting System (PAS) with its newer accounting system, the HUD Central Accounting and Program System (HUDCAPS). PAS was previously the general ledger for programs other than FHA and Ginnie Mae. HUD encountered difficulty in the conversion process which delayed preparation of the financial statements. As of March 1, 2000, the date of our audit report, HUD had not reconciled significant differences between HUDCAPS, PAS, and Treasury reported balances. In addition, HUD was late in posting significant adjustments (some as late as February 25, 2000) to the accounting reports.

The general ledger conversion process was a significant and problematic event in this year's financial statement audit. First, HUD had to develop an interface to convert existing data from PAS; however, the transition process was a more significant undertaking than anticipated. As of March 1, 2000, the conversion was still incomplete. The interface program and the general ledger posting models resulted in numerous rejected or incorrectly posted transactions that had to be manually researched and corrected. In addition, this migration was done without development of an automated program to help reconcile the general ledger cash accounts to Treasury's figures.

HUD used a financial statement report consolidation software called Hyperion Enterprise to prepare its financial statements. Because the reconciliation processes to identify discrepancies with Treasury fell behind schedule, HUD made numerous adjustments to the "general ledger fund balance with Treasury" balances to make them agree with Treasury records. These adjustments were made outside the normal general ledger posting process directly to Hyperion Enterprise. When we discontinued our audit, 42 adjustments totaling about \$17.6 billion had been processed in this manner for Fiscal Year 1998 ending balances. An additional 242 adjustments, totaling about \$59.6 billion, were made to adjust Fiscal Year 1999 activity.

For Fiscal Year 1999, we reported a total of 17 reportable conditions, 5 of which were classified as material weaknesses. Some of the significant issues are described below.

Material Weaknesses

Information Systems

The most critical need faced by HUD in improving its internal controls is the development of adequate information systems. To correct departmentwide financial



management deficiencies, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. The objective of the Financial Systems Integration (FSI) Plan is to correct departmentwide financial management deficiencies while simultaneously providing the information to carry out financial and programmatic missions. A major component of the FSI Plan was to implement HUDCAPS as the core financial system for the Department. As implemented, HUDCAPS does not fully comply with federal financial system requirements. In addition, other HUD financial system weaknesses remain uncorrected and financial system integration delays continue. The Department's failure to correct long-standing financial system weaknesses in its feeder systems is a contributing factor to noncompliance with financial system standards at the core financial system level.

The following financial management system deficiencies, most of which were reported in prior years, were present during Fiscal Year 1999:

- Insufficient information regarding individual multifamily loans, including the inability to financially monitor the insured portfolio. This makes assessing and quantifying credit risks difficult and adversely impacts efficient, ongoing reporting of credit risks to senior management and effective monitoring of multifamily projects.
- Deficient FHA general ledger and subsidiary systems.
- Inadequate assurance about the propriety of Section 8 rental assistance payments.
- Lack of integration between program and accounting systems necessitating duplicate data entry.
- Inability to support adequate funds control for FHA.
- Inability to fully support the timely identification of unneeded, excess funds remaining on expired project-based Section 8 contracts.

In addition, the Department's financial systems continue to have security weaknesses in general and specific application controls.

Departmental General Ledger

The departmentwide general ledger in HUDCAPS is not fully compliant with federal financial system requirements. Due to uncorrected weaknesses in FHA's financial management system, FHA's separate financial data are not updated each month in the HUDCAPS departmental general ledger, as required. The current approach for interfacing FHA financial systems with HUDCAPS requires the performance of a series of cumbersome manual conversions of financial data. Because of the complexities of this process, updated FHA general ledger financial information was transmitted to HUDCAPS only once after year-end.

The process to enter FHA Standard General Ledger (SGL) transactions into the departmentwide general ledger is untimely and inefficient. As a result, information on Departmental activities is not timely disseminated in support of internal or external users. In addition, the continued reliance upon manual processes to convert FHA financial transactions into a usable format is inefficient and requires duplicate entry of data.



“Fund Balance With Treasury” (Cash) Reconciliation

Agencies are required to reconcile their fund balance with Treasury accounts monthly. The reconciling process is analogous to individuals reconciling their checking accounts to their monthly bank statements. It is an essential internal control to ensure the integrity of U.S. Government financial reporting and provides for reliable measurement of budget results. Due to delays and the magnitude of the FSI implementation, the HUDCAPS general ledgers were not available to support the reconciliation process until November 1999. Untimely cash reconciliation resulted in questionable accuracy and reliability of amounts reported in the fund balance with Treasury accounts.

Data Integrity

HUD uses a powerful system utility to resolve data discrepancies by directly altering the data in the HUDCAPS financial tables. Because of this ability to directly change data, the use of this utility must be strictly controlled to prevent unauthorized access and/or unintentional errors from occurring. There were an excessive number of users with access to the utility, including users from four different contractor firms as well as HUD program offices. When we questioned the need for the high number of users, the database administrator agreed that not all the users on the list required access to perform their jobs. Allowing uncontrolled use of such a utility exposes HUD's financial data to the risk of damage and fraudulent activities.

Verification of Subsidy Payments

HUD provides rent and operating subsidies to housing authorities and multifamily project owners benefiting over 4 million lower-income households through a variety of programs, including public housing and Section 8. HUD's control structure in place during Fiscal Year 1999 did not provide reasonable assurance that these funds were expended by housing authorities and project owners in compliance with applicable laws and regulations. HUD estimates that excess subsidy payments totaled about \$935 million for Calendar Year 1998. The admission of a household to these rental assistance programs and the size of the subsidy it receives depend directly on its self-reported income. HUD's control structure does not provide reasonable assurance that subsidies paid under these programs are valid.

Tenant income is a major factor affecting eligibility and the amount of subsidy HUD pays. In general, HUD's subsidy payment makes up the difference between 30 percent of a household's adjusted income and the housing unit's actual rent or, under the Section 8 Voucher Program, a payment standard. When tenants do not report income or underreport income from a specific source and the non-reporting remains undetected, HUD makes excessive subsidy payments.

HUD developed the \$935 million nationwide estimate of the amount of excess rental subsidies paid during Calendar Year 1998, in order to provide for disclosure of the magnitude of improper payments. Various efforts are planned and underway to build upon this and address the need to institute an ongoing quality assurance program to improve controls over these payments.

Monitoring Multifamily Projects

HUD needs to continue efforts to improve the effectiveness of multifamily project monitoring to assure that subsidies are provided only to projects that provided decent, safe and sanitary housing or on behalf of eligible tenants. Also, HUD's monitoring of project-based Section 8 contract administration by state housing finance agencies and housing authorities has continued to be inadequate. Plans to rely on contract administrators to assume HUD's role in project monitoring have not yet been implemented. HUD provides rental assistance to about 21,000 multifamily projects on behalf of eligible tenants residing in those projects. This assistance



includes FHA mortgage insurance and funds provided under several subsidy programs.

The Real Estate Assessment Center (REAC) has made some progress in providing for assessing the overall physical condition of HUD's housing portfolio, and reports completing 28,835 physical inspections of multifamily and housing authority properties during Fiscal Year 1999. However, at fiscal year end, the REAC had not completed financial assessments of multifamily projects due to delays in the rollout of its Financial Assessment Subsystem. In addition, HUD's plans to outsource the workload associated with housing assistance contracts have been delayed from the original plan of September 1998 to where HUD now expects to begin transferring these functions in June 2000. HUD field offices are not staffed sufficiently to adequately review projects and housing authority financial statements without REAC's assistance, nor have they been able to perform sufficient on-site monitoring.

Controls Over FHA Budgetary Funds and Funds Control

FHA must perform analyses and reconciliation of all of its obligation systems to ensure that all obligated amounts are properly recorded and that funds control is maintained and implemented in all systems. KPMG LLP noted the following weaknesses in FHA's budgetary and accounting processes:

- Budgetary reporting of appropriation symbol 86X4077 was misstated by approximately \$64 million. The SF-133, Report on Budget Execution, dated November 19, 1999, submitted to OMB by HUD's Office of the Chief Financial Officer did not include an automatic apportionment of authority with respect to the interest payment to the U.S. Treasury which occurred at fiscal year end. This reporting error occurred because correct and timely information was not available due to the lack of integrated and reconciled budgetary and accounting systems and processes.
- Obligations needed to be reviewed and reconciled. Although FHA fully reconciled obligation activity during the fiscal year, they did not fully reconcile the ending balance of commitments and obligations resulting from underwriting activity during Fiscal Year 1999 and prior years.
- FHA's general ledger budgetary obligation accounts were not fully supported. During Fiscal Year 1999, FHA analyzed its general ledger and developed a documented crosswalk to the SGL to prepare both the financial statements and the SF-133s, Report on Budget Execution. FHA also implemented the budgetary related SGL accounts in its general ledger. However, the subsidiary systems that contain the transaction detail activity supporting the SGL did not provide reports which were properly reconciled to the general ledger. In addition, detailed reports supporting the aggregate amounts recorded to the general ledger and SF-133s were not maintained.

For a number of years, weaknesses have been reported in FHA's financial management system environment. FHA's and HUD's inability to acquire more modern information technology has continued to deter FHA's efforts to be a more efficient and effective housing credit provider. Until a comprehensive new integrated information technology environment is implemented and available throughout

FHA's Information Technology Systems



HUD, FHA will continue to be forced to collect data and report information in less efficient ways.

Other Reportable Conditions

Other reportable conditions are discussed at length in our report. They represent significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect HUD's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. The reportable conditions relate to the need to:

- Refine performance measures to implement results management effectively;
- Improve controls over project-based subsidy payments;
- Improve monitoring of housing authorities;
- Improve controls over HUD's computing environment;
- Overhaul personnel security for systems' access;
- Strengthen access and data integrity controls over HUDCAPS;
- Improve processes for reviewing obligation balances;
- Continue to place more emphasis on early warning and loss prevention for FHA insured mortgages;
- Continue actions to safeguard and quickly resolve Secretary held FHA single family mortgage notes;
- Sufficiently monitor and account for FHA single family property inventory;
- Improve the review process for estimating reserves for the FHA insured portfolio; and
- Enhance the design/operation of controls over FHA's information systems security and application data integrity.



Chapter 2

Housing Fraud Initiative



Housing Fraud Initiative

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

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

Between October 1998 and September 1999, the OIG was largely occupied with recruiting and hiring staff, as well as obtaining office space and necessary equipment for the six HFI sites. In this Semiannual Report, we are starting to see the first substantive results from the HFI's collaborative and systematic approach to detecting and stopping fraud in HUD programs and activities. Of particular note is the pervasive single family loan origination fraud being uncovered.

The following are examples of HFI results this reporting period.

Central District of California

In **Los Angeles**, the U.S. Attorney for the Central District of California announced the indictment of 39 individuals who were involved in a \$110 million fraudulent FHA loan scheme. This is the largest number of indictments in one case to date under the OIG's HFI. Beginning in August 1999, one of the individuals indicted was identified as a forger of loan documents. He had kept diligent records over a 7-year period of creating documents for inclusion in loan packages submitted to FHA for insurance. Over 4,000 separate documents were sorted by Los Angeles OIG personnel. The documents were organized by the name of the individual who was requesting the forged documents. The requester was routinely identified as a real estate professional. By late September 1999, over 70 targets had been identified, including brokers, loan processors, loan officers and real estate agents.

Each property/loan was identified and a loan status was determined. Loss statements were developed that identified performing loans, loans in default, and those loans on which FHA had already paid claims. Ten fraudulent loans were identified for each target. Beginning in late November 1999, teams of OIG Special Agents and Auditors began serving grand jury subpoenas and conducting interviews of the targets. This process quickly uncovered another layer of investors and others who were operating throughout the Los Angeles Basin using the forged documents in "flipping" schemes. (In a "flipping" scheme, a person typically knowledgeable about the real estate business buys a rundown property, makes cosmetic repairs, gets a dishonest appraiser to exaggerate the property's value, and then sells it to an unsophisticated buyer for an inflated price. If the buyer obtains an FHA insured loan, which is likely, HUD is the loser in the event of a default.) Field interviews were completed by the first week of December and the cases were prepared for prosecution.



On December 7, OIG Agents began presenting grand jury testimony in the Central District of California. As a result, a true bill was handed down on all cases on December 14. At a news conference, the HUD Inspector General said the scams described in the complaints reflect “just the tip of the iceberg,” and acknowledged that HUD needs to do more to curb abuses. The U.S. Attorney said that “this type of fraud takes money from parents in need, those who dream of providing a house for their children, and puts it in the pockets of people who have been licensed as professionals but who really are just criminals — and greedy ones at that.”

Three individuals in **Los Angeles** were charged in a scheme to obtain approximately \$30 million in fraudulent FHA insured loans through a conspiracy with Allstate Mortgage Company. Charges included mail fraud, false statements, money laundering, aiding and abetting, and criminal forfeiture. The individuals allegedly created fraudulent loan applications in the names of strawbuyers to be submitted to Allstate Mortgage Company for funding. During the time the individuals participated in the scheme, the owners of Golden West Group, a management company, purchased approximately 127 properties. The loans on each of the properties were insured by FHA and sold by the lender (Allstate) to an unwitting financial institution. The owners defaulted on all of the loans.

In **Los Angeles**, Elsa Saucedo and Sergio Alvarez each pled guilty to one count of fraud against HUD. In addition, John Charles Miller and Kip Christopher Cyprus each pled guilty to wire fraud. From 1997 to 1998, the four individuals participated in a scheme involving strawbuyers, forged signatures on loan applications, and false gift letters. The false documentation was used to obtain over \$12 million of FHA insured home loans in Los Angeles and Orange Counties. This was a joint investigation by the FBI, OIG, and IRS Criminal Investigation Division.

Contractor Michael Lederer pled guilty to four counts of making false statements to the **Los Angeles** Housing Department (LAHD). Lederer, in his individual capacity, through a business partner, and through various limited partnerships, applied to LAHD and received \$5.5 million in federally funded loans provided by HUD through the City of Los Angeles. The funds were allocated and disseminated through the LAHD Earthquake Emergency Loan Program. Lederer’s construction company, Horizon ML, submitted hundreds of false subcontractor invoices and phony checks to the LAHD.

In **Los Angeles**, Jose Luis Arreola and Sindy Barrios pled guilty to conspiracy, mail fraud, and false statements. Arreola and Barrios used strawbuyers to act as the purchasers of properties insured by FHA for over \$1 million. The individuals caused mortgage applications to be completed that contained false identification, employment, income, and tax information. The two fraudulently provided the down payments for the mortgages and, in order to meet FHA requirements, falsely verified that the source of the down payments was either the borrowers’ personal funds or gifts. In addition, Arreola and Barrios enlisted others to fraudulently notarize the signatures of strawbuyers on loan files, and fraudulently created and provided credit references.

In the same case, mortgage broker Matthew Dunne pled guilty to loan fraud against HUD. Dunne aided real estate agents and loan officers, for the purpose of



obtaining FHA insured mortgages, by knowingly making false statements and submitting fraudulent "cash on hand certifications."

HUD employee Karen Christensen, a quality assurance specialist at the **Santa Ana** Homeownership Center, and Hadi Kailani, a real estate agent doing business as Kailani Real Estate, signed plea agreements with the U.S. Attorney's Office, each pleading guilty to three counts of giving and accepting bribes and tax evasion. A joint investigation by the FBI, IRS Criminal Investigation Division, and OIG revealed that from July 1996 through August 1998, Christensen sold a total of 82 HUD single family homes to individuals at prices far below HUD's listed price, for a total loss to HUD of \$7,452,426. Kailani, who purchased 20 of the homes, bid for the properties on the Internet by submitting a bid high enough to win the bidding. Kailani then submitted a sales contract, accepted and signed by Christensen, which in some cases was as much as \$100,000 below the Internet bid. The appraised value of the properties purchased by Kailani was approximately \$2.1 million. However, Christensen sold the properties to Kailani for approximately \$700,000. HUD also paid Kailani \$48,750 in the form of real estate broker's commissions on the properties. Kailani resold the properties for \$2.2 million. Christensen received over \$80,000 in bribe payments, and a BMW 325 convertible from Kailani in September 1997. Christensen's BMW and a bank account with \$7,200 were seized. A Ferrari 308 GTSi was also seized from Kailani after the investigation revealed that he received the car as a down payment in the resale of one of the properties. Forty-six of the properties sold by Christensen to other individuals which had not been resold have been seized. Those properties had been appraised at approximately \$5.2 million. (See Report No. 00-SF-123-0801 in Chapter 3, Audits, under Single Family Housing Programs, for related audit.)

Lita Hernandez pled guilty to conspiracy and loan fraud against HUD. Hernandez fraudulently notarized loan documents in support of FHA insured mortgages, and forged the signatures of strawbuyers who acted as the purchasers on these mortgages. Hernandez assisted two other co-conspirators, the president and a secretary at West Coast Investment Group in **Los Angeles**. The co-conspirators were previously indicted on federal charges of conspiracy, aiding and abetting, mail fraud, and false statements. From March 1997 through December 1998, the co-conspirators allegedly carried out a scheme to defraud HUD and commercial lending institutions; the scheme involved FHA home mortgage loans totaling approximately \$3.9 million. As part of the scheme, they allegedly sold properties to strawbuyers through the use of double escrows. Hernandez was responsible for falsifying about \$1 million of the \$3.9 million in insured mortgage loans. She is scheduled to be sentenced in May 2000.

Bernard Gross, also known as Paris Love, a real estate speculator in **Los Angeles**, was found guilty on three counts of bankruptcy fraud. Gross was previously indicted, and a superseding indictment was filed against him in February 1999 for his role in a single family equity skimming scheme. Gross and his company, S&B Commonwealth, controlled over 500 residential properties in Southern California. He told homeowners who faced foreclosure to deed their properties to him at little or no cost. He then failed to make any mortgage payments while continuing to rent out the properties, and filed bankruptcies to stall foreclosure proceedings. Gross' inventory included FHA insured, Department of

Veterans Affairs guaranteed, and conventional properties. The scheme resulted in over \$1 million in losses to the government and banking institutions. Gross is scheduled for sentencing in May 2000.

Howard Tyrone Ferguson, Sr. and Steve Winn both pled guilty to one count of grand theft after they stole approximately \$315,000 from the Housing Authority of the County of **Los Angeles**. A portion of the stolen funds was obtained from HUD's Community Development Block Grant Program. Ferguson and Winn also pled guilty to one count of diversion of construction assets from a public works project and one count of unemployment insurance fraud. Following these pleas, Ferguson was sentenced to 8 years in prison and Winn was sentenced to 6 years in prison. Howard Tyrone Ferguson, Jr. also previously pled guilty to the \$315,000 theft and could be sentenced to 4 years in prison. These actions were the result of a joint investigation by OIG, the Los Angeles District Attorney's Office, and the Housing Authority for the County of Los Angeles.

A co-owner of American Properties International in **Los Angeles** was charged with eight counts of felony grand theft. The co-owner allegedly diverted over \$130,000 of funds from various homeowner associations and HUD. He deposited funds earmarked for property maintenance into personal bank accounts and admitted to paying car notes and home and business expenses with the diverted funds. American Properties International, a property management company, was responsible for managing approximately 14 properties which contained Section 8 project-based units. This investigation was conducted by OIG and the Tustin Police Department.

Northern District of Illinois

In **Chicago**, Herman Williams, one of four individuals previously indicted on one count each of racketeering and 29 counts of mail fraud in a scheme to falsify the conveyance of property deeds, pled guilty to notarizing fraudulent documents on behalf of the co-defendants. The co-defendants allegedly used the mail to send the deeds to the recorder's office. The deeds were recorded for properties that were vacant and were not rightfully owned by the co-defendants. The properties were later used for collateral on other investments, for resale, and as rental property. Two of the properties were in HUD's Real Estate Owned inventory at the time the false deed transactions took place. Sentencing is pending. This was a joint investigation by the FBI, OIG, and Postal Inspection Service.

Delores Johnson's supervised release was revoked in Northern Illinois U.S. District Court and she was sentenced to 14 months incarceration. In July 1995, Johnson was convicted of bank fraud related to making false statements to obtain an FHA insured mortgage in **Chicago**. She served time in prison and was placed on supervised release. Evidence indicated that during this period, she did not provide accurate financial statements to her probation officer, participated in other real estate transactions which went unreported, failed to pay \$5,500 in restitution to HUD despite making a profit from these transactions, and continued to participate in bank fraud, bankruptcy fraud, and mail fraud. The presiding Judge characterized these activities as not isolated, but repetitive acts using schemes to cover up the illegalities, such as different names and bank accounts. These were the same activities for which she was previously sentenced and placed on supervised release.

David Mandel pled guilty to one count of mail fraud and submitting false statements on mortgage loan applications. Mandel was involved in a loan origination scheme in **Chicago** and caused the creation and submission to lending institutions of false and fraudulent documents purporting to establish the eligibility of the prospective purchasers to receive HUD insured mortgages. These documents included false gift letters and false existence of earnest money on deposit.

In **Chicago**, following a 19-count indictment on charges of bank fraud, false statements to HUD, mail fraud, and bankruptcy fraud, Hermilyn Strong, also known as Shirley Taylor, and her associate, Kevin Holliday, both pled guilty. While her trial was ongoing, Strong pled guilty to one count of submitting false statements to HUD, one count of misuse of a Social Security number, and one count of bankruptcy fraud in relation to her purchase of an FHA insured home. Strong falsified her identity, income, Social Security number, and previous liabilities, and then made identical false statements to the bankruptcy court to stay the foreclosure of the home after she failed to make timely mortgage payments.

Holliday reached a plea agreement prior to trial and appeared as a witness for the government at Strong's trial. He pled guilty to one count of submitting false statements to HUD and one count of bankruptcy fraud in relation to his purchase of an FHA insured home. Holliday falsified his employment and tax information, and then provided similar false information to the bankruptcy court to stay the foreclosure of the home.

Sentencing for both individuals is pending. This was a joint investigation by the HUD and Social Security Administration OIGs and the FBI.

District of Maryland

In **Baltimore**, Michael D. Clarke, a HUD approved property inspector, pled guilty to charges of conspiracy to defraud the United States. Clarke faces a maximum sentence of 5 years in prison and a \$250,000 fine. Clarke admitted that from March 1995 through March 1997, he conspired with 3 other individuals to divert \$135,836 from HUD's Section 203(k) Rehabilitation Mortgage Insurance Program. The 203(k) funds were obtained through the use of false and fraudulent inspection reports which verified the completion of rehabilitation work. The work, in fact, had never been performed.

Two of the three co-conspirators are former loan originators with Atlantic First Mortgage Corporation and have been indicted on similar charges. The third co-conspirator, Warren Rollman, purchased 14 properties using his girlfriend as a strawbuyer and has since pled guilty to other federal charges. This was a joint investigation conducted by the FBI, IRS, and the OIG Offices of Investigation and Audit.

A property speculator, 2 loan originators, an appraiser, and a settlement attorney in **Baltimore** were indicted by a federal grand jury on 14 counts of mail fraud, wire fraud, and aiding and abetting. An investigation by OIG and the Postal Inspection Service disclosed a prolific scheme in which the speculator acquired inexpensive houses and fraudulently qualified buyers to purchase the properties from him at much higher prices. The vast majority of over 100 settlement statements contained misrepresentations about the buyers' and seller's monetary contributions to the transactions. The appraisals often overstated property values and misrepresented ownership at the time of sale. This scheme greatly increased the risk of loan default. The mortgages totaled over \$750,000.

*Eastern District of
New York*

A developer, a real estate salesperson, an office manager, a loan officer, two attorneys, and an appraiser were arrested and charged with submitting false statements to HUD. An investigation of a **Long Island** and **Staten Island** new homebuilder and several mortgage bankers revealed that the homebuilder, with the knowledge and participation of salespeople, closing attorneys, and mortgage bankers, staged gifts for buyers, wrapped buyers' debts into the purchase price and mortgage amount, created false and fraudulent documents to verify employment, and arranged side financing deals which were not disclosed to HUD. The salesperson participated in all of the schemes, including recruiting a certified public accountant to prepare bogus pay stubs, W-2s, and tax returns on behalf of clients. The appraiser inflated appraised values of homes in order to allow the bogus gifts and wrapped debts to be included in the purchase price and mortgage amounts. Appraisals were overstated by as much as 25 percent or more. HUD losses are expected to exceed \$6 million. The investigation was conducted by the FBI, Postal Inspection Service, Treasury Inspector General for Tax Administration, and the Department of Veterans Affairs and HUD OIGs.

Four individuals in **Brooklyn** were arrested for their part in a conspiracy to defraud HUD's Single Family Mortgage Insurance Program, conspiracy to commit bank fraud, and conspiracy to commit mail fraud. Two of the arrestees are officers of Eastwood Mortgage Bankers, a licensed mortgage banker. A third individual is a real estate agent, and the fourth is a mortgage broker. The real estate agent and the mortgage broker bought houses that were immediately appraised at substantially inflated values (100-200 percent of the purchase price). The broker then recruited strawbuyers to sign documents ultimately giving them a mortgage originated by Eastwood and insured by FHA. The notes originated by Eastwood were subsequently sold to Countrywide Home Loans, a secondary lender. Almost all loans originated by Eastwood that used this broker are either in foreclosure or have had a claim paid by HUD. To date, over \$10 million in loans have been paid by HUD and an additional \$20 million worth of loans are in foreclosure. All four individuals were released on \$1 million bail secured by real estate owned by each of the arrestees.

In **Long Island**, Zachary Watkins, Jessie Watkins, Joseph Mizell, and Katherine Mizell pled guilty to conspiring to defraud the Huntington Housing Authority of more than \$175,000. The defendants, consisting of two husband and wife families, fraudulently applied for rental assistance benefits and continued to provide false income information during 6- and 10-year periods, respectively. In one case, the wife applied for rental assistance benefits at a residence jointly owned with her husband. They did not disclose the wife's ownership, causing benefits to be paid to the husband as landlord on the wife's behalf. The wife also failed to report her actual income annually. In the other case, the husband did not disclose his employment income, and the wife underreported her income, both at the time they initially applied for benefits and annually thereafter. The two husbands were friends and co-workers in the construction trade with the Authority chairman.

In addition, the Authority chairman was indicted on charges of conspiracy to defraud HUD, theft of HUD funds, money laundering, extortion, and income tax evasion. The indictment charges the chairman with using Brian McKay, a public safety officer for the Town of Huntington and also his nephew, and another person as nominee landlords to steal HUD Section 8 funds, and obtaining Section 8 benefits



for a friend who did not qualify for benefits, resulting in \$200,000 in losses to HUD. The chairman was separately charged with using his union position as shop steward to threaten violence and labor shutdowns in order to extort thousands of dollars from construction companies that were forced to pay the defendant for a no-show safety coordinator job. The construction companies performed renovations of industrial chimneys and smokestacks. The chairman was also charged with failing to report extortion payments and embezzled HUD funds to the IRS and laundering the money. McKay was convicted at trial on charges of conspiracy to defraud HUD, theft of HUD funds, and money laundering. This was a joint investigation by the FBI, IRS, and OIG.

Sandra Lopez, also known as Sandra Rivera, was sentenced to 2 years probation and ordered to pay \$119,399 in restitution and a \$100 court assessment fee. While employed as the office manager of the San James Realty Company in **New York City**, Lopez conspired with Edward Rodriguez, a San James Realty project manager, and his wife, Caroline Rodriguez, the San James Realty bookkeeper, to embezzle nearly \$120,000 from the operating account of the Grand Street multifamily assisted housing development. The three defendants embezzled the funds using a total of 109 forged San James Realty checks made payable to themselves. They cashed the checks and used the stolen funds for personal expenditures. Once the checks were returned from the bank, the defendants altered them to fraudulently indicate payments to vendors and contractors for services purportedly rendered. Lopez has also been debarred from participation in HUD programs.

Caroline and Edward Rodriguez were previously sentenced to 2 months and 4 months in prison, respectively, 4 months home detention with an electronic monitoring device, and 3 years probation, and were ordered to assist in paying \$64,000 in restitution and to pay a \$50 court assessment. Both have been issued notices of debarment by HUD.

Douglas Rotondi, a **Long Island** developer, was sentenced to 1 year in prison and 3 years supervised probation, and was ordered to pay \$554,165 in restitution to HUD. Rotondi, who cooperated in the investigation, was convicted of fraudulently causing the origination of \$4 million in HUD insured mortgages on 32 newly constructed houses. Rotondi failed to disclose \$1 million in secondary financing provided to mortgagors at the time of purchase. In addition, he provided false certificates of occupancy in order to close the mortgages, and paid \$8,000 in bribes to two local building inspectors. Many of the houses were improperly constructed or not completed. Eighteen properties have either been foreclosed or are in the foreclosure process. HUD losses are expected to exceed \$1.5 million.

Three supervisory employees of the **New York City** Housing Authority were arrested on charges of bribery involving programs receiving federal funds. The three employees allegedly received cash in the amounts of \$9,400, \$5,000 and \$5,500, respectively, in exchange for, among other things, arranging for a contractor to receive payment for work not performed and promising contractors that their work with the Authority would not be as heavily inspected for environmental specifications. This investigation was conducted by the FBI and the New York City Housing Authority, with assistance from the OIG.

Bruce Braithwaite, the former executive director of the Rockville Center Housing Authority on **Long Island**, was debarred by the HUD Enforcement Center for 3 years. Braithwaite's original suspension was based on his July 1999 guilty plea to one count of larceny, for which he was sentenced to court ordered restitution of \$7,000. Braithwaite was charged with cashing \$7,000 in workers' compensation checks addressed to his mother, who lived in Queens, NY, until she died in September 1997. He continued to collect and cash his mother's checks until August 1998, the month he reported to New York State that his mother passed away. Braithwaite was originally arrested in April 1999 in conjunction with a large scale insurance fraud sting initiated by the Queens District Attorney's Office. He was charged with insurance fraud, grand larceny, falsifying business records, and criminal possession of a forged instrument.

Northern District of Texas

In **Dallas**, investors Tronnald Dunaway and Shelby Lee Daniels were sentenced for their roles in a scheme to defraud homeowners. Dunaway received 13 months in prison and 3 years supervised release, and was ordered to pay over \$24,000 in restitution to various victims and a \$50 special assessment. Daniels was sentenced to 94 months in prison and 36 months probation, and was ordered to pay \$23,960 in restitution to homeowners who were defrauded and a \$1,400 special assessment. Both were found guilty of bankruptcy fraud. An investigation found that Dunaway and Daniels contacted homeowners facing foreclosure and promised them, that for an initial set-up fee of \$500 and subsequent monthly payments of \$500, the homeowners could keep their homes without filing bankruptcy. They persuaded the homeowners to sign over fractional interest in their properties to a shell corporation, which then filed bankruptcy and claimed the properties as assets. The automatic stay was invoked, foreclosure proceedings were halted, and the monthly amounts paid by the homeowners were retained by Dunaway and Daniels. The homeowners ultimately lost their homes as well as any monies paid to the defendants. Claims paid by the Department to the mortgage holders were increased by the additional time it took to reach foreclosures as well as additional legal fees.

Glenn Glass, a **Rockwall** investor, was sentenced to 2 years in prison and 3 years supervised release for his participation in a bankruptcy scam that defrauded low-income homeowners and HUD. Glass was also ordered to pay \$16,600 in restitution to homeowners and a \$100 assessment. An investigation determined that Glass participated in a scheme that targeted low-income homeowners facing foreclosure by promising to keep them in their homes and helping them to refinance their mortgages. Interest in the properties was quit-claimed to shell companies, which then filed for bankruptcy claiming the mortgage amounts as liabilities. The bankruptcy filings immediately halted the foreclosures. By the time the bankruptcy court dismissed the original bankruptcy, the mortgages had been quit-claimed to another company, which again filed for bankruptcy, starting the process over again. Approximately \$300,000 in FHA insured mortgages eventually went into foreclosure and the homeowners lost their homes. HUD incurred additional losses through payment of claims and legal and repair amounts.

Larry Jackson, a former executive director for the George Loving Resident Management Corporation in **Dallas**, was sentenced on one count of embezzlement. Jackson, who previously pled guilty, was sentenced to 5 months imprisonment and

5 months supervised release, and was ordered to pay \$23,000 in restitution. The sentencing resulted from an investigation which disclosed that expenses incurred by Jackson were not related to the operation of the Resident Management Council. The Council received federal funding through the Dallas Housing Authority.

A **Fort Worth** Police Officer and his spouse were indicted on two counts of false statements, one count of conspiracy, and four counts of mail fraud. The indictments were the result of an investigation which disclosed that the two devised a scheme to defraud HUD through the "Officer Next Door Program," which sells HUD homes in designated revitalized areas to Police Officers at a 50 percent discount. In exchange, the Officer is required to live in the home as the primary residence for 3 years from the date of closing. The subjects purchased their home in February 1998 and 6 months later rented the home to tenants for approximately 3 times their mortgage payment. The loss to the government is estimated at \$58,000.

Chapter 3

Audits



In addition to evaluating HUD's management reform issues, conducting audit work in support of the Housing Fraud Initiative and Operation Safe Home, and commenting on regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 13 reports and 9 audit-related memoranda on internal HUD operations, and 24 reports and 14 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Collections amounted to \$9.4 million, with another \$11 million in management decisions on audits with questioned costs. Investigative recoveries (out of court settlements, court ordered fines, penalties, and restitution) totaled \$13.9 million.

Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local governments pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. 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 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.

During this reporting period, we reviewed HUD's activities in the Real Estate Assessment Center and the administration of the Tenant Opportunity, Leased Housing, and HOPE VI Programs. We also performed reviews of some PHAs' administration of various programs and grants including the Public Housing Management Assessment Program, Title V, and the Drug Elimination Program, besides reviewing the general administrative activities of other PHAs.

Real Estate Assessment Center

In **Massachusetts** and **Connecticut**, the OIG conducted an audit of the Office of Public and Indian Housing's (PIH) use of physical inspection assessments generated by HUD's Real Estate Assessment Center (REAC) on public housing properties. The audit disclosed that PIH has not made substantial use of the physical inspections performed by REAC. Furthermore, PIH currently does not have the means to track corrective action taken by PHAs with respect to their REAC physical inspections.

At December 27, 1999, approximately 3,156 of 3,300 PHAs had been inspected since inception of REAC's physical inspection process in October 1998. At an average cost of \$661 per physical inspection, the Department has expended over \$2 million. Federal Register Notice dated December 31, 1998, provides that REAC intends to issue advisory scores to PHAs under the new Public Housing Assessment System. PIH feels they are limited as to what action can be taken with regard to the REAC physical inspections while the inspection scores are advisory. They believe that while the scores are advisory, the Department cannot penalize the PHAs and therefore cannot force them to make the corrections, with the general exception of life threatening health and safety violations. We were advised that PIH is trying to



use the REAC physical inspections proactively even though the scores are advisory, by offering assistance to substandard housing agencies so that when the scores become final they can improve.

We reviewed actions taken on physical inspections performed, and found that no action, or very limited action, was taken toward housing agencies on resolving REAC physical inspections and life threatening health and safety violations. We concluded that the Connecticut State Office was not taking any action with regard to the REAC summary inspection reports; however, some recent action was taken with regard to life threatening health and safety issues. We further concluded that the Massachusetts State Office was not taking any action with regard to the REAC summary inspection reports, nor the life threatening health and safety issues. These conditions were confirmed by discussions with representatives of housing agencies in New England. Although it is true that the REAC inspection scores are advisory, the physical deficiencies found at the PHA properties are real conditions that do exist. The Office of PIH should be taking action with these housing agencies to correct the physical deficiencies reported during REAC inspections.

The audit recommended that the Office of PIH:

- Continue development of a risk monitoring protocol that will address all physical inspection deficiencies and develop a timetable for the protocol's completion and full implementation.
- Ensure that the risk monitoring protocol and written guidance are not overly broad and consider including standardized structured methodology to resolve physical inspection deficiencies.
- Ensure that the Fiscal Year 2000 Compliance and Monitoring Training includes the review of the risk monitoring protocol and written guidance, and establish timetables for the completion of the training.
- Continue development of the computerized event tracking system, develop a timetable for the system's completion and full implementation, and provide training to the staff on the adequate use of the system. (Report No. 00-BO-101-0001)

Termination Settlement

Our interim audit of the Housing Authority of the City of **Bridgeport, CT**, recommended that \$1.8 million for a termination settlement not be approved and questioned the validity of over \$881,000 in planning costs. In 1987, residents of Father Panik Village, a low-income housing development, filed a class action lawsuit claiming that the Authority had not provided them with decent, safe, and sanitary housing. The lawsuit was settled in 1990 when the Authority agreed to replace all 1,063 units at Father Panik Village. In 1993, the settlement agreement was modified to complete the replacement no later than March 1997. HUD agreed to provide funds to the Authority for replacement housing.

In May 1995, the plaintiffs filed a motion with the Court citing lack of progress on unit replacement. At that point, the Authority had replaced only 260 units of low-income housing. To resolve the issue, the Authority agreed to turn management of the replacement effort over to an outside developer. In March 1996, Creative Choice Homes, Inc. (CCH) was competitively selected to manage the replacement effort. A contract between the Authority and CCH called for CCH to prepare a neighborhood plan and develop between 350 and 412 units for a total cost of \$42 million. In November 1999, the Authority requested release of \$1.8 million of Father Panik replacement funds for a termination settlement of the contract with CCH. The Authority's request for termination of the contract was based on its



HUD Procurement Approval

contention that, while CCH's invoices do not conform with contract requirements and they incurred expenses in excess of contract limitations, they did perform as best they could under the circumstances. However, they were unable to obtain approval of the plan from all the parties involved. The Authority's executive director stated that in order to avoid a lawsuit by CCH against the Authority and HUD, it was necessary to pay CCH the \$1.8 million. The executive director also stated that it was necessary to remove CCH from the project as the community of Bridgeport had lost faith in CCH's ability to complete the project.

Our review determined that the Authority's request for \$1.8 million in funds for a termination settlement should not be approved, as documentation submitted by CCH to support the amount does not conform with the contract terms and conditions. We recommended that HUD not approve the settlement agreement with CCH; review the Authority's rationale for terminating its contract with CCH and managing the replacement process from this point forward; and provide the Authority assistance to defend itself should CCH file a lawsuit or request arbitration. (Report No. 00-BO-101-0801)

An OIG review of the **Puerto Rico** Public Housing Administration's (PRPHA) procurement procedures disclosed that HUD's approval of noncompetitive procurement for two multi-million dollar contracts was improper. In December 1997, HUD's Public Housing Division authorized the PRPHA to execute a contract with Cardona, Irizarry and Company for \$9.6 million to obtain management consulting services for the establishment of internal financial controls, train personnel, operate the finance and administration sections, and procure computers and software. According to the Secretary of the Puerto Rico Housing Department, emergency conditions existed at the PRPHA sufficient to warrant contracting through an expedited procurement process. We believe the conditions cited did not justify foregoing competitive solicitation. In addition, the cost analysis submitted by the PRPHA for HUD's review was actually a cost estimate.

An 18-month contract executed in January 1998 with CVR Puerto Rico, Inc., Housing Management Specialists, for \$4.4 million was to provide for the establishment of internal management controls for the modernization program and assist in the area of personnel recruitment. The PRPHA requested HUD's approval to use the noncompetitive procurement method for this contract as an emergency and as a sole source. We determined that the emergency was not reasonable. As to the sole source issue, the PRPHA stated that there were no firms in Puerto Rico experienced in managing large public housing agencies. To the contrary, there were several other firms in Puerto Rico capable of providing these consulting services. As was the case with the contract executed with Cardona, Irizarry and Company, the cost analysis submitted to HUD concerning the CVR Puerto Rico, Inc. contract was actually a cost estimate.

The audit recommended that HUD take the necessary actions to prevent recurrence of these situations. Specifically, HUD should send a reminder to field office staff on the requirements that should be met before approving noncompetitive procurement methods for public housing agencies. Emphasis should be placed on what constitutes a cost analysis and its importance in the procurement process, especially in noncompetitive procurement methods. (Report No. 00-AT-106-0801)



Tenant Opportunity Program

An OIG audit that assessed the results of all OIG audits conducted on the Tenant Opportunity Program (TOP) found resident associations receiving grants did not demonstrate the capacity to properly administer their grants. Tenant associations did not adequately control funds, properly maintain books and records, have the necessary knowledge and skills to manage the grants, or follow proper procurement procedures. As a result, the grantees spent \$396,000 out of \$1.3 million, or 30 percent, on ineligible or unsupported items. The deficiencies occurred because the TOP did not have: (1) controls to ensure adequate financial management; (2) memoranda of understanding between resident associations and housing agencies; and (3) community specific work plans. In addition, the Office of Public and Indian Housing did not adequately monitor the resident associations' performance. The new Resident Opportunities and Self-Sufficiency Program which supersedes TOP improves on many of the controls of the old program, but does not adequately address all weaknesses.

The audit recommended that the Deputy Assistant Secretary for the Office of Public and Assisted Housing Delivery: (1) ensure that the Resident Opportunities and Self-Sufficiency Program threshold requirement for the applicant's financial management system and procurement procedures is applied to all categories of Resident Opportunities and Self-Sufficiency grants; (2) ensure the threshold requirement for a memorandum of understanding between the resident association and the housing agency is applied to all categories of grants that would involve the housing authority; and (3) develop policies and procedures that require on-site, real time monitoring and assign adequate resources to accomplish this. (Report No. 00-KC-105-0001)

At the request of the **District of Columbia** Housing Authority, the OIG audited seven TOP grantees and found that the grantees lacked the knowledge and technical skills to manage their grants. Specifically, the grantees did not have adequate controls over their grant funds; did not establish financial management systems; did not retain adequate accounting records; did not follow proper procurement procedures; and paid consultants for services not performed. We attribute these conditions to the lack of adequate monitoring and training of TOP grantees by the HUD District of Columbia field office and the District of Columbia Housing Authority. As a result, the seven TOP grantees spent \$144,000 on ineligible and unsupported items.

The audit recommended that the following actions be taken to correct TOP grantee performance deficiencies: (1) recover ineligible and unsupported costs of \$144,000 unless documentation is obtained for the unsupported costs; (2) provide grantees with technical assistance on managing checkbooks, retaining source documents, and establishing procurement procedures; (3) require grantees to establish financial management systems to manage and account for TOP funds; (4) instruct TOP grantees to monitor the services provided by consultants and make payments after services are provided; (5) periodically verify future grant drawdown requests against the source documents; and (6) inform the Grants Management Center of the inability of these TOP grantees to manage grant programs. (Report No. 00-AO-201-1001)

General Program Administration

Although the **San Francisco, CA** Housing Authority raised its Public Housing Management Assessment Program score from "troubled" to "standard" and generally correctly calculated housing-unit-months-available, an OIG audit identified



serious problems in the areas of contracting, administrative hiring and compensation, and Section 8 receivables at the Authority. The Authority did not manage its contracting activities for consulting services according to federal requirements. Specifically, we noted instances where contracts were unjustifiably awarded on a sole-source basis, competition was unnecessarily limited and certain contractors were provided unfair competitive advantages, evaluations of contract proposals were faulty, and no independent cost estimates or inadequate cost analyses were performed.

The Authority frequently failed to follow sound management practices or its own policies and procedures when recruiting and compensating administrative staff. Of eight employees tested, seven were selected without considering other candidates, their qualifications were questionable, or they appeared to be overcompensated. In addition, the executive director received compensation in excess of his contract. Further, some of the reimbursements made to the Cuyahoga Metropolitan Housing Authority for compensating the acting executive director were unsupported, and San Francisco paid some costs for services the acting executive director performed for Cuyahoga. We identified \$173,000 of ineligible/questionable costs and \$622,500 of inadequately supported costs in connection with these conditions.

The audit also found that the contractor chosen to create the Authority's waiting list used to select Section 8 Program beneficiaries performed inadequately. The list contained duplicate names, and names did not appear to be chosen randomly. Federal and local ranking preferences were also not applied correctly. The Authority also needs to improve its management of Section 8 overpayments. Specifically, it should do proper research in determining receivable balances, take more aggressive recovery actions, and abstain from inappropriately retaining part of the recoveries.

The audit includes recommendations to correct the problems cited in the findings and to mitigate their effects. More significant recommendations call for HUD to impose appropriate sanctions against the Authority's senior management, increase its monitoring of the Authority's contracting and personnel functions, require the Authority to return ineligible, unnecessary and unsupported costs, create a new waiting list for selecting Section 8 applicants, and improve its efforts to recover overpayments of Section 8 funds to landlords. (Report No. 00-SF-201-1001)

An OIG audit of the **Benson, NC** Housing Authority's Public Housing Programs disclosed that the Authority violated conflict of interest requirements, did not have an adequate system of internal controls, did not maintain adequate books and records, and did not receive adequate oversight from the board of commissioners. As a result, the Authority is in substantial default of the Annual Contributions Contract (ACC) and HUD has no assurance that funds were used effectively to accomplish program objectives.

We also found that the Authority made improper procurements totaling about \$1.6 million, and did not properly determine tenant rent amounts, resulting in lost rental income of about \$37,000. Also, the former board chairperson, who was a tenant, did not report over \$73,000 of household income. The former chairperson was indicted for similar offenses in December 1996.

Prior to the issuance of the audit report, the former chairperson resigned from the board and moved out of her unit, the executive director resigned, and the North Carolina State Office suspended the Authority's Comprehensive Improvement Assistance Program.



The audit recommended the North Carolina State Office declare the Authority in substantial default of the ACC and require it to deliver possession and control of its projects to HUD. (Report No. 00-AT-202-1005)

The OIG audit of the **Pinellas County, FL** Housing Authority disclosed that the Authority did not obtain HUD approval to use residual Section 23 Leased Housing Program funds for rebuilding Crystal Lakes Manor Apartments (CLM). Further, the Authority did not ensure that CLM would remain affordable to low-income families because the Authority: (1) donated the property without a required deed restriction; (2) did not plan to use a \$2 million escrow fund; and (3) did not have adequate control over \$3.2 million of donated Section 8 fees. Further, the Authority used \$1.3 million of residual Section 23 leased housing funds to pay construction costs rather than offset public housing operating subsidies, and may not maximize assistance to low-income families.

The Authority did not correctly calculate its Section 8 administrative fee for Authority owned/substantially controlled units resulting in a \$144,000 excess fee, and HUD continues to pay excessive administrative fees because the current budget is incorrect. The audit also found that the Authority's procurement of services and equipment did not comply with policies and procedures which created the appearance of favoritism, lessened competition, and increased the likelihood of protests and litigation.

The audit made appropriate recommendations to address the problems. (Report No. 00-AT-202-1004)

The OIG audit of Housing Authority of **New Orleans, LA** (HANO) disclosed unsupported labor costs of \$422,000 and ineligible travel costs of over \$5,000. Due to long-time systemic problems at HANO, HUD and the City entered into a Cooperative Endeavor in February 1996 which removed the existing board of commissioners and appointed an Executive Monitor, as the Acting Assistant Secretary's designee, to fulfill the duties of the board. The Executive Monitor was an official from Tulane University. The Executive Monitor contracted with Moten & Associates to perform various technical services to improve HANO's operations. The audit disclosed that both Andersen Consulting, which assisted in the procurement of Moten & Associates, and the Executive Monitor violated federal regulations in obtaining the services of Moten & Associates. A proper procurement would have included an assessment of Moten's skills and a determination of how much the services should cost. Further, Tulane University paid almost \$422,000 for unsupported labor costs and over \$5,000 in ineligible travel costs. Neither HANO, the Executive Monitor, nor Moten & Associates could provide satisfactory evidence that Moten & Associates completed the tasks it was paid to perform. Consequently, the OIG could not determine whether HANO derived a measurable benefit from the contract with Moten & Associates.

The audit recommended that HUD recover the \$5,000 paid for ineligible travel; determine and recover any amounts paid for work not performed or duplicative work; require the justification of additional work to be performed and require concrete deliverables and a performance delivery schedule; and monitor subsequent work performed. (Report No. 00-FW-201-1001)



The OIG conducted an audit of the **Omaha, NE** Housing Authority at the request of HUD and to follow up on issues identified in a January 1999 independent public accountant report. The audit found that the Authority did not maintain an effective control environment; lacked adequate cash controls; used \$1.08 million in federal funds to pay unallowable expenses or expenses it could not support; did not follow federal or its own procurement regulations; conducted an inadequate year-end inventory for 1998; did not exercise adequate control over implementation of its management information system; did not follow federal regulations regarding a Special Purpose Grant; and did not properly administer its Section 8 Program.

The audit report made appropriate recommendations including that the Director, Troubled Agency Recovery Center, ensure the Authority develops and implements a plan with specific objectives and timeframes to improve controls over the Authority's operation or revises the Authority's current management structure. The report also recommended the Authority repay HUD from non-federal sources for all ineligible expenses and provide documentation for unsupported expenses. Further, the Authority should repay HUD and make appropriate adjustments to its accounting records for those expenses that cannot be supported. (Report No. 00-KC-201-1001)

An OIG audit of the Cuyahoga Metropolitan Housing Authority in **Cleveland, OH**, found that between January 1990 and July 1998, the Authority inappropriately used \$11.2 million in Title V funds. The inappropriate payments included \$10.7 million in Title V funds without adequate supporting documentation and another \$532,000 for costs that were not reasonable and necessary low-income housing expenses. The Authority's former chief executive officer and/or the former chief operating officer approved \$301,000 of the \$532,000 (57 percent) in unnecessary and unreasonable payments. The problems occurred because the Authority's former top management and board of commissioners failed to adequately exercise their duties. The former top management also circumvented Authority policies.

The Authority also failed to follow its ACC with HUD regarding the deposit of low-income housing monies. Between January 1990 and July 1998, the Authority inappropriately transferred over \$45,000 in Low-Income Housing Program funds to its Title V bank account. The problem occurred because the Authority's board of commissioners and former top management failed to establish adequate controls over the deposit of low-income housing funds.

The audit recommended that HUD's Cleveland Area Office Director of Public Housing Hub, in conjunction with HUD's Ohio State Office Director of Columbus Multifamily Hub, assure that the Authority: implements controls to correct the weaknesses cited in this report; provides documentation to support the \$10.7 million of unsupported payments or reimburses its Title V account from non-federal funds for the amount that cannot be adequately supported; reimburses its Title V account \$532,000 from non-federal funds for the ineligible payments; and transfers the \$45,000 of inappropriate deposits from its Title V bank account to the Low-Income Housing Program General Fund. (Report No. 00-CH-201-1002)

An OIG audit disclosed that \$533,000 related to a sick leave buyout was an ineligible expense of the **Atlantic City, NJ** Housing Authority. The review disclosed that the board of commissioners was made aware of the proposed one-time sick leave buyout plan, as well as the individuals who were to participate in it, including the executive director. Although the appropriate disclosures were made to the



board, we concluded that the buyout was unnecessary and unreasonable since it was not comparable to the practices of other public entities in the local labor market, as required by regulations. Therefore, we consider the entire cost of the sick leave buyout to be ineligible.

Contrary to the Authority's personnel policy and federal regulations regarding reasonableness, the executive director had 951 hours of accrued compensatory time recorded in his payroll records which related to prior years. In addition, both the executive director and the head project maintenance superintendent were allowed to accrue compensatory time beyond the Authority's requirement that the time be used within 60 days. Consequently, upon their retirement, the Authority will incur unnecessary costs.

The review recommended, among other things, that the Authority be required to repay the \$533,000 of ineligible sick leave buyout funds to the Low-Rent Housing Program from non-federal funds. Also, the Authority should be required to evaluate the terms of its compensatory time policy to ensure that it is reasonable and similar to those of other public entities in the local labor market. Additionally, the executive director and the head project maintenance superintendent should not be allowed to use or be paid for their accrued compensatory time until it is evaluated and found to have been in accordance with Authority requirements. (Report No. 00-NY-209-1801)

The OIG reviewed the **Philadelphia, PA** Housing Authority's Police Department and found that while the City is responsible for providing Authority residents with a certain level of Police services under its Cooperation Agreement with the Authority, neither the Authority nor the City knew what level of service should be provided or the level of service that was being provided. As a consequence, the Authority's Police Department was providing a wide variety of services to residents, some of which were supplanting, not augmenting, services which should have been provided by the City.

The audit found that the Police Department paid certain Officers significant amounts of overtime even though pertinent records were not kept or were improperly maintained, and that some Officers participated in activities which had no apparent relationship to the Authority's operations or the provision of Police services to its residents. In addition, there were instances where the Authority's use of Drug Elimination Grant funds was not consistent with its grant application.

The audit report recommended that the Authority collaborate with the City in determining a quantifiable level of baseline services to be provided by the City, and in developing and implementing a plan to supplement those services. In addition, the Authority needs to implement various policies and procedures to assure that the apparent abuse of overtime that occurred in the past does not recur, and to assure that Drug Elimination Grant funds are used for their intended purposes. (Report No. 00-PH-201-1002)

An OIG review of the Housing Authority of the City of **Pittsburgh, PA**'s Public Housing Drug Elimination Program (PHDEP) disclosed the Authority's administration of its PHDEP needs to be improved. The Authority spent PHDEP funds for a variety of purposes, some of which were included in the PHDEP applications, were properly supported, and were otherwise eligible expenditures. Other expenditures, totaling \$501,000, were ineligible project charges because they were not PHDEP



related. Still other expenditures of \$387,000 were inadequately supported and an assessment of their eligibility could not be made. We believe these problems occurred because no one had the overall responsibility for administering the Authority's PHDEP.

The audit recommended that HUD: (1) require the Authority to obtain HUD approval before drawing down additional funds for its existing PHDEP; (2) require the Authority to repay the PHDEP the \$501,000 that was spent on ineligible expenditures, and, if proper support cannot be provided, the \$387,000 in unsupported costs; and (3) consider the Authority for future PHDEP grants only after it has demonstrated the ability to properly administer a PHDEP. (Report No. 00-PH-201-1001)

An OIG audit of the **Puerto Rico** Public Housing Administration's procurement management disclosed continued serious problems with the Authority's ability to manage its procurement and related financial management systems. We reviewed \$39 million in procurements and other disbursements and identified \$21.8 million of ineligible costs and \$4.1 million in cost efficiencies. Specifically, the Authority did not comply with federal and agency procurement requirements and did not maintain control over its central office procurement activities, resulting in ineligible costs totaling about \$8.8 million. The Authority paid about \$4.9 million more than necessary for professional services provided by two contractors, and may incur additional ineligible costs of about \$2.1 million if corrective actions are not taken. Another \$8.1 million in ineligible costs were also identified during the audit, which could increase by about \$2 million unless corrective actions are taken. The audit also found that management controls at the Authority were not effective in deterring fraud, waste, and abuse, and that the Authority did not maintain adequate property management and related procurement documents.

The audit recommended that HUD: (1) consider declaring the Authority in substantial default if improvements are not made; (2) consider placing the Authority on a reimbursement basis for funding; (3) review and approve the Authority's annual procurement plan; (4) ensure the validity of future emergency declarations; (5) perform cost reviews to determine whether the Authority properly allocated costs to HUD programs; (6) require the Authority to detail its procedures for maintaining a property ledger, conduct an annual physical inventory, and reconcile and investigate any discrepancies; (7) recover about \$21.8 million in ineligible costs charged to HUD programs; and (8) take appropriate action to save another \$4.1 million in cost efficiencies. (Report No. 00-AT-201-1003)

During the audit of the **Puerto Rico** Public Housing Administration's procurement activities described above, the OIG identified several conditions regarding the Authority's use of Comprehensive Grant Program (CGP) funds. These conditions were not within the scope of the audit but warranted immediate attention and resolution. We found that the Authority did not comply with federal requirements governing management and use of HUD funds. It improperly withdrew and used \$18.8 million for ineligible program activities, including disaster relief activities. We also noted that the Authority and the Puerto Rico Economic Development Bank agreed to establish a \$1 million revolving fund to finance loans to public housing residents for economic development projects. The Authority improperly transferred \$1 million in CGP funds to the bank for the loans.



We recommended that HUD verify the \$18.8 million reimbursement to CGP funds by examining the respective bank statements and deposit slips, request the Authority to reimburse CGP funds for the \$1 million transfer to the Economic Development Bank for a loan revolving fund, and compute and bill the Authority the amount of lost interest based on the Department of Treasury's borrowing costs for the amount used for the hurricane emergency and for the \$1 million used for the loan revolving fund. (Report No. 00-AT-201-1801)

An OIG audit found that the **Virginia** Housing Development Authority (VHDA) can improve its administration of the Section 8 Program. VHDA did not utilize \$30 million of available Section 8 resources. Until recently, VHDA measured its occupancy based on annual contributions contract unit allocations even though HUD revised Section 8 procedures in 1995, requiring housing agencies to budget resources based on dollars instead of units. VHDA was conservative in its interpretations of HUD budget guidelines, and did not change its leasing benchmarks to recognize dollars instead of units as the relevant leasing measure. Budgeting Section 8 resources based on available dollars, as required, would have provided the VHDA with the opportunity to house significantly more families. HUD recently recaptured over \$30 million that could have otherwise provided additional rental subsidies to families on VHDA waiting lists.

VHDA needs to improve its recertification procedures. A computer match of tenant reported income with 1997 IRS and Social Security Administration information for over 7,000 households reported in HUD's Multifamily Tenant Characteristics System identified over 300 households with potential income discrepancies exceeding \$10,000 and 1,900 households with potential income discrepancies between \$1,000 and \$10,000. In addition, VHDA did not follow existing policies and procedures in establishing tenant utility allowances. The audit recommended appropriate actions to address each of the deficiencies noted. (Report 00-PH-203-1003)

In response to a citizen's complaint, the OIG reviewed the Holly Park HOPE VI project. The complaint alleged that the **Seattle, WA** Housing Authority violated HUD conflict of interest requirements when it awarded contracts for program management, financial consulting, and property management services for the Holly Park implementation. Our review found the complaint to be partially valid. The Authority did not comply with HUD conflict of interest requirements in awarding two contracts for program management services and financial consulting services. In addition, our review disclosed that another contract for property management consulting services was not awarded in compliance with HUD conflict of interest requirements. Specifically, the Authority awarded these three contracts to firms whose principals had inside knowledge of the project. The principals had obtained inside knowledge by having been members of a panel that had evaluated a developer's proposal for implementing the redevelopment.

The audit recommended that HUD's Office of Public Housing require the Authority to implement a policy to ensure any decisions made by the Authority regarding conflict of interest issues are documented. (Report No. 00-SE-209-1801)



Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we reviewed activities under the Single Family Loan Origination Program, the Homeownership Centers, the Property Disposition Program and the 203(k) Mortgage Insurance Program, among others.

Loan Origination

An OIG audit of HUD's Single Family Loan Origination Program in **Atlanta, GA, Denver, CO, and Santa Ana, CA**, disclosed significant problems in the post endorsement technical reviews of lender loan underwriting and property appraisals, monitoring of lenders by the Homeownership Centers' Quality Assurance Divisions, oversight of pre-endorsement contractors, and accuracy of information in the automated tracking system. These weaknesses increase HUD's risk of losses.

Specifically, the audit disclosed that HUD's current procedures for monitoring both lenders and contractors have been less than effective, resulting in an increased risk of fraud, waste, and abuse. This concern is borne out by Mortgage Bankers Association data which show an increase of over 50 percent in FHA loan foreclosure rates over the last 5 years from 1.45 percent in 1994 to 2.20 percent through 3 quarters of 1999. Similarly, Mortgage Bankers Association data show an increase of over 18 percent in FHA delinquency rates, from 7.26 percent to 8.57 percent, during the same period. Further, during the same period, Mortgage Bankers Association data show a leveling or decrease of foreclosure and delinquency rates in the conventional market. In our opinion, these disconcerting trends in FHA foreclosure and delinquency rates are attributable to inadequate management controls to mitigate the increased risk resulting from the 2020 Management Reform Plan, specifically, the outsourcing of virtually all aspects of the single family loan origination process under substantially liberalized underwriting standards. Unless corrected, these control weaknesses could seriously affect the continued health of the Single Family Insurance Program, especially if, or when, the economy takes a downturn.

The audit found substantial problems with HUD's control over the quality of both the underwriting and appraisal procedures of direct endorsement lenders. In 70 (46 percent) of the 151 cases we reviewed, substantial underwriting errors were not detected by the post-endorsement technical review process and 32 cases (21 percent) with significant fraud indicators were not identified. We also found that on-site mortgagee monitoring reviews were unduly influenced by HUD's Business Operating Plan numeric goals, thereby limiting their effectiveness for managing risks to the single family insurance fund. Often the reviews were targeted to low-risk lenders to facilitate accomplishment of the Plan's goals.

The audit also found that: (1) HUD has not provided adequate direction and oversight of direct endorsement contractors, resulting in an increased risk that unacceptable loans have been and will be insured; (2) HUD has not taken advantage of its authority to place poorly performing direct endorsement lenders as identified from post endorsement technical reviews back on pre-closing status; and (3) the Approval/Recertification/Review Tracking System (ARRTS) data base used to track the status and results of Quality Assurance Division reviews contained significant



Management and Marketing Contracting Initiative

errors and therefore did not provide sufficient accountability for audit and staff evaluation purposes as intended by the Quality Assurance Division Guide.

We believe the deficiencies discussed in the audit constitute material control weaknesses under the Federal Managers' Financial Integrity Act. As such, they should be disclosed in the Department's annual assurance statement to the President and the Congress.

The audit made recommendations to improve the targeting, monitoring, and use of post endorsement technical reviews and field reviews of appraisals; to update and clarify handbook instructions relative to post endorsement technical reviews; and to include results based as well as numeric objectives in Business Operating Plan goals. The recommendations relative to Quality Assurance Division monitoring reviews parallel those pertaining to post endorsement technical reviews. We have also made recommendations to improve HUD's monitoring of direct endorsement contractors and to ensure the accuracy of information in the ARRTS. (Report No. 00-SF-121-0001)

As part of an ongoing national assessment of the performance and success of the Management and Marketing (M&M) contracting initiative, the OIG completed a survey of the **Atlanta, GA** Homeownership Center's (HOC) Single Family Property Disposition Program for the HOC jurisdictions known as Area-2 and Area-3. Area-2 had been managed by HOC employees since the failure of Intown Management, the cancellation of its contract, and bankruptcy of the firm in September 1999. The survey did not focus on Intown's failure, but rather on HUD's contingency planning, ability to recover from the failure of its contractor, and most importantly, the ability to sustain the program's mission.

Based on the survey, we believe the HOC has generally been effective in correcting many of the problems caused by Intown. Operations have improved under the supervision and guidance of the HOC management and staff, and we commend their efforts in resolving many of the significant challenges they faced following Intown's failure. However, HUD still has not met its program mission. Our survey found increasing inventory, decreasing revenues, properties not maintained according to requirements, untimely disposition programs, and incomplete inventory files. Our assessment of Area-2 operations provided ample evidence of the superior management capabilities of HOC employees over the private contractor, but it did not demonstrate the positive benefits of outsourcing single family property disposition operations. HUD anticipates implementing a new M&M contract for Area-2 in July 2000. In view of this upcoming event, we do not plan additional work of Area-2 at this time nor do we offer any formal recommendations.

The survey of Area-3 primarily focused on the operations of Southeast Alliance of Foreclosure Specialists, LLP (SAFS), an M&M contractor. The survey identified significant weaknesses in SAFS's operations which warrant additional audit work and immediate corrective action. As such, we have initiated audit work at SAFS. Our analysis showed that SAFS did not meet the real estate owned mission of reducing the property inventory in a manner that expands homeownership opportunities, strengthens neighborhoods and communities, and ensures a maximum return to the mortgage insurance fund. In fact, our analysis of inventory and sales trends shows that conditions have worsened significantly since inception of the M&M contract. The primary weaknesses include decreased sales revenues, decreased sales to owners/occupants, and lack of property maintenance.



We also found indications of other weaknesses which require additional audit work. These include: ineligible "pass through" costs; ineligible settlement costs; mortgagee neglect; untimely disposition program reanalysis; lack of inspection of subcontracted repairs; and inadequate review of sales closing documents.

Although HUD Performance Assessments have shown deficiencies in some of the areas we reviewed, sufficient corrective action does not appear to have been taken to resolve the problems. We suggested that HUD take additional actions to address the specific deficiencies identified. The final audit report will address any actions taken. (Report Nos. 00-AT-123-0802 and 00-AT-123-0803)

As part of the national assessment mentioned above, an OIG review of the **Santa Ana, CA** Homeownership Center, Real Estate Owned Division found that a housing specialist was able to arbitrarily mark down the selling price of HUD owned properties because there was insufficient supervision. While HUD regulations require price reductions to be justified and signed off by the Chief Property Officer (CPO), that requirement was not being followed. Over the 7-month test period, the housing specialist ignored appraisals and lowered the selling price for 47 properties. The reductions for 33 of the 47 properties ranged from 38 percent to 91 percent. (Appraisal reports for the other 14 cases were missing.) The selling price for these properties totaled \$1.04 million or \$3 million lower than the appraisal. HUD's nationwide goal is to sell properties at 98 percent of appraised value. Based on this 98 percent goal, these arbitrary reductions cost the insurance fund almost \$3 million.

In addition, we believe that the CPO did not provide adequate supervisory oversight of housing specialists to ensure that they disposed of real estate owned properties in accordance with program requirements. We evaluated the internal control procedures at Golden Feather, the HUD M&M contractor responsible for disposing of real estate owned properties, and found that those procedures are adequate to minimize the possibility that the scheme could recur. However, to sufficiently minimize the risk, we believe that improvements are needed in the Santa Ana Homeownership Center's monitoring of Golden Feather in order to ensure compliance with the established procedures and to best safeguard HUD's interests.

The audit recommended that the Santa Ana Homeownership Center implement changes to improve its Real Estate Owned Division monitoring procedures to better document what specific review areas will be covered, how it will be accomplished, and to ensure that the staff assigned actually perform the reviews. (Report No. 00-SF-123-0801) (See Chapter 2, Housing Fraud Initiative, Central District of California, for related investigation.)

In response to citizen concerns about HUD approved programs where private nonprofit organizations provide down payment assistance to homebuyers, we initiated a **nationwide** audit to determine if: (1) the structure of the loan transactions involving down payment assistance from a nonprofit complied with HUD requirements; (2) HUD has the controls in place to approve, monitor, and evaluate the performance of the programs; and (3) loans in which nonprofit organizations provided down payment assistance to buyers increase the risk to the FHA insurance fund. The audit found that HUD allowed nonprofit organizations to operate down payment assistance programs that circumvent FHA requirements. We concluded



that the down payment assistance programs do not meet the intent of FHA requirements because the assistance is not a true gift, and because the nonprofit is being reimbursed for the down payment assistance by the seller. Analyses of empirical data found higher default rates for loans under these programs. In addition, independent studies have shown higher default rates for loans where buyers have little or no equity. Also, we found evidence that some home sellers increased the sales price to cover the fee they paid to the nonprofits. HUD allowed this to occur because it did not have an established process for evaluating, approving, or monitoring the new down payment assistance programs. HUD has issued a proposed rule which we believe will effectively enforce FHA's requirements and eliminate or reduce the adverse impact of the new programs on the FHA insurance fund.

The audit recommended that HUD: (1) ensure that future down payment assistance programs are properly evaluated and approved; (2) implement a system that will identify FHA insured loans and providers under these programs, and a process to evaluate loan performance and risk; and (3) implement its proposed rule with minor changes. Also, we believe HUD should consider whether FHA appraisers should be required to make adjustments for properties, including comparables, sold under these programs. (Report No. 00-SE-121-0001)

Title I

In **Atlanta, GA**, Mego Mortgage Corporation (Mego) did not properly process and underwrite Title I loans. An OIG audit found that Mego approved \$176,500 of excessive and \$127,000 of inadequately supported loan amounts, and in some cases without a proper review of borrowers' income and/or liabilities. The audit also identified instances where Mego approved loans without adequately clarifying differences between work items listed in the application and the detailed cost estimates. The deviations from requirements increased HUD's insurance risk on the loans approved for excessive amounts and whose eligibility Mego did not clearly establish. These deficiencies provided the opportunity for fraud and abuse of the Title I Program.

The audit recommended that the Atlanta Homeownership Center require Mego to reimburse HUD the full or partial claim amounts paid for loans that were not properly underwritten and/or were approved for excessive amounts. Additional recommendations were made to correct underwriting deficiencies, improve property inspections and correct defective work. The Homeownership Center should also take appropriate administrative action against Mego. (Report No. 00-AT-225-1001)

Section 203(k)

The OIG audited Great Lakes Housing, Inc., a private nonprofit organization in **Wyoming, MI**, and found that Great Lakes obtained excessive funds for rehabilitation work done with loans from the Section 203(k) Mortgage Insurance Program. Specifically, Great Lakes Housing, operating as a general contractor, obtained \$79,000 over actual costs for rehabilitation work. It also paid its subcontractors for rehabilitation work which was either not done or was done improperly because the consultant/inspector prepared inadequate specifications and performed inadequate inspections. Great Lakes Housing performed little oversight of the consultant/inspector's work.

The audit recommended that the Director, Philadelphia Homeownership Center: (1) require Great Lakes Housing, Inc. to either (a) reimburse the respective homebuyers' mortgages for the work not performed according to the specifica-



tions and cost estimates for the property, or (b) complete all work items in the specifications plus any work items required to meet minimum property standards as required by the local government; and (2) take appropriate administrative actions against Great Lakes Housing and its officers if the audit recommendations are not resolved. (Report No. 00-CH-229-1001)

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to Operation Safe Home equity skimming work during this period, the OIG reviewed the use of the Real Estate Assessment Center's physical inspection assessments and the rehabilitation and repair of housing units at a cooperative housing project.

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

The following reflects equity skimming activity during this reporting period.

Equity Skimming

HUD entered into a settlement agreement with the general partner of four HUD insured nursing homes in **Newton, MA**. The agreement calls for the general partner to pay \$3,811,088, which includes \$1,430,928 in cash, \$1,177,160 in offsets of undrawn management fees and additional amounts due the general partner, and \$1,203,000 in transfers between the projects. The repayments will be made to the projects' operating and reserve for replacement accounts. The general partner of the projects is also the owner of Senior Health Management, Inc., an identity of interest management agent operating HUD insured nursing homes in the State of Massachusetts. The agreement resulted from an OIG audit which disclosed that the projects' general partner did not disclose, in the projects' computation of surplus cash, accounts payable of \$3.5 million due within 30 days. As a result, the projects' cash deficit was incorrectly calculated. Factoring in the correct accounts payable, the cash deficit position increased to \$2 million at June 30, 1997. The OIG also disclosed that while the projects were in a cash deficit position, the general partner withdrew in excess of \$2.7 million from project operations during Fiscal Years 1994 through 1996.

In coordination with the Assistant U.S. Attorney (AUSA), the OIG reviewed **Onterie Center**, a 60-story mixed use residential, commercial, and retail complex in **Chicago, IL**, to determine whether the use of project funds was reasonable and



complied with the Regulatory Agreement and applicable HUD regulations. The review, which was conducted as part of Operation Safe Home, concluded that the Onterie Associates Partnership improperly disbursed almost \$2.2 million of the Onterie Center project funds and assets. The inappropriate disbursements and uses of cash and assets occurred when the project was in a non-surplus cash position. Onterie Associates Partnership also overstated project expenses and understated project income.

As a result of the OIG review, HUD and the AUSA executed a settlement agreement with the owner in May 1999. Under the terms of the agreement, the owner and project manager agreed to stop the practices which led to the inappropriate use of project funds. The owner also agreed to pay HUD \$350,000, and deposit more than \$500,000 in a project account. (Report No. 00-CH-211-1802)

In **Chicago, IL**, the U.S. District Court for the Northern District of Illinois approved an \$850,000 settlement agreement with Peter Hoffman, one of three former partners of Blackstone Lowe Avenue Associates and Blackstone Realty Management. The court also entered a default judgment of over \$3 million against the other two partners. Blackstone Lowe Avenue Associates was the owner of Lowe Avenue Terrace Apartments, a 188-unit multifamily project. The project was managed by Blackstone Realty Management.

The court action stems from a civil complaint filed in 1996 by the U.S. Attorney's Office to recoup double damages for unauthorized use and unsupported expenditures of project funds. An OIG audit disclosed that the owners and management agent incurred over \$1.9 million of ineligible and/or unsupported costs while the project was maintained in deplorable physical condition.

Under the terms of the court approved settlement agreement, Hoffman agreed to pay \$850,000. He also agreed to a voluntary and permanent exclusion from participation in any transaction under all federal housing programs nationwide.

The court also entered a default judgment of over \$3 million against Abraham Woldiger and Abraham Taub, the other former partners of Blackstone Lowe Avenue Associates and Blackstone Realty Management. The amount of the default judgment is the full amount of double damages sought in the complaint filed by the U.S. Attorney's Office, less the \$850,000 to be paid by Hoffman. (Report No. 00-CH-211-1806)

The general partner for Huron Plaza and Sunridge Apartments, two insured multifamily projects in **Fresno, CA**, entered into a settlement agreement with the Department of Justice to pay the government \$429,000 in damages plus interest. This action resulted from an OIG audit which disclosed the owners'/agents' misuse of project assets that contributed to Huron Plaza's physical problems and Sunridge's continued loan delinquency and default. The audit found that Huron assets of \$407,136 and Sunridge assets of \$98,468 were used in violation of the Regulatory Agreement with HUD. The violations included diverted laundry income, direct distributions to owners, payment of excessive, unsupported, or non-project expenses by service contractors and others, and excessive management fees. Prior to the settlement, the owners restored money diverted from Huron Plaza and made acceptable physical improvements to the project.



Shelby Jean Kaplan, a general partner for several HUD insured multifamily projects, and her company, Tricap Management, agreed to a civil settlement of \$300,000 in damages for violations of the False Claims Act, the Anti-Kickback Act, the Program Fraud Civil Remedies Act, and the Housing and Community Development Act. Although the agreement was reached in **San Francisco, CA**, the violations took place in New Hampshire, California, and Maryland at various housing sites that the defendant managed. The OIG audit and investigation focused on Tricap's receiving a \$900 per month kickback for awarding the Harold Louis Group the contract to manage a housing complex.

At the request of the U.S. Attorney's Office, the OIG reviewed the books and records of the YMCA of Metropolitan **Chicago** Foundation/Harvey YMCA Senior Housing. The review was based on allegations that the Foundation intentionally allocated repair, supplies, and other costs to the HUD subsidized housing facility that should have been charged to the YMCA parent organization, a non-HUD subsidized entity. The results of our review were presented to the Assistant U.S. Attorney, who used the review results to negotiate a settlement agreement between HUD and the YMCA. The settlement, which contains no admissions by the YMCA, calls for over \$197,000 in restitution to be paid to HUD over a 4-year period. (Report No. 00-CH-211-1804)

The U.S. Attorney's Office in **Indianapolis, IN**, executed a settlement agreement and stipulation of dismissal with prejudice in the matter of United States v. John Bartle, et al. Bartle was the general partner of Mayfair Limited Partnership, owner of Mayfair Manor, a HUD insured nursing home. The partnership defaulted on its HUD insured mortgage in May 1992. HUD subsequently sold the project at foreclosure in 1996. The settlement agreement requires the project owner to pay the United States a lump sum cash payment of \$150,000. In addition, HUD may, if appropriate, suspend or debar those involved.

The complaint alleged that, while the mortgage was in default, the owner received lease payments from the nursing home operator approximating \$361,000, but spent only \$31,000 for reasonable operating expenses and necessary repairs. Bartle paid a lump sum payment to the government of \$150,000 in compliance with terms of the settlement agreement. (Report No. 00-CH-211-1805)

In **Hartford, CT**, the owner of Executive House, an 83-unit insured multifamily housing development, repaid HUD \$125,000. This amount includes over \$64,000 in unauthorized distributions of project income plus a penalty of more than \$60,000. Conditioned upon the payment, HUD agreed to allow the prepayment of the property's insured mortgage without prepayment penalties. In October 1998, OIG referred the case to the HUD New England Office of General Counsel. They then pursued recovery of the funds with OIG assistance.

In **Gahanna, OH**, HUD and the U.S. Attorney's Office executed a settlement agreement with RLJ Management Company by which RLJ agreed to pay the Federal Government over \$64,000. This amount includes inappropriate payments to co-general partners, OIG audit costs, and interest fees. These actions stemmed from an OIG review of RLJ which concluded that RLJ improperly used over \$53,000 of funds from five HUD insured projects to pay a fee for managing the projects. Our



review determined that the payments were not reasonable and necessary expenses of the projects. RLJ made the payments to the co-general partners as part of a fee-splitting agreement executed by the former owner of RLJ, and failed to disclose the unauthorized payments in the projects' audited financial statements. (Report No. 00-CH-211-1803)

In **Bronx, NY**, OIG reviewed the operations of Target V Phase I, a HUD insured multifamily project. The project is managed by Target V Management, an identity-of-interest management company that is owned and operated by the project's two general partners. Our review found that the owner did not comply with HUD regulations when it charged over \$258,000 to the project for ineligible and unnecessary expenses. Specifically, the owner disbursed project funds in excess of the management fee limit to pay for a supervisor's salary and health insurance benefits, and salaries and supplies for front office operations. The owner also accrued over \$112,000 in excessive management fees, which remain unpaid, and disbursed over \$26,500 in project funds for expenses that were either unnecessary or unsupported.

The audit recommended that the owner repay the project, from non-project funds, for ineligible expenditures, and remove the outstanding accrual of over \$112,000 from the project's books. (Report No. 00-NY-212-1002)

In **Cleveland, OH**, HUD executed a settlement agreement with MJM Management Company and the owner of Silver Meadows, a multifamily project. Under the terms of the settlement, MJM and the owner agreed to remove almost \$216,000 in payables from the project's books, thereby canceling the project's liability for payments of the amounts. The almost \$216,000 includes inappropriate loan payments, asset management fees, and OIG audit costs. An OIG audit disclosed that MJM paid almost \$165,000 out of the project funds for Silver Meadows for ineligible loan related payments and asset management fees. (Report No. 00-CH-211-1807)

Use of REAC Physical Inspection Assessments

In Massachusetts and Connecticut, the OIG conducted an audit of the Office of Housing's use of physical inspection assessments generated by HUD's Real Estate Assessment Center (REAC) on multifamily properties insured by FHA and/or receiving project-based subsidy under the Section 8 Program. Although we found the Office of Housing to be utilizing the REAC property inspections within their servicing responsibilities, we believe the Office of Housing can reinforce its assurances and improve its processes to strengthen the Department's oversight of its portfolio of insured and subsidized multifamily properties.

As of January 10, 2000, a total of 20,151 of approximately 30,000 multifamily properties had completed inspection reports released since inception of REAC's physical inspection process in October 1998. At an average cost of \$661 per each physical inspection, the Department has expended over \$13.3 million dollars. There were 2,221 properties (11 percent) of the 20,151 scoring between the passing threshold of 60, and the score at which the property is referred to the Department's Enforcement Center, which is 30. In addition, there were 10,611 properties (53 percent) of the 20,151 with reported exigent health and safety violations. All of these properties would have required written owner certification to confirm repair and correction of the physical deficiencies and exigent health and safety violations cited. However, follow-up inspections by Office of Housing staff to verify correc-



tions or repairs to these REAC inspections are not required and are not performed. We believe this policy opens the door to potential false information being transmitted and certified by the project owner. For instance, problems associated with the absence of follow-up inspections were confirmed during our review. Upon review of the owner's certifications that certain corrections or repairs were made at four sampled housing properties, we determined that those corrections or repairs were actually completed at only three of the four properties. In addition, when certification of corrective action of exigent health and safety violations is reported by project owners, the owners do not always specify when the corrective action was completed.

Our review also showed that there is no evidence or assurance that 10⁰ of 13 project owners required to complete property surveys have done so. Property surveys are a vehicle to determine the full extent of the physical deficiencies that are present and in need of correction or repair. Furthermore, the audit showed that improvement is needed in the current notification process to Housing field office staff when completed property inspection reports and exigent health and safety violations are available on the Multifamily Housing Real Estate Management System. Where no systematic notification system is operated by the REAC or the Office of Housing, the responsibility of identifying newly released inspection reports and exigent health and safety violations falls on the field office staff, which may be an unnecessary added burden to an already depleted staff.

The audit recommended that the Office of Housing consider strengthening owner certifications pertaining to the correction and repair of physical deficiencies reported through REAC inspections, and continue to develop a system and procedures to identify owners that have subsequent REAC inspections which depict the same physical deficiencies that were cited the prior year and certified as corrected. Policies should also be established on action to be taken if it is determined that the same physical deficiencies exist. Further, the audit recommended that the Office of Housing require the owner to not only certify to corrected deficiencies, but to indicate the timeframe of such corrections, and develop stronger procedures to assure complete property surveys are performed and submitted. Finally, the audit recommended that the Office of Housing develop and operate a more beneficial notification system of released property inspections, which will lessen the burden on field office staff. (Report No. 00-BO-111-0002)

At the request of the HUD Secretary's Representative in the Pacific/Hawaii District, the OIG reviewed the rehabilitation and repair of housing units at Martin Luther King-Marcus Garvey Square (MLK), a cooperative housing project in **San Francisco, CA**, which operates under Section 221(d)(3) of the National Housing Act. The review disclosed several deficiencies including missing documentation, such as invoices, accounting documents, and work order files, relating to the rehabilitation and repair of units. The lack of proper documentation made it difficult to determine which units received rehabilitation and repair work, and delayed the financial audit for the project's 1998 fiscal year. Unit rehabilitation and repair were also not carried out in an equitable manner. Management focused available funds on the renovation of vacant units which were scheduled to receive existing MLK tenants transferring from another unit. This was done in preference to rehabilitating and repairing occupied units and vacant units scheduled to receive new tenants from outside the project. As a result, some units that required significant repairs did not receive them.

Rehabilitation and Repair of Multifamily Housing



MLK did not follow proper procurement practices and bidding procedures when contracting for significant unit rehabilitation and repairs, resulting in high prices and the selection of questionable vendors. During 1997 and 1998, the project incurred over \$270,000 in flooring, appliance, cabinetry, and drapery expenses, but there was no documentation to show how any of the contractors were selected. MLK also failed to properly account for or maintain proper inventory records over appliances and supplies, and improperly charged overtime for work not related to project operations.

The audit recommended that HUD ensure that the current management agent takes appropriate actions to account for all project funds, brings units into acceptable condition, prioritizes rehabilitation work, and adheres to proper procurement practices. In addition, project funds should not be used for non-project work. (Report No. 00-SF-212-1801)

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, the OIG reviewed three grantees' administration of the HOME Program, a City's use of Housing Opportunity grant funds, three recipients' administration of Supportive Housing Program grants, the award of Rural Housing and Economic Development Grants, and the role of a Community Builder in relation to a Transitional Housing Program project.

The purpose of the HOME Program is to expand the supply of decent, safe, sanitary, and affordable housing, primarily rental housing for low- and very low-income families through eligible forms of assistance, such as loans, loan guarantees, equity investments, interest subsidies, and other assistance approved by HUD. In preventing homelessness, Housing Opportunities for Persons with AIDS Program funds are used to assist low-income persons with AIDS and their families with short-term rental assistance, mortgage assistance, and utility payments. Funds can also be used for construction and rehabilitation. The Supportive Housing Program provides grants to develop supportive housing and services that will enable homeless people to live as independently as possible. Rural Housing Economic Development grants are awarded to rural and tribal areas to test comprehensive approaches to developing a job base through economic development, developing affordable low- and moderate-income rental and homeownership housing, and increasing the investment of both private and nonprofit capital. The Transitional Housing component of the Supportive Housing Program assists in developing innovative approaches for providing the housing and support services that homeless people need to move into independent living, especially for homeless individuals with mental disabilities and homeless families with children.



HOME Program

An OIG audit found that the Texas Department of Housing and Community Affairs (TDHCA) in **Austin, TX**, allocated certain payroll and other direct costs based on budget estimates instead of actual time spent on or benefits received by the HOME Program. These budget based cost allocations were from divisions other than the HOME Program Office for activities that benefited multiple programs. In addition, the TDHCA allocated a portion of the cost of a new client server accounting system without a supportable allocation basis. As a result, the TDHCA lacked support for about \$1.26 million of administrative costs it charged to the HOME Program.

The TDHCA did not require its subrecipients to submit necessary documents to support drawdowns of funds to cover administrative costs in carrying out HOME Program activities. TDHCA monitoring reviews of subrecipient performance looked at programmatic issues but not administrative costs. Consequently, TDHCA could not support over \$408,000 in drawdowns for administrative costs of subrecipients we reviewed.

The audit recommended that HUD's Texas State Office of CPD require TDHCA to establish and implement: (1) an appropriate method for allocating direct costs that meets federal cost principles, including actual activity time reports for personnel salaries and related costs chargeable to multiple programs; and (2) procedures to ensure that drawdowns for administrative costs are supported by proper source documentation. The audit also recommended that TDHCA provide adequate support or pay back to the HOME Program from non-federal funds \$1.26 million in costs allocated to the program based on budgeted amounts and the \$408,000 in unsupported administrative fees drawn by subrecipients. (Report No. 00-FW-255-1002)

The Holyoke/Chicopee Consortium in **Holyoke, MA**, whose goal it was to expand the supply of affordable housing opportunities for low- and very low-income families, did not properly and efficiently use HOME Program funds. As a result, an OIG audit questioned the eligibility of nearly \$331,000 in HOME funds expended on two homeownership projects. Specifically, the Consortium cannot establish or ensure the necessity of HOME funds invested to produce four homeownership projects that incurred nearly \$1.1 million in total costs and had an aggregate after construction/rehabilitation appraised value of only \$449,000. Further, since the mandatory resale provisions were not imposed on two of these homes, the families who eventually purchased the homes may subsequently sell to any person, at any time, without regard to the HOME Program's income targeting (low- and very low-income) or primary residence requirements. Also, the recapture restrictions executed for three of the projects were either incorrect, or in one instance, unwarranted, which could have an effect on the long-term affordability of the projects. There is also an increased risk that families who benefited from the HOME Program through affordable homeownership opportunities were ineligible. Lastly, actual HOME assistance reported to HUD is understated.

The audit recommended that HUD require the Consortium to adhere to established HOME Program and HUD requirements. The recapture agreements executed for three of the four homeownership projects should be terminated and re-executed between the proper entities and in the proper amounts. If the Consortium cannot ensure affordability for the two projects requiring mandatory resale restrictions, the audit recommended that the HOME assistance provided be returned to the Consortium for future eligible use. The audit also recommended that HUD instruct the



Consortium to establish an accounting system that accurately tracks and reports the generation and use of its HOME Program income. (Report No. 00-BO-255-1001)

An OIG audit of the administration of the HOME Program by the North Suburban Consortium (NSC) in **Malden, MA**, disclosed that NSC did not maintain adequate records to support over \$626,000 of costs for overall program management and over \$424,000 for staff costs directly related to carrying out specific projects. In addition, we consider over \$179,000 of administrative costs to be ineligible for reimbursement, as the costs were charged twice to the Federal Government. The audit also found that: (1) NSC did not input information regarding project completion and program income into HUD's Integrated Disbursement and Information System (IDIS), and, as a result, IDIS cannot be used to effectively monitor the status of program operations; (2) NSC could not demonstrate that it had performed required monitoring of its member cities to ensure compliance with program requirements, and, as a consequence, NSC had limited assurance that loans met HOME eligibility requirements, persons receiving assistance were eligible, and housing quality standards were met; and (3) NSC management needs to be more involved in the administration of the HOME Program, as evidenced by the following:

- There has been no independent audit, as required, of approximately \$11 million of HOME Program expenditures since program inception in 1992.
- NSC did not maintain an accurate listing of outstanding loan amounts, terms, and conditions.

The audit recommended that HUD require NSC to: (1) develop reasonable allocation plans supported by studies of actual time spent on the various programs managed by member cities; (2) base future administrative and project delivery costs on actual costs supported by time cards and purchase orders; (3) document the eligibility of over \$1.23 million in administrative and project delivery costs; (4) become more involved in the administration of the HOME Program and monitor member cities; and (5) perform independent audits as required. (Report No. 00-BO-255-1002)

Housing Opportunities for Persons with AIDS

An OIG audit of the City and County of **Denver, CO**, (City) found that the City needs to improve oversight and monitoring of its HUD funded projects to ensure that project sponsors carry out their project activities in conformity with applicable HUD requirements. This is particularly true since many of the sponsors acquired and/or rehabilitated projects using more than one HUD funded program. Accordingly, units within each project may be controlled by different HUD program requirements. Our review of seven projects identified that the program sponsors were not fully complying with the appropriate HUD funding program requirements. Four of the seven project sponsors reviewed charged contract rents in excess of the agreement with the City or other source of assistance. As a result, program participants, other programs and/or HUD programs paid excessive rent.

Since May 1993, the City has provided to the Colorado AIDS Project a little over \$1 million in funds under the HUD Housing Opportunities for Persons with AIDS Program. The Colorado AIDS Project did not always document the eligibility of the program participants, identify and support the need for rental or mortgage assistance, or ensure that landlords received the assistance payments. The audit also



Supportive Housing Program

found that a project sponsor improperly used \$80,000 of Housing Opportunities for Persons with AIDS and Rental Rehabilitation Program funds for refinancing an existing project acquisition debt, which is not specifically authorized in the applicable HUD funding program regulations.

According to the Director of the City of Denver's Community Development Agency, the Agency began taking corrective actions relating to these deficiencies after our discussion of the findings at the completion of our on-site review. The audit made several recommendations to require the City to improve its oversight procedures and monitoring system of its subgrantees, provide instruction to each of its project sponsors as to the correct contract rent to be assessed for various dwelling units, and require the Colorado AIDS Project to implement proper procedures and controls. (Report No. 00-DE-259-1001)

At the request of the HUD Illinois State Office, the OIG reviewed the Supportive Housing Program grant awarded to Omni Social Services, Inc., **Chicago, IL**, and found that Omni, its architect, construction contractor, and banking institution did not maintain sufficient records to support the expenditure of the HUD grant funds. As a result, we were unable to determine how approximately \$330,000 was spent. In addition, Omni did not provide the required monies to match HUD funds that were allocated for the rehabilitation of three multifamily properties.

The audit recommended that HUD assure that Omni Social Services either provides supporting documentation or repays the \$330,000. (Report No. 00-CH-251-1808)

Allegheny County, PA, needs to more closely adhere to the terms of its grant agreements with HUD and provide better oversight and guidance to its Supportive Housing grant subrecipients. An OIG audit, conducted at the request of HUD's Office of CPD, found that the County has not implemented a process by which to routinely monitor subrecipients and, on occasion, has given subrecipients improper advice concerning the requisitioning of funds under its letter of credit. As a result, the County drew down funds prior to actual needs, and the County and its subrecipients incurred nearly \$135,000 in ineligible and unsupported costs.

The audit recommended that the County repay, from non-federal funds, all ineligible and unsupported costs; develop and implement a program to routinely monitor subrecipients; and provide evidence to HUD that it is requisitioning funds in accordance with program requirements. If it cannot supply this evidence, HUD should review funding requisitions for reasonableness before the related funds are disbursed. (Report No. 00-PH-259-1801)

As part of a nationwide review of HUD's Continuum of Care Program, the OIG audited the nearly \$556,000 Supportive Housing Program grant awarded to the Dallas Jewish Coalition for the Homeless in **Dallas, TX**, and found that the Coalition's activities were consistent with its application and that it expended funds timely. However, the Coalition did not have sufficient documentation to determine whether it met the purpose of the grant. In addition, the Coalition allocated nearly \$92,000 in ineligible expenses to the grant.

The audit recommended that the Coalition develop measurable criteria that will enable it to measure grant activities, reimburse its grant for the ineligible expenses,



Rural Housing/ Economic Development Grants

and revise its cost allocation practices and procedures to prevent the allocation of ineligible expenses. (Report No. 00-FW-251-1801)

The OIG audited HUD's 1998 award of \$14 million of Community Development and Planning Rural Housing and Economic Development grants in **Denver, CO**, to determine whether HUD awarded these funds consistent with Congressional requirements. Our review found that HUD's Office of Native American Programs awarded 3 grants totaling \$6 million, or 43 percent of the Rural Housing and Economic Development dollars awarded in 1998, contrary to the 1998 HUD Appropriations Act, the Community Development Act of 1974, as amended, and the HUD Reform Act of 1989. We recommended that HUD notify appropriate Congressional Committees of the \$6 million awarded contrary to Congressional requirements and seek Congressional relief for these awards. We also recommended that HUD officials review current HUD procedures and take appropriate actions to strengthen procedures to ensure that future grant awards comply with statutory requirements. These actions, at a minimum, should include creating administrative remedies for awarding grants without required competition. (Report No. 00-DE-156-0001)

Transitional Housing/ Community Builders

During our nationwide audit of the Community Builders Program, issued on September 30, 1999, we noted that a Senior Community Builder inappropriately interfered with a Public Trust Officer's attempt to bring the **Alexandria, LA** Housing Authority into compliance with its Annual Contributions Contract (ACC). The Community Builders in the New Orleans Office lauded Phoenix Point, a Transitional Housing Program, as an excellent example of Community Builder, Public Trust Officer, and community collaboration. During the audit of Community Builders, a complainant alleged that the Senior Community Builder pressured the Authority into continuing the Phoenix Point Program at the same time that HUD's Director of Public and Indian Housing (PIH) informed the Authority that the program violated the ACC.

Our review concluded that HUD's Senior Community Builder for New Orleans inappropriately interfered with a Public Trust Officer's attempt to bring the Authority in compliance with its ACC. The Senior Community Builder's interference created an atmosphere of confusion to Authority and local government officials. As a result, the Authority did not know whose directions to follow. Without the Senior Community Builder's interference, the Authority may have quickly resolved the issue; however, it remains unresolved.

During our review, HUD's Director of CPD attempted to impede our audit by denying that his office had any files pertaining to Phoenix Point. Another CPD employee had to provide the file on Phoenix Point.

The audit report was issued to the Deputy Secretary, and we recommended that HUD clarify to the Authority that the Senior Community Builder has no program authority over CPD or PIH, inform the Authority that it should follow PIH's instructions on programmatic issues, direct the Senior Community Builder not to interfere with Public Trust Officer duties, and take appropriate action against the CPD Director for his attempts to impede the audit by not providing full access to HUD records. (Report No. 00-FW-177-0801)



Enforcement Center/Storefronts

In June 1997, Secretary Cuomo announced that HUD would restore the public trust by eliminating waste, fraud, and abuse. Improper activities would be monitored and documented, and individuals prosecuted. HUD would create an Enforcement Center that would carry out this effort. The Center's duties would include: (1) taking legal action against public and Indian housing authorities that received a failing grade on their annual assessments; (2) taking actions when HUD assisted housing failed physical and financial audit inspections; and (3) cracking down on the improper use of grant funds obtained from HUD's Community Planning and Development and Fair Housing and Equal Opportunity Offices.

In June 1997, Secretary Cuomo also announced the goal to replace HUD's top-down bureaucracy with a new customer-friendly structure and provided for the creation of HUD Storefronts. Borrowing from the strategy used by many major banks over the past decades to consolidate routine functions into centralized "back office" processing centers and establish storefront customer service offices, HUD adopted this model in an effort to bring HUD programs closer to the community.

Enforcement Center

The OIG performed a nationwide audit of HUD's Enforcement Center to assess the Center's efforts in achieving the Secretary's strategic objective of restoring the public trust. While the Enforcement Center has been fully operational for over a year, we found that the visions of the HUD 2020 Management Reform Plan have not been fully met and that the Center's accomplishments to date have been less than dramatic. Nearly all focus has been with multifamily program enforcement within the Office of Housing. The Center has not received any referrals from other program offices. In addition, HUD has not given the Center authority that is crucial to tougher enforcement actions. Without this authority, the Center's intended independence or autonomy will not be realized. Unless HUD implements corrective actions, the Enforcement Center will not achieve its full potential of aggressively pursuing enforcement actions against non-complying entities.

Because of organizational start-up difficulties, particularly with the Center's contractor, changing instructions and multiple approval requirements, the Center significantly missed its objective of approving an enforcement action plan within 50 days. As of September 30, 1999, the Center had received a total of 483 referrals, but only had 16 approved enforcement action plans. We included the majority of the approved action plans in our review of 63 referrals and observed that it took an average of 298 days for these plans to be approved. Our review of referrals without approved action plans found that at September 30, 1999, they had been at the Center an average of 205 days, without either the concurrence of the Center's Headquarters to return them to the hubs or approved enforcement action plans.

The Enforcement Center has not successfully established a high priority Departmental Tracking System (DTS) as detailed in the HUD 2020 Management Reform Plan. Consequently, it has had to rely on inconsistently designed and unreliable systems developed by its satellite offices to meet its Business and Operating Plan objective of tracking and measuring the effectiveness of all HUD enforcement actions.



The audit recommended, among other things, that the Director of the Enforcement Center, in coordination with the Deputy Secretary, ensure that the Center is delegated the proper authority to perform its mission and be given the proper amount of resources so that it can achieve its objective. The Enforcement Center should also review its procedural guidelines and determine if its timeframe for obtaining an approved enforcement action plan is achievable, take the necessary steps to ensure that satellite offices meet their required timeframes, consider giving the satellite directors the authority to execute enforcement action plans without required approval from the Center's Headquarters, and reevaluate the viability of developing a HUD-wide system to track enforcement actions and either provide adequate resources for the development of a functional DTS or discontinue funding the development of a new system and explore other avenues to address its tracking needs. (Report No. 00-NY-177-0001)

Storefronts

As part of the OIG's continuing reviews of HUD's 2020 Management Reform Plan, we performed a nationwide audit of HUD's Storefront Operations and found that HUD has spent millions of federal funds and used its limited resources to implement a new outreach and customer relations initiative, but cannot assure taxpayers that they are receiving the maximum return for their investment. HUD opened new storefront offices to serve as national models for more responsive government; however, their impact is minimal and overall benefits cannot be measured. HUD paid \$8.5 million to establish and operate six storefronts and install 73 kiosks, will incur an additional \$4.5 million annually to support the existing facilities and kiosks, and will spend millions more in establishing new storefront offices and kiosks nationwide. HUD did not adequately plan or justify storefront site selections; exceeded budgeted costs to design and construct storefront facilities; did not provide effective customer services and monitoring; did not implement adequate marketing and community outreach strategies; and did not monitor kiosk usage. In addition, HUD's implementation strategy was too aggressive, causing HUD management to not provide adequate management controls, support staffing levels, and establish national goals for Community Builders.

HUD has little, if any, measurable evidence that the significant expenditures for storefront and kiosk operations have benefited HUD customers. While the ultimate beneficiaries of HUD programs are individuals, nearly all HUD programs are administered through HUD's primary customers or intermediaries such as public housing authorities, grantees, lenders, or community organizations. In our opinion, these are HUD's most important customers. We found little use of storefront facilities and kiosks by these primary customers since Community Builders typically met with HUD customers outside of the storefront facility. While it is good for public relations to make individuals aware of HUD programs, storefront and kiosk funding could be better spent on improved oversight and monitoring of HUD's primary customers. The general public has numerous less costly resources available to them to learn of HUD programs, including HUD's award winning Internet site, which is available at most public libraries at no cost.

The audit recommended, among other things, that HUD delay plans for constructing future storefront facilities until the Department can demonstrate the need for the storefronts and develop well-defined criteria, policies, procedures, and financial controls for storefront operations; develop a cost effective planning strategy for storefront locations that identifies an equitable distribution of store-



fronts nationwide based on the needs of the communities; develop standardized methods for determining customer use and evaluating customer satisfaction; provide more extensive HUD program training to Community Builders; establish management controls and provide adequate oversight to storefront operations; and develop performance standards that clearly define employee duties and responsibilities applicable to their respective grade levels. (Report No. 00-AO-177-0001)

Information Technology

Y2K

Since 1996, the Department invested considerable time and effort in correcting potential problems that could have led to Y2K system failures. The Department was successful in these efforts. No system failures occurred and disruptions from the millennium rollover were minimal. This was a high priority and focused effort by the Department, including the OIG. Our prior audits in the area of Y2K noted deficiencies in project organization and management, testing and certification, contingency planning and outreach to business partners. We worked closely with HUD management staff in correcting problems identified.

Investment Management Practices

An OIG review of HUD's information technology (IT) investment management practices found that HUD IT investment projects are well below industry average in terms of productivity and quality, and suffer from persistent cost overruns and schedule delays. HUD's organizational structure and project management practices do not ensure the effective management of complex projects. Project managers are not held accountable for project results and critical resources are at risk due to inadequate project planning, unavailability of timely cost data, weak contractor controls, and fragmented management oversight.

In auditing HUD's IT investment management practices, we engaged the services of a consulting firm, Software Productivity Research, to perform a quantitative project and organizational baseline assessment. For the six high profile IT investment projects reviewed, we concluded that:

- Average productivity of the projects is 10 times less than industry average for similar projects.
- Projects did not follow HUD's system development guidelines and documentation requirements or industry accepted practices for project planning and risk assessments.
- Complete and reliable project performance data for measuring and controlling IT project progress are not available.
- IT capitol investment projects are at risk due to weak contracting controls and practices.
- Reporting of IT investment projects is inadequate and management oversight is fragmented.

The audit recommended that HUD establish project management as a primary function within the Chief Information Officer (CIO) organization. This function should have the authority to implement and enforce project management policy,



Grants Management System

standards, and procedures, including a disciplined, consistent procedure for system requirements management, quality assurance, configuration management, and project planning, tracking, and reporting. The organization should provide the necessary guidance and assistance HUD needs to complete projects successfully.

The CIO's Office recently reorganized and added functions. Although the intent of the reorganization was to improve the efficiency and effectiveness of Departmental programs and accomplish much needed reforms in IT management, many of the functions remain understaffed. If the efforts initiated by the CIO and the recommendations in this audit report are to be successful, HUD must provide the executive level support and resources needed to carry them out.

The General Accounting Office (GAO) reached similar conclusions about the Department's IT investment practices in its recently issued report, *HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule*. Implementation of both GAO and OIG recommendations should enable HUD to effectively select and control IT investment projects. (Report No. 00-DP-166-0001)

An OIG audit of HUD's initial development efforts regarding the Departmental Grants Management System (DGMS) concluded that the DGMS development team did not comply with the intent of the system development methodology. In particular, the team reversed its development solution as outlined in the feasibility study. The development solution for DGMS was changed from a combined expansion of existing systems (determined to be the most efficient/effective solution) to a custom development solution, which its feasibility study concluded was the most expensive and risky solution. The custom solution has led, at least temporarily, to simultaneous development of two competing Departmental systems — the existing Integrated Disbursement and Information System and the new DGMS — under two different Departmental organizations. As a result, this approach is expected to lead to substantially higher development costs and to greater risks of development failure. In addition to the probable lengthening of development time from custom development, the team is expanding the DGMS scope to include Capital Advance Programs, such as Section 202 (housing for the elderly) loans and Section 811 (housing for persons with disabilities) loans. Because of the non-grant nature of these programs, the development process is unnecessarily complicated. Development time also is expected to increase because the team did not allow the end-users (grantees) to join the initial development efforts to help identify the system's functional requirements.

The current problems with the initial DGMS development are being compounded because the original project manager has been transferred and a permanent replacement has not been appointed. In addition, the July 4, 1999 reorganization of the Department's Office of Administration has created confusion over which organization has the sponsorship role, and hence ultimate control over the development activities of DGMS.

The audit recommended that the Department consolidate the dual sponsorship and development efforts of the two competing systems under one organization, preferably the Chief Information Officer. A new feasibility study should be undertaken as soon as possible, and it should include an analysis of the cost benefits of the technical alternatives. In addition, further development on both systems should be curtailed until the new study has been completed. (Report No. 00-DP-166-0002)



This page intentionally left blank.



Chapter 4

Investigations



In addition to Housing Fraud Initiative responsibilities, the Office of Investigation investigates violent crime in public and assisted housing and pursues other allegations of irregularities or abuses in HUD's programs and activities, as well as other potential violations of law or misconduct on the part of HUD employees, participants, and beneficiaries. During this reporting period, investigative efforts resulted in recoveries of \$5.3 million. In addition, 129 persons were indicted, 59 persons were convicted, and 106 years of prison sentences were imposed as a result of these investigative operations.

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations uncovered criminal equity skimming under Operation Safe Home, as well as kickbacks, bid rigging, false statements, mail fraud, and money laundering in connection with Multifamily Housing Program operations.

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

The following reflects equity skimming activity during this reporting period:

In **Tampa, FL**, 10 individuals and one business agreed to plead guilty to their part in a scheme to defraud HUD of nearly \$1 million. This was the culmination of a 2-1/2 year investigation by OIG and the FBI which disclosed that the owners of 13 HUD insured multifamily housing developments illegally diverted funds from the developments at a time during which the mortgages were in default. The plea agreements show that more than \$987,000 was diverted between June 1991 and April 1995.

This case is the first ever criminal prosecution of property management fee-splitting and accountant fee-splitting, both of which constitute equity skimming. A press release from the U.S. Attorney's Office, Middle District of Florida, stated that "this [case] has national significance because it will directly impact the ownership and management of the HUD insured multifamily development industry as federal authorities have specifically identified this type of activity as criminally, as well as civilly, actionable." The property owners and their agents, the property management owners and their agents, and auditor/CPA contracted to perform

Equity Skimming



financial audits for the properties, and a roofing contractor doing business with the properties were all charged with offenses relating to equity skimming and the obstruction of investigations and audits of such activities.

The defendants face a maximum term of 5 years in prison and a fine of up to \$250,000 for the equity skimming and obstruction charges, and a fine of up to \$100,000 for making false statements to HUD.

In **San Francisco, CA**, an individual, along with 2 companies he owns, were indicted on 19 counts of stealing over \$1.8 million from multifamily housing projects. The individual allegedly entered into a kickback arrangement with an insurance broker beginning in 1991 and inflated insurance premiums charged to over 160 HUD insured and subsidized projects throughout the United States.

The individual was formerly the executive vice president, treasurer and chief financial officer of Associated Financial Corporation (AFC), a Los Angeles based organization which controls one of the largest inventories of HUD subsidized housing projects in the country. The indictment alleges that in 1990, AFC entered into a contract with the individual and one of his companies to provide insurance for over 160 projects. The individual then retained an insurance broker in New York City to obtain insurance for the projects in exchange for the broker's making monthly kickback payments to him and his company.

The indictment also alleges that at the beginning of each policy year, the broker would provide to the individual and his company the actual costs of insurance and the individual would then direct the broker to add fictitious costs to the actual insurance premium costs. The individual then allegedly directed the broker to prepare and mail premium invoices to representatives of each of the 160 HUD projects. Between 1991 and 1995, the broker collected the premiums from the HUD projects, paid the legitimate costs associated with the insurance, and then split the difference between actual and fictitious premium costs with the individual and his company. According to the indictment, in 1995 the individual required the broker to use the individual's other company to collect all insurance premiums billed to the HUD projects. After the company collected the payments and paid the legitimate costs associated with the insurance coverage, the company then split the difference between the actual premium costs and the fictitious costs between the individual, his company, and the broker. Between May 1995 and January 1996, the payments the individual required the broker to kick back totaled \$462,000.

This investigation was conducted by the FBI and the OIG Offices of Audit and Investigation.

In **Los Angeles**, Donald S. Kaplan, a general partner and management agent, was sentenced for equity skimming involving three HUD insured projects. The mortgages on the three projects Kaplan managed were assigned to HUD between 1992 and 1994. HUD foreclosed on the loans for all three projects in 1995. Between 1989 and 1995, Kaplan, doing business as Kaplan Enterprises, Inc., improperly disbursed over \$276,000 in project funds to himself while the properties were in a non-surplus cash position. Kaplan wrote checks to vendors, forged their names, and then deposited the checks in his personal account. He also wired project funds to non-HUD projects' bank accounts and used project funds for repair work at his residence and at non-HUD projects he managed. Kaplan was sentenced to 5 years probation, and 300 hours community service, was ordered to pay \$29,000 in restitu-



tion, and was fined \$20,000. This was a joint effort by the OIG Offices of Audit and Investigation.

Minister Ernest J. Trice pled guilty to submitting false statements. A joint investigation by OIG and the FBI disclosed that Trice, who acted as management agent for Chaucer Street Apartments, a **Hot Springs, AR** apartment complex built under a HUD grant to provide housing for severely handicapped low-income residents, diverted more than \$25,525 in project income for his personal use. Trice also failed to pay the complex' utility bills, causing the electric company to threaten to cut off service. The investigation further disclosed that Trice, who also managed Shorter College Plaza, another HUD subsidized apartment complex, diverted \$83,000 of that project's income for personal use. Trice also failed to disclose to HUD officials that he had previously been convicted of a felony.

In **Kansas City, MO**, Tucson D. Redd, owner of Omega Realty, was sentenced to 1 year and 1 day in prison and ordered to pay almost \$261,000 in restitution to 7 multifamily developments he owned and managed. Redd and Robert W. Wilp, an accountant at Omega Realty, had earlier pled guilty to conspiracy to commit mail fraud and money laundering. They admitted to misappropriating and converting \$250,000 of funds belonging to 7 multifamily complexes insured or subsidized by HUD. The scheme involved transferring funds from bank accounts owned and maintained for the HUD complexes to bank accounts owned and maintained for the benefit of Omega Realty. The misappropriated funds were used to pay unauthorized personal and business debts, primarily monies owed to the IRS.

Vernon J. Thompson, a recently resigned State Representative, participated in the scheme and pled guilty to one count of mail fraud. Thompson's son, Jamil, also pled guilty for his involvement in knowingly certifying a false document to the IRS. He overstated his income, for work not performed, on his income tax return. This resulted in his and his father paying less tax than if the income had been declared on the father's tax return. This was a joint investigation by the FBI and the OIG Offices of Investigation and Audit.

In **Philadelphia, PA**, Nathalie Singletary, a former site manager employed by the management agent of a HUD funded multifamily project, pled guilty, the day her trial was scheduled to begin, to conspiracy, embezzlement and making a false statement with regard to her participation in securing the approval of a fraudulent \$200,000 laundry room renovation contract. Singletary was sentenced to 18 months imprisonment and 3 years supervised release, and was ordered to pay a \$15,000 fine. Joseph Paige, the plumbing subcontractor, also pled guilty to one count of conspiracy for his part in the scheme. The third co-conspirator, Miguel Rivera, who was a general contractor, previously pled guilty to one count of conspiracy.

An investigation by the OIG Offices of Investigation and Audit disclosed that the three individuals devised a bid rigging scheme which ensured that Rivera would be the successful bidder for the laundry room renovation contract. Rivera received an \$80,000 advance, some of which he shared with Singletary and Paige. In addition to participating in the kickback scheme, Singletary also secured employment for her boyfriend, Paige, as the plumbing subcontractor. Paige used over \$22,000 in the form of a check that Rivera made payable to a local plumbing supply company. The funds were earmarked for the purchase of supplies for the laundry room renovation.



However, only about \$2,600 in supplies were purchased by Paige, and these supplies were not used for the renovation project. In addition, Rivera never performed the contract work nor did he return the advance payment.

In **Harrisonburg, VA**, JoAnne Kelley, former property manager of Deer Run Apartments, a HUD insured Section 8 project, was sentenced to 4 months home detention and 60 months probation. Kelley, who had pled guilty to embezzlement, was also ordered to pay F&W Management Corporation, the owner of Deer Run Apartments, \$11,000 in restitution. Kelley embezzled cashier's checks and cash payments made by Deer Run residents, and in an effort to conceal the embezzlement, submitted certifications to HUD showing that these residents were "zero renters" when in fact she was collecting rent from them. As a result of these and other actions by Kelley, HUD overpaid \$187,782 in Section 8 benefits to F&W Management Corporation. In connection with this OIG investigation, F&W has repaid the \$187,782 to HUD.

As a result of an OIG investigation, a **Warwick, RI** management company and three principals, along with a subsidiary construction company, were issued letters of suspension from participation in procurement and non-procurement transactions with HUD and the Executive Branch of the Federal Government. The suspension followed OIG's referral of the indictment of the management company, et al, to the HUD Enforcement Center. The indictment included charges of racketeering involving these Section 8 developments managed by the company: Aaron Briggs Manor, D'Evan Manor, Sparrows Point I, Sparrows Point II, Sparrows Point III, and Stratford House.

The owner/agent for 3 HUD insured multifamily projects was indicted by a federal grand jury on 14 counts of mail fraud, wire fraud, and money laundering in connection with a scheme to convert to his own use approximately \$1.3 million from Pittsburg Plaza, a 126-unit multifamily project in **Pittsburg, CA**. The indictment alleged that between January 1991 and December 1996, the owner/agent used the mails to submit false and fictitious documents to HUD to request payments to which he was not entitled. Based on those documents, HUD wired funds to Pittsburg Plaza. In order to obtain funds from the reserve for replacement account for his own use, the owner/agent purportedly created businesses which overbilled Pittsburg Plaza or charged the project for work that was not done. The checks to pay those entities went from the operating account of Pittsburg Plaza directly to a bank account that was controlled by the owner/agent. In addition, the owner/agent allowed ineligible individuals and persons who were not on a waiting list to occupy HUD subsidized units at Pittsburg Plaza. In return, these individuals made payments to the owner/agent in consideration for a lease. This investigation was conducted by OIG and the IRS Criminal Investigation Division.

Following a joint investigation by the FBI and the OIG Offices of Investigation and Audit, a federal grand jury in **San Francisco, CA**, indicted the owner of the Eugene Burger Management Corporation. The owner manages about 50 HUD insured or subsidized multifamily properties in various locations. The 46-count indictment charged the owner with theft from programs receiving federal funds. The indictment charges that the owner diverted project money from the master insurance policy and workers' compensation funds and accepted kickbacks through



Other Significant Investigations

undisclosed fee-splitting arrangements that he had with management agents of other HUD insured or subsidized properties. The owner was also charged with obstruction of justice for instructing others to conceal the true nature of the funds, and with money laundering for creating a separate business to which the funds were diverted.

George Samples, a former employee of the HUD **Atlanta, GA** Property Disposition Branch, who was subsequently employed as the property manager of a HUD insured and subsidized development, pled guilty to one count of soliciting kickbacks from contractors doing business with the HUD development. Samples demanded that a contractor doing work at the development inflate his invoice and give Samples the additional funds. After a correct invoice was submitted and rejected by Samples, the contractor agreed to submit an inflated invoice and gave Samples the additional funds. The investigation was conducted by the OIG.

The Simon Companies (TSC), **Boston, MA**, paid \$50,000 to the U.S. Attorney's Office in accordance with a civil settlement agreement. An investigation, conducted by the FBI and OIG, disclosed that TSC charged HUD funded housing developments for contractor costs when the work was not done at the developments. Instead, the work was done at TSC headquarters, which is a commercial office building.

Wilder Richman Management Corporation signed a settlement agreement finalizing a suit filed in the District of Maryland. The suit charged Wilder Richman, a corporation that manages HUD subsidized Section 8 units in and around **Annapolis, MD**, with falsifying tenant move-in and move-out dates submitted to HUD and retaining tenant utility reimbursements. An investigation disclosed that Wilder Richman did not distribute approximately \$10,400 in utility reimbursements to eligible tenants. As part of the settlement, Wilder Richman agreed to locate and reimburse all eligible tenants and to remit sums to HUD for those tenants unable to be located. This investigation was conducted by the OIG Offices of Investigation and Audit.

Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations uncovered single family equity skimming and instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family and Title I home improvement loans.

In **Brooklyn Park, MN**, Brain S. Parr, Roderick Martens, Milton Martens, Jerome Mayne, and Tamika Strange were sentenced after pleading guilty in U.S. District Court to their involvement in a property "flipping" scheme that resulted in a \$121,000 loss to HUD. Parr was sentenced to 36 months incarceration and 36 months probation. Roderick Martens was sentenced to 15 months incarceration and 36 months probation. Milton Martens was sentenced to 6 months work release, 6



months home detention, and 60 months probation. Mayne was sentenced to 21 months incarceration and 21 months probation. Strange was sentenced to 36 months probation. This was a joint OIG/FBI investigation.

In **Atlanta, GA**, Lucy Hill, also known as Walta L. Williams or Walta C. Lucy, was sentenced to 3 additional years imprisonment for violating the conditions of her probation by not paying court ordered restitution. Hill recently inherited over \$170,000 and failed to use the funds to pay the \$70,000 in restitution she owed HUD. Hill was sentenced in March 1994 to 2 years in prison, 5 years supervised release, and 300 hours of community service, and was ordered to pay over \$71,000 in restitution to HUD. She was convicted of submitting false statements to HUD, FHA loan origination fraud, bank fraud, using false Social Security numbers, bankruptcy fraud, mail fraud, and using false identification. She created fictitious identities by using false identification and employment information to obtain five FHA insured mortgages. The mortgages on the properties amounted to over \$400,000. Three of the properties have already gone into foreclosure, resulting in a loss to HUD of over \$70,000. The investigation was conducted by OIG.

Norfolk, VA real estate agent David Haplea, along with David John Roland, the husband of a former officer of a property speculation company, pled guilty to federal charges of falsifying documents related to HUD insured loans which they received. As part of a plea agreement, Haplea pled guilty to conspiracy to commit bank fraud and wire fraud. Haplea submitted false documentation to obtain one Section 203(b) and numerous 203(k) loans in his and his wife's names, failed to disclose that MSR Development, the properties' seller, paid his down payments, and failed to disclose that he was paid by MSR to purchase the properties. Roland, the husband of an MSR officer and supposedly a company officer himself, pled guilty to a misdemeanor charge of aiding and abetting the making of false statements to HUD. Although Roland was listed as an officer of MSR, he claimed his signature on partnership documents was forged. Roland's only role in the company's schemes was to occasionally attend closings with power-of-attorney authority for the company's investors. Roland would falsely certify that the investors were paying their own down payments when these funds actually came from the seller, MSR.

In **Houston, TX**, Iva L. Mueller-Hunter, former president of a remodeling/investment company, pled guilty to one count of submitting false statements as part of a plea agreement with the U.S. Attorney's Office. Mueller-Hunter admitted to preparing false documents and forging documents on dozens of loan applications to secure FHA insured Title I loans for dealer originated contracts in exchange for kickback payments from various contractors. Mueller-Hunter received kickback payments of 3 percent of the loan value and admitted to securing approximately \$320,000 of HUD insured Title I loans under false pretenses.

Anthony Leon Irwin, a Title I home improvement contractor also involved in the scheme, pled guilty to one count of wire fraud. Irwin submitted forged and false statements to obtain 2 HUD insured Title I loans totaling \$45,000. Irwin intended to use the loan proceeds to fund a home improvement construction business; however, he defaulted on both loans and HUD paid the lenders the resulting insurance claims. Irwin also admitted paying a number of cash kickbacks to homeowners to assist them in obtaining HUD insured Title I loans. Agents also seized almost \$60,000



from a former senior vice president of a Houston bank after the money was identified as proceeds from fraudulently obtained mortgage loans involved in this scheme.

Houston, TX investor Carl Jake Sandberg was sentenced to 3 years probation, 6 months home confinement, and 100 hours of community service, and was ordered to pay a \$1,000 criminal fine and a \$200 special assessment. Sandberg previously pled guilty to making false real estate contracts to HUD and the Department of Veterans Affairs (DVA) to purchase repossessed homes. The loss to the government was approximately \$100,000. This was a joint investigation by the FBI and OIG.

Ben S. Pennetta was sentenced to 4 months incarceration, 4 months home confinement, and 2 years supervised release, and was ordered to pay over \$416,000 in restitution to HUD, almost \$46,000 in restitution to his victims, a \$2,000 fine, and a \$100 court assessment. Pennetta pled guilty to single family equity skimming. While he was president of ADM Properties, Inc., in **Rochester, NY**, he purchased eight single family homes and assumed the FHA insured mortgages. Within 3 months of purchasing the homes, Pennetta defaulted on the mortgages. While the mortgages were in default, he collected rents on the properties and used the money for personal expenses. This was a joint investigation by the FBI and OIG.

In **Las Vegas, NV**, David Lam was sentenced to 22 months in prison and 3 years supervised release, and ordered to pay almost \$163,000 in restitution to HUD and lenders and a \$200 special assessment. Previously, Lam was indicted for his part in a loan fraud scheme and pled guilty to one count of making false statements to HUD and one count for failure to appear. Lam paid strawbuyers to purchase single family homes with FHA insured mortgages. He provided the strawbuyers with fraudulent income and employment documentation. The strawbuyers then obtained second and third mortgages using the same documentation. Some of the second mortgages were HUD Title I home improvement loans for which Lam provided fraudulent work estimates and invoices from his construction company to . Most of the loans were first payment defaults. Lam profited from proceeds of the second and third mortgages. This was a joint investigation by the FBI and OIG.

Capria Gale, of **Grayslake, IL**, was sentenced to 6 months incarceration, 6 months home confinement, and 3 years supervised release, and was ordered to pay \$25,000 in restitution to HUD and over \$2,000 to the IRS. Gale previously pled guilty to obstruction of and impeding the due administration of the Internal Revenue Code and forging and counterfeiting documents for the purpose of obtaining a HUD insured loan. This was a joint investigation by OIG and the IRS Criminal Investigation Division.

In **Greenbelt, MD**, Gregory Richardson, who previously pled guilty to stealing at least \$119,000 from Lawyers Advantage Title Group, HUD's Maryland and Northern Virginia closing agent, was sentenced to 12 months incarceration and ordered to pay \$9,000 in restitution, which was based on his ability to repay. A joint OIG/FBI investigation disclosed that Richardson and a co-conspirator, neither of whom worked for or had any connection to the closing agent, stole specimen checks belonging to the company, which they then counterfeited and negotiated.



Barbara Polaski, also known as Barbara Jemison Polaski or Barbara Polasici, pled guilty to one count of bankruptcy fraud, one count of using unauthorized access devices, one count of unlawful possession of an identification document of the United States, and one count of making a false statement to the government. While employed at the Housing Authority of **Pittsburgh, PA**, Polaski stole the identities of two public housing residents and used their biographical information to perpetrate her fraud and damage their credit ratings. In addition to misusing several thousand dollars as part of her bankruptcy, credit card, and loan fraud schemes, Polaski purchased four FHA insured properties. Three of the properties for which she used aliases have gone into default, resulting in a \$141,000 loss to HUD. Polaski purchased the fourth property using her true identity; however, she provided false statements regarding her financial history. This was a joint investigation by the OIG, FBI, and Postal Inspection Service.

Rodney McWilliams, a **New Orleans, LA** Police Officer, agreed to plead guilty to a three-count indictment charging submission of false statements, conspiracy to defraud the United States, and aiding and abetting. As a part of the plea agreement, his wife Linell was placed on pretrial diversion. The indictment was the result of an OIG investigation which determined that the McWilliams falsified HUD documents to influence the Department to allow them to purchase a home under the Officer Next Door Program. The HUD sponsored program allows Police Officers to purchase residential properties at a reduced rate of 40 percent below market value with the understanding that the Officer will occupy the property as his or her primary residence for at least 3 years. The McWilliams failed to occupy the property as their primary residence and rented the residence to a fellow Police Officer for several months. HUD suffered a \$19,000 loss as a result of the fraud.

Also in **New Orleans, LA**, a federal grand jury returned a four-count indictment against a former U.S. Naval Service employee and his daughter. The indictment charged them with one count each of false statements and conspiracy to defraud the United States. An investigation disclosed that the former Naval employee falsified U.S. Navy documents, W-2 forms, and HUD forms to assist the daughter in obtaining an FHA loan to purchase a home. The daughter has never worked for the Navy nor did she have the necessary income to qualify for the loan. There was no loss to the government due to the fact that another family member made several payments to the mortgage company, preventing the \$70,000 loan from going into default. No further proceedings have been scheduled at this time. This was a joint investigation by the FBI, OIG, and the Naval Investigative Service.

In **Uniondale, NY**, Matthew S. Reitzel, a Long Island Railroad engineer, pled guilty to defrauding the HUD Section 203(k) Rehabilitation Mortgage Insurance Program by submitting false statements to HUD. Reitzel fraudulently obtained a HUD property by certifying that he was a first-time homebuyer and that the property was to be his primary residence. Shortly after purchasing the property from HUD, Reitzel rented out the property for \$1,300 per month and never used it as his primary residence. He recently refinanced his Section 203(k) mortgage pursuant to the plea agreement, and is pending suspension/debarment action by HUD. This investigation was conducted by OIG and the Postal Inspection Service.



Matthew Albert Kelly, an employee of AA Quality Construction in **Houston, TX**, was charged with submission of false statements. The charge is part of a plea agreement in which Kelly admitted to making false statements to obtain a \$15,000 HUD insured home improvement loan. Kelly admitted that no actual construction work was performed, and the loan proceeds were used to pay off existing personal debts. This action resulted from an investigation conducted by the OIG Offices of Investigation and Audit, the FBI, the IRS Criminal Investigation Division, and the Waller County Sheriff's Office. Kelly is the fourth individual to be charged with a felony as part of this investigation. No further court dates have been scheduled at this time.

Five **Minneapolis, MN** individuals were indicted by a federal grand jury for their roles in a real estate scheme known as "flipping" which primarily targeted distressed properties in North Minneapolis. "Flipping" involves the purchase and rapid resale of property at inflated prices. Lenders claimed they were bilked out of millions of dollars. Buyers were forced into bankruptcies and foreclosures, and the City was plagued with vacant properties and condemnations. This was a joint investigation by the FBI, OIG, and IRS Criminal Investigation Division.

A **Richmond, VA** grand jury returned a two-count indictment against an individual on charges of forging a loan application and uttering the same. An OIG investigation disclosed that the defendant allegedly assumed the identity of another individual in order to purchase a \$140,500 HUD insured property. The defendant's mother is in charge of the other individual's financial affairs, and has possession of his Social Security card and birth certificate. During the loan application process, the defendant submitted these documents, along with a fraudulent Virginia Department of Motor Vehicles identification card bearing his own photo, but containing the other individual's identifying information, and false documents verifying employment and income (forged pay stubs and false W-2 forms).

The other individual currently resides in a rooming house for which the defendant and his mother collect rent. He advised that he never gave anyone permission to use his name and identity to obtain a mortgage loan. The defendant and his mother currently reside in the property that was purchased using the other individual's identity.

In 1994, the defendant was sentenced to 5 years imprisonment, with all but 6 months suspended, and 20 years probation for various counts of larceny, forgery, and uttering. In addition, he has been reported to the U.S. Bankruptcy Court for failing to claim the property in question as an asset or list the mortgage as a liability in his 1997 filing for bankruptcy protection.

A real estate asset manager for First Person Management Company was arrested for extortion. The **Buffalo, NY** individual was in charge of approximately 1,500 HUD acquired homes in the western New York area. He allegedly forced inspectors/contractors employed to do work for the management company to furnish him with a portion of their monthly earnings. He also instructed the inspectors/contractors to submit bogus billings or inflate their monthly billings to make more money. Upon his arrest, the manager informed the Agents that he had some of the "kickback" money in his mother's apartment. He led Agents to her apartment where they seized approximately \$30,000 in cash.



OIG and FBI Agents arrested an employee of a **Phoenix, AZ** real estate broker, based on a criminal complaint charging him with falsely using a Social Security number not assigned to him. The employee allegedly used the Social Security number to obtain an FHA insured loan for a four-plex located in Mesa, AZ. Documents seized earlier during the execution of search warrants at the broker's office and home disclosed that the individual was involved in the creation of numerous false documents, including pay stubs, W-2 forms, Social Security cards, and credit letters. The documents were used by the broker and several other employees to fraudulently originate over 200 FHA insured loans.

In **Bensalem, PA**, Agents from OIG and the FBI executed a search warrant on Market Street Mortgage Corporation's (MSMC) local branch office. The search was based on allegations that local loan officers had qualified ineligible borrowers for FHA insured mortgages. Several loan officers and other staff allegedly approved FHA insured mortgages based on fabricated loan origination documentation, including bogus verifications of employment and deposit, credit references, W-2's, and wage and earning statements. Three key MSMC employees allegedly masterminded the fraudulent approval of the loans. The search resulted in the seizure of numerous closed loan files, several desktop and two laptop computers. Official records disclosed that this office originated approximately 300 FHA insured loans between April 1999 and January 2000. HUD's potential loss is \$21.4 million should these loans result in foreclosures.

Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local governments pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. 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 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.

During this reporting period, the OIG discovered instances of fraud under Operation Safe Home, false statements, conspiracy, theft, bribery, extortion, and aiding and abetting involving Public and Indian Housing Programs.

Luis Guillermo Rodriguez-Cardona, part owner of C.A.E.R, a business doing business with the **Puerto Rico** Housing Authority, pled guilty to conspiracy and bribery in federal court. The plea was part of an agreement which also requires Rodriguez-Cardona to pay almost \$395,000 in restitution. Rodriguez-Cardona was one of seven defendants who were previously indicted on charges of bribery, conspiracy, money laundering, and theft of over \$1.4 million of Authority funds. C.A.E.R. was contracted by the Authority to train public housing residents in establishing small businesses. As part of the scheme, C.A.E.R. submitted claims to

Fraud in Public Housing Administration



the Authority and received over \$1.4 million in payments from the Authority for services not rendered. The scheme included false claims, forgery of documents, and disbursement of funds using duplicate supporting documents. In addition, Rodriguez-Cardona conspired with at least three Authority employees, all of whom received kickbacks from the firm in the form of cash, real estate, and vehicles, in exchange for their approving the false invoices. In connection with this case, Violeta Rodriguez-Vazquez, the former director of the Resident Initiatives Division of the Authority, previously pled guilty to conspiracy and embezzlement. She received cash and things of value totaling over \$250,000. This investigation was conducted by the FBI and the OIG.

John Marra, former executive director of the Fayette County Housing Authority in **Uniontown, PA**, was sentenced to 37 months incarceration and 3 years probation, and ordered to pay almost \$316,000 in restitution to the Authority and a \$50 special assessment fee. Between 1985 and 1993, Marra solicited cash bribes and kickbacks from Edward and Eloise Festor, former contractors, amounting to 15 to 20 percent of \$1.3 million in moving, asbestos, and termite contracts awarded to their companies. In return, Marra instructed the Festors what to bid on contracts in order to defeat the competition, and even helped them evade bonding requirements. The Festors were previously sentenced. This was a joint investigation by the FBI and OIG Offices of Investigation and Audit.

Susan Ann Alaniva, a former accounting specialist for the Interior Regional Housing Authority in **Fairbanks, AK**, was sentenced to 15 months in prison and 3 years supervised release, and was ordered to pay \$142,000 in restitution. Alaniva previously pled guilty to embezzling \$142,000 from the Authority between June 1996 and October 1997. She deposited the money in 13 different checking and savings accounts held at 2 different credit unions. This investigation was conducted by the OIG with assistance from the FBI and IRS.

Darrel Wesley Burrell, a co-conspirator of Robin Hatfield, the former executive director of the Caddo Indian Housing Authority in **Oklahoma**, was sentenced to 21 months in prison and ordered to pay almost \$61,000 in restitution jointly with Hatfield. In March 1999, Burrell pled guilty to one count of theft of funds from a government program and one count of conspiracy. An OIG investigation disclosed that Burrell, a romantic interest of the former executive director, had threatened and coerced Hatfield to write out checks to him and others for work to be performed at the Authority. The work was never done. The total loss to the Authority was estimated at \$94,000; the remaining \$33,000 is attributed to a former Authority employee who, in possible concert with others, cashed Authority checks. Hatfield was sentenced last year.

Dana Ortiz, a former employee with the Northern Pueblos Housing Authority in **Nambe, NM**, was sentenced to 36 months supervised probation, 4 months home confinement with electronic monitoring, and 50 hours of community service, and was ordered to pay over \$16,000 in restitution to HUD. Ortiz previously pled guilty to theft of public funds. An OIG audit and investigation disclosed that Ortiz stole cash payments made to the Authority by residents.



Charles Clay, the former executive director of the **Mt. Gilead, NC** Housing Authority, pled guilty to one count of mail fraud. Clay forged the signature of one of the members of the Authority's board of directors on Authority checks and converted the proceeds to his own use. Audits conducted by the Authority disclosed that \$150,000 in Authority funds may have been embezzled. This investigation was conducted by the OIG Offices of Investigation and Audit and the Mt. Gilead Police Department.

Jean R. Faires, an administrative assistant at the **Drumright, OK** Housing Authority, pled guilty to embezzlement. An OIG audit and investigation disclosed that Faires embezzled over \$40,000 in tenant rental payments made to the Authority from 1990 to 1996 and covered the stolen funds with income from other accounts.

Rafael A. Monroig, president of M&V Steel Contractor, a contractor doing business with a private management agent hired by the **Puerto Rico** Housing Authority to manage public housing developments, was arrested by OIG and FBI Agents. Monroig pled guilty to one count of violating the Anti-Kickback Statute. He paid \$20,000 in kickbacks to Authority employees and employees of the Inter Island Rental Puerto Rico Corporation, a management agent. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

Ruby Johnson, Section 8 manager of the **North Chicago, IL** Housing Authority, pled guilty to one felony count of official misconduct for her role in the diversion of federal funds from the Authority. She was placed on probation for 30 months and ordered to pay \$1,200 in restitution and \$750 in probation fees. This was an OIG investigation.

The former executive director of the Moapa Indian Housing Authority in **Nevada** was indicted on 75 counts of embezzlement. From May 1995 through March 1997, the executive director allegedly embezzled over \$37,000 from the Authority by processing additional payroll checks for herself. She presented these checks to different individuals on the Authority's board of commissioners, who had the authority to sign the checks; they were unaware of the fraud. This OIG investigation was initiated following a referral from the HUD Southwest District Office of Native American Programs in Phoenix.

An individual was arrested for her involvement in the solicitation and acceptance of bribes by current and former **San Francisco, CA** Housing Authority employees in exchange for Section 8 certificates and public housing units. She was charged with two counts of submitting fraudulent documents to the Authority in order to obtain a public housing unit. After avoiding law enforcement officers for several days, she was arrested by OIG and the FBI. Additionally, two other individuals, one an Authority employee, were arrested for participating in this scheme.

In **New Square, NY**, four individuals were sentenced after their January 1999 conviction for defrauding various agencies and federal programs, including the Department of Education's (DOED) Pell Grant Program, HUD's Section 8 Program, the Small Business Administration (SBA), the Social Security Administration (SSA), and the Internal Revenue Service (IRS). The charges included creating fictitious

Other Investigations



entities to receive entitlement funds, submitting fraudulent documentation in order to receive these funds, and using the funds for personal use.

Kalmen Stern was sentenced to 78 months incarceration for program fraud, a total of 34 months on 4 other counts, and 3 years probation. He was also ordered to pay a \$300 special assessment and restitution of over \$11 million to DOED, \$76,000 to HUD, \$100,000 to SBA, and \$2,600 to the IRS. The sum of the funds owed to DOED is to be paid proportionately by all defendants, depending on their level of involvement in the fraud. The court will determine the amount to be paid by each defendant. David Goldstein was sentenced to a total of 130 months in prison on 5 counts, and 3 years probation. He was also ordered to pay a \$350 special assessment and restitution of \$146,000 to the SSA and \$4,000 to the IRS. Due to his extensive involvement in the fraud, Goldstein was also ordered to pay almost \$10 million of the total \$11 million to be paid in restitution to DOED. Jacob Elbaum was sentenced to 57 months incarceration for conspiracy and 87 months on 8 other counts. He was also sentenced to 2 years probation and ordered to pay a \$500 special assessment and restitution of almost \$27,000 to HUD and almost \$3,000 to the IRS. Benjamin Berger was sentenced to 180 months incarceration on 6 counts, and 2 years probation. He was also ordered to pay a \$550 special assessment and restitution of \$500,000 to DOED and \$23,000 to HUD.

Three other defendants who were indicted together with these four individuals are fugitives and have not been tried. One of the fugitives was captured in February 1999 and is currently fighting extradition to the United States.

Joseph B. Moore, the former field supervisor at J&L Plumbing and Heating Inc. in **Philadelphia, PA**, was sentenced to 8 months in prison and ordered to pay almost \$260,000 in restitution to HUD. Moore's sentence is the result of charges stemming from J&L's submission of false, fictitious, and partially phony mechanical plumbing change orders exceeding \$1.5 million during the execution of two boiler replacement contracts at two different Chester Housing Authority developments in 1994 and 1995.

Tom Johnsen, the former vice president of J&L, also pled guilty to charges of conspiracy to commit false claims and labor violations and was sentenced to 3 months in a halfway house, 5 months home detention, and 5 years probation, and was ordered to make restitution of \$36,500: \$10,000 to HUD and \$26,500 to a local plumbers' union. Johnsen acknowledged that he had conspired with Gary Lupo to submit in excess of 22 bogus (inflated and/or phony) construction change order requests worth approximately \$247,000. This was a joint effort by the HUD and Department of Labor OIGs with assistance from the FBI.

Additionally, the president of J&L, Gary Lupo, pled guilty to conspiracy to defraud HUD by obtaining false claim payments, conspiracy to make false statements, and wire fraud. He also pled guilty to embezzlement from an estate under the auspices of the U.S. Bankruptcy Court.

Richard O'Neill, a former public housing resident in **Seattle, WA**, was sentenced following his guilty plea to making false statements in order to receive HUD rental assistance. O'Neill was placed on 5 years probation, directed to perform 500 hours of community service, and ordered to pay \$35,500 in restitution. An OIG investigation found that O'Neill concealed income he received from the Teamsters Pension Trust and Washington State Department of Labor and Industries.



Following a joint investigation by the INS, OIG, and the City of **Newburgh, NY** Police Department, Astrid "Lily" Velez, a known "priestess" of the Almighty Latin King Queen Nation (ALKQN) gang, and a participant in HUD's Section 8 Program, was sentenced to 10 months in prison and 3 years probation, and was ordered to pay HUD \$20,000 in restitution. The investigation, which began in June 1997, revealed that Velez, a resident of the City of Newburgh, had established a sham marriage business to assist foreign nationals to marry United States citizens in order for the foreign nationals to gain immigration benefits. Between January 1996 until her arrest in March 1999, Velez arranged approximately 30 sham marriages, charging individuals several thousands of dollars to marry U.S. citizens. As a member of the ALKQN gang, Velez used her HUD subsidized apartment to participate in gang and narcotics related activities. Velez had participated in the HUD Section 8 Program since 1992 and had received over \$50,000 in subsidies. It is estimated that for the approximately 30 marriages which Velez arranged, she received about \$90,000 in payments, which she failed to report to HUD. Since her arrest, she has been removed from the Section 8 Program.

Walter J. Turnbull, president of the Boys Choir of Harlem in **New York, NY**, was sentenced to 1 year probation and ordered to pay a \$50 court assessment fee and full restitution to the IRS and HUD for taxes owed and for Section 8 rent subsidies he received to which he was not entitled. He has been suspended from participation in HUD programs, and referred for debarment. Turnbull concealed his true income from the IRS from 1984 through 1994, falsified his tax returns, and submitted false certifications in order to receive almost \$22,000 in Section 8 rent subsidies from HUD. He also engaged in a double-dipping paycheck scheme at the Boys Choir of Harlem and submitted a fraudulent non-insured mortgage loan application to Citibank in 1991. This investigation was conducted by the IRS Criminal Investigation Division and OIG.

In **Nashville, TN**, Evelyn Hagen Hudgins, a former IRS employee who was indicted on 3 counts of submitting false statements to the government to obtain Section 8 rental assistance, was sentenced to 6 months home detention followed by 3 years supervised probation. She was also ordered to pay over \$15,000 in restitution to HUD. Hudgins failed to report the income she earned while working for the IRS, resulting in a loss to HUD of more than \$15,000. This was a joint investigation by IRS Inspections and OIG.

In **Montrose, NY**, a team of HUD and DVA OIG Special Agents arrested a DVA employee on charges that she submitted false and fraudulent statements to HUD in order to obtain federal rent subsidy payments and to avoid the fair market rent that she should have paid. The employee allegedly falsely underreported her income on HUD recertification forms since 1995, submitted false HUD verifications of employment to the management agent falsely claiming that she made only half of what she had actually earned, and forged the signature of the human resources director at the DVA hospital on HUD verification of employment forms. The scheme resulted in a \$20,000 loss to HUD. This investigation was initiated after a complaint was filed with the DVA OIG requesting the assistance of HUD in investigating the allegation.



Four individuals charged with theft and receiving stolen property in connection with the **Indianapolis, IN** Housing Agency's HOPE VI Program pled guilty and were sentenced in state court. Fletcher Cartwright was sentenced to 545 days in prison; Harry Hooks was sentenced to 1 year in prison with 287 days suspended; Adie Gaines was sentenced to 1 year in prison, suspended; and Dalton Wallace was sentenced to 1 year in prison, suspended, and 1 year probation. A total of seven individuals have been criminally charged as a result of this investigation into theft of construction materials and equipment, including windows, cabinets, doors, furnaces, and air conditioners, purchased with HOPE VI Program funds. This was a joint investigation by OIG and the Indianapolis Housing Agency Public Safety Department.

William Koenig, president of Coastal General Construction Services Corporation, a construction company, and Esther Koenig, vice president, were sentenced in federal court. William was sentenced to 24 months in prison and 3 years probation, and Esther was sentenced to 10 months in prison and 3 years probation. The Koenigs were previously convicted at trial on 17 counts of false statements, mail fraud, and conspiring to defraud the **Virgin Islands** Housing Authority and HUD. The violations occurred when the Authority terminated several contracts they had with Coastal Construction because Coastal could not obtain the required bonding. Coastal then submitted claims for over \$3 million for compensation for actual expenses they claimed to have incurred for the terminated contracts they had with the Authority. Coastal created false invoices to support these false claims. This investigation was conducted by OIG and the Postal Inspection Service.

Betty J. Davis, a former Section 8 resident at Chip Village Apartments in **Kansas City, MO**, who was also a former IRS employee, pled guilty to submitting a false statement to HUD in order to receive excess housing assistance payments, and mail fraud in order to receive excess unemployment compensation. Davis received more than \$20,000 in excess housing assistance payments and about \$3,500 in excess unemployment compensation. She agreed to pay restitution of over \$24,000. This was a joint investigation by OIG and the IRS.

Louis Lorenzo, a New York City Housing Authority employee in **Brooklyn, NY**, pled guilty to one count of submitting false claims to the government. Lorenzo, a co-defendant in the case, conspired to conceal household income by submitting false and fraudulent documents in order to receive federal rent subsidy payments. He would not have been eligible for rent subsidies if the concealed income were reported on the certification forms. As a result of the fraud, the government incurred about a \$24,000 loss. This was an OIG investigation.

Following a joint investigation by the City of **Newburgh, NY** Police Department and OIG, Deborah A. Lipscomb, a former tenant commissioner for the City of Newburgh Housing Authority, was debarred by the HUD Enforcement Center for 3 years. The original suspension was based on Lipscomb's October 1998 guilty plea to forgery for which she received 5 years probation and was ordered to pay almost \$9,000 in restitution.

In **Derry Township, PA**, a husband and wife signed a settlement agreement and release with the Department of Justice, acting on behalf of HUD, wherein they



agreed to repay HUD \$16,250 under the False Claims Act. An OIG investigation disclosed that neither the husband's residency nor his income was properly reported. The husband has been employed as a prison guard with a state correctional facility since 1994. Although he moved to and from the couple's subsidized residence throughout the time period in question, he financially supported the household. As a result of the false information provided by the couple, HUD paid \$16,788 in excess subsidy between January 1994 and August 1997. This matter was settled in the Western District of Pennsylvania through the "fast track" approach wherein the Department of Justice attempts to settle matters before litigation is initiated in district court, thereby saving both the defendants and the Federal Government the burden and expense of litigation.

In **Brooklyn, NY**, a New York City Police Officer and a New York City Housing Authority Caretaker, husband and wife, were indicted on charges that they submitted false and fraudulent claims to HUD in order to obtain federal rent subsidy payments. The individuals allegedly tried to conceal the wife's income as a Police Officer by submitting letters which claimed she was a housewife. They used only the husband's income to qualify for the rent subsidies; they would not have been eligible if both of their incomes were reported on the certification forms. Losses to HUD are estimated at \$24,000. This OIG investigation was initiated after a complaint was filed with the New York City Police Department's Internal Affairs Bureau.

In **Houston, TX**, an eligibility specialist with the Texas Department of Human Services was indicted on four counts of submitting false statements. The indictment was the result of an OIG investigation which disclosed that on various occasions, the specialist allegedly falsely claimed three dependent children as residing with her in her apartment, and failed to disclose sources of income including Aid To Families with Dependent Children (AFDC), child support, and a military dependent allotment. The false statements resulted in a loss to the government of approximately \$15,000. As an eligibility specialist, the individual is responsible for determining the amount of food stamps and AFDC payments that low-income persons are legally entitled to receive, which makes the fraudulent actions particularly egregious.

A Section 8 resident in **Mobile, AL**, was indicted by a federal grand jury on two counts of making false statements to HUD in order to receive benefits. The resident defrauded HUD by allegedly claiming that a subsidized unit would be her only residence when in fact she had additional subsidized apartments in Inkster, MI, and Pensacola, FL. The loss to HUD is over \$7,000. This was an OIG investigation.

Two **Buffalo, NY** individuals were indicted by a federal grand jury on charges of false statements, mail fraud, and conspiracy to commit fraud for their involvement in a scheme to falsify and claim benefits from the HUD Section 8 Program. This case evolved from an Operation Safe Home investigation, known as "Operation Safesweep," in which a large scale organization was trafficking crack cocaine in and around public housing throughout Buffalo. Several wire intercepts were used, and to date, have led to the identification and arrest of approximately 45 individuals and the seizure of approximately 20 kilograms of cocaine and other drug assets.



During one wire interception, law enforcement learned that the two individuals were scheming to defraud the Section 8 Program. Monitoring law enforcement officers alerted OIG of the activity and an investigation ensued. The U.S. Attorney's Office believed that by combining the drug charges with the fraud charges, the government's case against the individuals would be strengthened. This is an example of how HUD fraud is often combined with violent crime in public and assisted housing.

A federal grand jury indicted an **Oakland, CA** Section 8 resident on six counts of making false statements and one count of theft of government funds. The indictment was the culmination of a 13-month investigation by the HUD and Social Security Administration OIGs which disclosed that the resident failed to report her income and assets derived from a business which she owned and operated between 1992 and 1999. As a result of her failure to disclose the income and assets, the resident received more than \$67,000 in housing subsidies and more than \$50,000 in Social Security disability income. At the same time, she was able to amass a fleet of 6 vehicles, including a 28-foot watercraft, and a house on a 2-1/2 acre lot, while leasing 6 other properties for her business operation and secondary residences.

A federal grand jury returned a 22-count indictment against a **Pittsburgh, PA** Section 8 recipient and her ex-husband on charges of mail fraud, wire fraud, and false statements in connection with their failing to declare ownership of a Florida vacation home as well as other assets and income on annual Section 8 recertification documents. The indictment also alleges that the two falsified Social Security recertification documents and committed mail and wire fraud as a result of false statements they made to both HUD and the Social Security Administration. The Section 8 recipient had been receiving housing assistance since 1986, during which time she knowingly failed to declare that she and her ex-husband owned a vacation home, that her ex-husband resided with her at her Section 8 residence, and that both failed to disclose that they owned numerous automobiles. The indictment further alleges that as a result of the individuals' failure to declare assets and income, the Washington County Housing Authority paid more than \$16,000 in ineligible Section 8 subsidies. In addition, the Social Security Administration provided nearly \$58,000 in benefits for which the recipient did not qualify. If convicted on all counts, the recipient faces a maximum sentence of 110 years in prison and fines totaling \$5.5 million, or both. Her ex-husband faces a maximum sentence of 40 years in prison and fines totaling \$2 million, or both. This investigation was conducted jointly by the HUD and Social Security Administration OIGs.

A Task Force made up of OIG, the Florida Department of Law Enforcement, the **Jacksonville, FL** Sheriff's Department, and the Jacksonville Housing Authority conducted a sting operation in what officials said was the largest effort to catch people who cheated the Authority. The Task Force, which arrested 17 people on charges of public assistance fraud, filed charges against 68 former public housing and subsidized housing residents who owe more than \$750,000. Residents who missed rent payments, some for several years, or failed to report their full income, a percentage of which determines the rent they pay, owe the money, said the local Police Chief. Part of the \$750,000 is also court costs, he added. Among the 9,000 families living in public housing in the area, the 68 charged with fraud is a nominal



number according to the Authority president. The application process for housing is set up to weed out felons, people with credit problems, and violent crime problems. He further stated that his staff regularly works to target offenders, but these are the "oldest and biggest cases" that needed more than just his investigators. The Authority's manager of fraud investigation and quality control said the maximum penalty for this fraud is 10 years in prison. The manager also stated that \$38,000 is the largest amount of money of which 1 person defrauded the Authority.

The former financial officer of Calhoun Property Management (CPM) in **Mansfield, LA**, was charged with one count of theft or bribery concerning programs receiving federal funds. A joint investigation by OIG and the Department of Agriculture (USDA) disclosed that the project manager allegedly devised a scheme to divert funds from CPM. CPM receives several million dollars yearly to manage and construct low-income housing for HUD and USDA in Texas and Louisiana. The former project manager allegedly diverted over \$700,000 from construction and operating accounts maintained by CPM.

An individual was charged with obtaining at least \$19,500 in HUD Section 8 rental assistance by concealing income she received from employment with the **Baltimore, MD** Mass Transit Administration. An OIG investigation found that the defendant had been employed as a bus driver since August 1995, earning at least \$30,000 annually, but failed to disclose this on annual recertifications that she was required to file over a 3-year period.

Community Planning and Development Programs

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

In **Lubbock, TX**, David Ladon Crader, former executive director, and Gerald Kenneth Eckert, former case manager of the South Plains AIDS Resource Center, were sentenced in federal court. Crader, who had been convicted at trial, was sentenced to 168 months in prison and 5 years supervised release, and was ordered to pay \$72,911 in joint restitution with Eckert and a \$3,500 special assessment fee. Eckert, also convicted at trial, was sentenced to 70 months in prison and 36 months supervised release, and was ordered to pay a \$3,600 special assessment in addition to the joint restitution. The convictions were the result of a joint investigation by the FBI, IRS, OIG, Social Security Administration (SSA), and the Texas Department of Health. Crader and Eckert were "double dipping" by collecting rents from tenants who received funds from SSA and others at the same time Crader and Eckert were collecting federal housing benefits for the same tenants.



John Gundrum, a property owner and general contractor in **Schenectady, NY**, entered into a plea agreement with the U.S. Attorney. The plea followed an audit of the City's Community Development Block Grant (CDBG) Program and an investigation, both conducted by the OIG. As part of the plea agreement, Gundrum waived indictment and entered a plea of guilty to one count of filing false claims. He admitted that he submitted fraudulent documentation to obtain at least \$55,039 in CDBG funding to rehabilitate his properties. The fraudulent documentation included copies of checks that were not actually issued or cashed, checks that were altered after negotiation to increase the amounts, invoices for payment from nonexistent subcontractors, and signed affirmations of subcontractor payments that were never disbursed. This was a joint investigation by the FBI and OIG.

Terri Hassel, a former City of **Sharon, PA** wage tax clerk and recipient of HUD rehabilitation funds, entered into an agreement with the U.S. Attorney's Office whereby she repaid the City of Sharon, Department of Community Development, \$4,000 for a deferred loan and paid the First National Bank of Pennsylvania \$1,331 for arrears on her rehabilitation mortgage and indenture agreement. Hassel also agreed to pay the remaining \$9,550, owed for the rehabilitation work completed on her home, in accordance with the original rehabilitation agreement with the City of Sharon dated April 30, 1997.

During an OIG investigation, Hassel, who qualified to receive rehabilitation funds based on certifications that her sister resided with her, admitted that in fact her sister did not reside with her during the time period in question. Furthermore, Hassel admitted that she completed her sister's tax return with incorrect information and signed it without her sister's knowledge. Hassel previously pled not guilty to a 2-count indictment charging her with submitting false statements and documents in order to obtain a \$15,000 rehabilitation loan for her home.

Violent Crime in Public and Assisted Housing

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

Some of our significant investigative results in the violent crime area are as follows.

As a result of operations by the **Greensboro, NC** Safe Home Task Force, comprised of the OIG, DEA, FBI, USMS, Greensboro Police Department, Guilford



County Sheriff's Department, North Carolina State Bureau of Investigation, and the Winston-Salem, Burlington, and Kernsville Police Departments, 5 individuals were sentenced to a total of 148 years in prison, 13 years supervised release, and 400 hours of community service. They were convicted of conspiracy to distribute crack cocaine in Greensboro public housing developments. Thirteen others pled guilty, 7 were indicted, and 32 were arrested on the same charges. Three search warrants were also executed, resulting in the seizure of over 2-1/2 pounds of crack cocaine, 2 shotguns, 3 handguns, 6 vehicles, and over \$16,000 in cash.

Efforts by the OIG, FBI, 24th Judicial District Drug and Violent Crime Task Force, Carroll County Sheriff's Office, Huntingdon Police Department, and the Tennessee Highway Patrol resulted in a number of guilty pleas and sentencing during this reporting period. Ann Simon pled guilty to possession of cocaine with intent to distribute in public housing. Amanda May was sentenced to 1 year house arrest to be followed by 2 years supervised release, and was ordered to pay a \$100 special assessment fee. Randy May was sentenced to 60 months in prison to be followed by 3 years supervised release, and was ordered to pay a \$100 special assessment fee. The Mays were arrested in April 1999 following the execution of a search warrant at their residence in **Jackson, TN**, where a functioning methamphetamine laboratory was found. The residence was located less than 1,000 feet from a HUD subsidized apartment complex. The lab had been functioning for over a week when it was discovered during a fly-over by the Tennessee Highway Patrol and the 24th Judicial District Task Force. Task Force members observed a burn pile containing numerous cans of starter fluid and what appeared to be strips of lithium from batteries. As part of the same investigation, Leah Dawn Hunt was sentenced to 30 months incarceration to be followed by 3 years supervised release, and Jerrold Scott Kincer was sentenced to 37 months incarceration to be followed by 4 years supervised release. Both were ordered to pay a \$100 special assessment fee. Hunt and Kincer previously pled guilty to manufacture of a controlled substance in excess of 50 grams (methamphetamine) with intent to distribute in public housing.

The purpose of "Operation Hard Rock IV" was to reduce narcotics activities and violent crimes associated with gang members in public and assisted housing developments in the Cities of **Tacoma and Lakewood, WA**. As a result of this operation, 106 individuals have been charged with various drug and violent crime violations. In addition, Shawn Love, David Tillery, Yolanda Smith, James Ray Henry, Alethea Vance, Tony Johnson, Kelly Kennedy, and John Williams pled guilty to charges of violating the Washington State Controlled Substance statute and received sentences totaling 321 months confinement and 96 months community placement or service. Another 6 defendants who pled guilty to unlawful delivery of a controlled substance were sentenced to a total of 226 months confinement and 61 months community placement or service. In addition, Michael Archer, Terrance Brown, Lisa Chandler, Jeanette Johnson, Michael Kunst, Byron Smith, and Wilbert Upchurch pled guilty to drug charges and received sentences totalling 209 months confinement. "Operation Hard Rock IV" was a collaborative effort between the FBI, OIG, Tacoma and Lakewood Police Departments, the Department of Corrections, and the Pierce County Prosecutor's Office.

Efforts by a Task Force made up of OIG, the **Campbellsville, Lebanon, and Springfield, KY** Police Departments, and the Kentucky State Police resulted in the



sentencing of 2 individuals and the arrest of 17 others. Francis Henry was sentenced to 4 months home detention and 4 years probation for conspiracy to distribute crack cocaine, aiding and abetting in the distribution of crack cocaine, and aiding and abetting in the sale and distribution of crack cocaine within 1,000 feet of public housing. Randolph Lee Williams was sentenced to 27 months confinement and 5 years supervised probation, and was ordered to pay a \$400 special assessment for trafficking in marijuana and cocaine. Williams sold both marijuana and crack cocaine in a public housing unit. He was initially arrested by State Police for stealing antiques from the units of older residents. When the Police served a search warrant on Williams' residence, they discovered stolen furniture and over 600 marijuana plants. In addition to these sentencings, a Judge revoked the 3 years supervised release of Kenneth Bridgewater after he failed mandatory urinalysis tests 6 times. Bridgewater was previously sentenced to 5 months confinement and 3 years supervised release, and ordered to pay a \$300 special assessment for distribution of cocaine in a public housing development. The Judge ordered Bridgewater to be incarcerated for 14 months, to begin immediately.

As a result of operations by the **Houston, TX** Safe Home Task Force, six people were sentenced during this reporting period. John Fitzgerald "Tiger" Wilson, Dervein Whitaker, and Damien Eaglin were sentenced to 160 months, 150 months, and 56 months in prison, respectively, for selling crack cocaine to undercover Task Force members near the Irvinton Village public housing development. Melvin Mayers was sentenced to 120 months in prison, Joseph Shaw was sentenced to 151 months in prison, and Lamont McDonald was sentenced to 120 months in prison, all for selling crack cocaine to undercover Task Force members near Irvinton Village. These individuals were 6 of 13 who were indicted in March 1999 for conducting drug activities around this complex. In addition, Mark Anthony Brooks was found guilty of possession with intent to distribute a controlled substance in public housing. Brooks was arrested in May 1999 by the Task Force and found to be in possession of 28 grams of crack cocaine. This Task Force includes OIG and the Houston Police Department.

Jamayl Dean pled guilty and was sentenced in state court on charges of aggravated assault on an OIG Special Agent and three **Pittsburgh, PA** Housing Authority Police Officers, and for carrying a concealed weapon without a permit. Dean was sentenced to serve 24 to 48 months in state prison. In February 1998, Dean was observed by Safe Home Task Force members selling drugs within the Garfield Heights public housing community. A car stop on Dean as he attempted to leave the community as a passenger in a vehicle led to the discovery of ammunition. Once Officers attempted to take Dean into custody, he began to violently resist arrest and tried to reach a pistol in his waistband, which ultimately fell to the ground. During his court appearance, Dean also pled guilty to four other assault charges, including one during which he ran over a Police Officer during the vehicle stop. Dean also pled guilty to conspiracy to commit homicide in an unrelated matter for which he was sentenced to serve 30-60 months in prison. The sentences are to run consecutively.

Rafael G. Cruz, a Section 8 resident who was arrested during an Organized Crime Drug Enforcement Task Force/Operation Safe Home investigation known as "Operation Fitch Out," pled guilty to state drug distribution charges (heroin). Cruz



was sentenced to 2 years in prison. "Operation Fitch Out" focused on drug and gang activity in the Meadow Brook Village Apartments, a HUD insured Section 236 complex. Terrie L. Musche, who was arrested during a Safe Home initiative known as "Operation Cold Turkey," was convicted of state drug distribution and conspiracy charges and sentenced to 3 years in state prison. "Operation Cold Turkey" focused on a heroin distribution ring run by two public housing residents living in the Allen Crest development. These convictions resulted from operations by the **Worcester County, MA** Task Force, which includes the DEA, OIG, Massachusetts State Police Gang Unit, Fitchburg Police Department Drug Unit, Leominster Police Department Drug Suppression Unit, and the Clinton, Hudson, and Southbridge Police Departments. In addition to the convictions, Task Force efforts resulted in 61 arrests on drug charges and the seizure of over \$26,000 worth of cocaine, 112 bags of heroin, 23 pounds of marijuana, 358 dosage units of the designer drug known as ecstasy, 2 weapons, 1 vehicle, \$16,200 in cash, drug packaging materials, and several hypodermic needles.

In **Los Angeles, CA**, operations by members of the Los Angeles Metropolitan Task Force on Violent Crime, which includes the FBI, OIG, Los Angeles Police Department, Los Angeles Sheriff's Department, and the California Department of Corrections, resulted in 1 conviction, 50 arrests on charges ranging from murder, robbery, conspiracy, and assault with a deadly weapon, to possession of cocaine and marijuana, and the seizure of nearly 300 grams of cocaine, small amounts of marijuana, and 5 weapons, including an assault weapon. The conviction of Carlos Aguilar on federal drug trafficking conspiracy charges stemmed from two Racketeering Influenced and Corrupt Organizations (RICO) Act indictments in which 30 alleged members of the *Mexican Mafia* were charged with responsibility for 4 murders, 3 attempted murders, 13 conspiracies to commit murder, 2 conspiracies to distribute controlled substances, 1 robbery, 1 robbery conspiracy, and 1 extortion conspiracy. The indictments alleged that *Mexican Mafia* members conspired to murder members of the *Project Boys* gang for failure to pay extortion money. Prior to this conviction, 13 other individuals pled guilty to RICO conspiracy charges.

Rodney Allison, who was arrested by the **Atlanta, GA** High Intensity Drug Trafficking Area (HIDTA) Task Force at the Jonesboro South public housing development in October 1999, pled guilty to two counts of trafficking cocaine. He was sentenced to 15 years in state prison with 10 years to serve and was fined \$200,000. Allison was associated with three drug trafficking organizations in the Jonesboro South area. Efforts by this Task Force during this reporting period also resulted in the arrest of another 140 individuals on drug, weapons, and assault charges, issuance of 347 citations, the impounding of 40 vehicles, and the seizure of over 170 grams of marijuana, 80 grams of cocaine, 1 weapon, and ammunition. While Task Force members were conducting an operation at the Jonesboro South development, they recognized an individual who was the subject of a HIDTA RICO investigation. The individual was also identified by residents as one of those seen shooting at each other in the development. OIG contacted the Atlanta Police Department to have the individual arrested for violating a trespassing order. The individual also had an outstanding drug warrant for his arrest in Fulton County. Atlanta Police are questioning the individual about the shooting of a security guard working at Jonesboro South. The Atlanta HIDTA Task Force is comprised of the FBI, DEA, ATF, OIG, Atlanta Police Department, and the Georgia Bureau of Investigation.



As a result of the 44 arrests made in December 1999 in **Chicago, IL**, during "Operation Uptown," 4 individuals pled guilty to drug related offenses and were sentenced. Tyrone Versar was sentenced to 6 years in prison, while William Atkins and Antonio Raymond were each sentenced to 4 years in prison. Warren Crockrom was sentenced to the Cook County Impact Incarceration Program (boot camp). "Operation Uptown" was a joint investigation by the Chicago Housing Authority, Chicago Housing Authority Police Department, and OIG that focused on narcotics trafficking at Chicago Housing Authority scattered site developments.

Eddie Ortiz and Nadim Zarazua pled guilty and were sentenced to 97 months in jail and 66 months in jail, respectively, and Germaine Warren pled guilty but has not yet been sentenced. Two other people have been indicted. These actions stemmed from an Operation Safe Home initiative by the FBI, OIG, and **Omaha, NE** Police Department targeting a large Mexican drug trafficking operation that was based in a store adjacent to Southside Apartments, a 300-unit public housing complex. The defendants were charged with conspiracy with intent to distribute 5 kilograms of cocaine with a street value of over \$150,000, and 1 kilogram of methamphetamine with a street value of \$75,000. The investigation involved undercover drug purchases and a wiretap.

In **Washington, DC**, Howard Kirk, who was arrested in the East Capitol Dwellings public housing complex in June 1999, pled guilty in DC Superior Court to a two-count indictment charging possession of heroin and crack cocaine. Kirk was arrested by members of the Metropolitan Police Department's Major Narcotics Branch and OIG. Initiatives by this Task Force, which also includes DEA, ATF, and District of Columbia Housing Authority Police, also resulted in the arrest of 12 other individuals and the seizure of crack cocaine and heroin valued at \$6,600, \$3,508 in cash, 5 weapons, ammunition, surveillance equipment, and a large assortment of drug paraphernalia. All of these items were found in public and assisted housing units.

In **Kansas City, MO**, Michael Gant pled guilty to distribution of cocaine base. He is the second person to do so as the result of 44 drug purchases made by Agents from 13 individuals at a Section 8 complex near 2 public housing developments. The investigation was conducted by Officers and Agents from the Kansas City Community Police, Jackson County Drug Task Force, and the HUD and Department of Agriculture OIGs.

In **New York, NY**, Errol Card pled guilty to one count of conspiracy to distribute controlled substances, and Claire Russell pled guilty to one count of possession of an unlicensed firearm. Card and Russell are Belizean nationals residing illegally in the United States. Both were arrested in November 1999, and will be deported by the INS after serving their sentences. Two additional defendants were indicted on charges of conspiracy to distribute controlled substances. These actions stemmed from a Safe Home initiative by the DEA and OIG during which nearly 30 individuals were arrested. The arrestees were members of a violent Belizean gang that controlled the sale of liquid PCP and PCP-dipped marijuana cigarettes in and around the Senator R. Taft, Saint Nicholas, Lester Patterson, Melrose, J.W. Johnson, and Lincoln public housing developments. This criminal enterprise also controlled the sale and distribution of liquid PCP in New York, New Jersey and Connecticut.



In the same case, an airline employee was arrested by DEA and OIG Agents on charges that he conspired to smuggle liquid PCP from Los Angeles to New York. The defendant is an associate of the same Belizean gang. The defendant used his position with the airline to evade airport security and transport the liquid PCP to the gang. He was arrested with 1 gallon of liquid PCP, 1 firearm, and \$6,000 in cash in his possession.

To date, OIG and DEA Agents working on this case have arrested 26 individuals affiliated with or members of the Belizean gang and have seized 3 handguns, \$174,000 in cash, and 2 gallons of liquid PCP.

Melinda Watson was sentenced to 210 months in prison to be followed by 5 years supervised release. Watson was the main supplier of crack cocaine to residents and visitors of the Country Park Apartments, a public housing development in **Oklahoma City, OK**. She was arrested by Safe Home Task Force members after delivering 28 grams of crack cocaine to an undercover Task Force Officer. Following Watson's arrest, a search warrant was served at her nearby home and 1,000 grams of crack cocaine, \$25,000 in cash, and 2 firearms were seized. In addition, Trent L. Johnson was sentenced to 10 years and 8 months in prison and 4 years supervised release after pleading guilty to distribution of crack cocaine in public housing. Johnson was arrested following a 6-month operation by the Task Force, which is made up of OIG, DEA, and the Oklahoma City Police Department.

During this reporting period, as a result of the combined efforts of a Task Force made up of the OIG, DEA, Baltimore Police Department, and Baltimore Housing Authority Police, 107 people were arrested for selling drugs, conspiracy, trespassing, and other criminal activity at the O'Donnell Heights public housing development in **Baltimore, MD**. As part of one initiative, the Task Force worked with the local Homicide Division to arrest three individuals suspected of participating in the murder of five women, including a grandmother, her daughter, and grandchild. The shooters have all been linked to illegal drug activity at O'Donnell Heights, and allegedly murdered the women to send a "message" to rival drug dealers who were related to the women. Immediately after the shootings, which received national media attention, Task Force members worked around the clock to gather and coordinate information which assisted in identifying and locating the alleged shooters.

In an offshoot of Operation O'Donnell Heights, OIG and the Baltimore Housing Authority Police conducted a search warrant at Perkins Homes, a public housing development. The operation resulted in the arrest of one of Maryland's "10 Most Wanted." At the time of the arrest, the individual had four open warrants for charges including rape, armed robbery, and first degree attempted murder. OIG is coordinating with the Housing Authority to evict the leaseholder for harboring a fugitive. Overall, Task Force operations have resulted in a significant decline in drug sales and criminal activity in O'Donnell Heights.

In April 1999, the **Denver, CO** Safe Home Task Force, consisting of OIG and the Denver Police Department, began an investigation of a resident of the Sun Valley Housing public housing complex. The resident was allegedly selling cocaine out of his apartment. In May 1999, during a buy/bust operation conducted by the



Task Force, another individual was determined to be a major supplier of cocaine to this complex. A number of co-conspirators were identified during the operation, all of whom were arrested. In addition, the investigation disclosed that in order to accomplish the deliveries of cocaine to be sold in the drug buys, the supplier recruited a U.S. Army soldier stationed in Colorado to transport cars loaded with cocaine from Juarez, Mexico, to the United States.

In April 1999, the **Denver, CO** Safe Home Task Force, consisting of OIG and the Denver Police Department, began an investigation of a resident of the Sun Valley Housing public housing complex. The resident was allegedly selling cocaine out of his apartment. In May 1999, during a buy/bust operation conducted by the Task Force, another individual was determined to be a major supplier of cocaine to this complex. A number of co-conspirators were identified during the operation, all of whom were arrested. In addition, the investigation disclosed that in order to accomplish the deliveries of cocaine to be sold in the drug buys, the supplier recruited a U.S. Army soldier stationed in Colorado to transport cars loaded with cocaine from Juarez, Mexico, to the United States.

DEA, OIG, and USCS Agents, along with the Puerto Rico Police Department, executed two state search warrants in **San Juan** on the largest housing development of the Puerto Rico Housing Authority. The warrants resulted in the arrest of a resident who was found in possession of an undetermined amount of marijuana and over \$2,000 in cash. Also, a Puerto Rico State Police Department uniform was confiscated from the apartment. The Puerto Rico Police Department requested state and federal law enforcement assistance in this operation to dismantle a dangerous criminal enterprise operating within the development. Members of the enterprise were responsible for the shooting of a uniformed Puerto Rico Police Department Officer. The incident occurred when the Officer arrested two state fugitives on murder charges within the development in early February of this year. Although the Officer was shot three times, he successfully arrested the two fugitives who did the shooting.

The **New Haven** and **New London, CT** Task Forces continued to make strides in eradicating crime and drugs from public and assisted housing. During this period, Task Force members arrested more than 120 people on charges including possession of narcotics, possession with intent to sell, interfering with Police, and risk of injury to a minor child. In addition to over \$17,600 in cash, the Task Force seized more than 530 bags of cocaine and/or crack cocaine, 740 bags of heroin, 175 bags of marijuana, 16 weapons, 11 pagers, 7 cell phones, 4 hand-held radios, 2 bullet-proof vests, 2 police scanners, ammunition, and drug packaging materials. The OIG, Connecticut State Police, and the New Haven and New London Police Departments make up these Task Forces.

Since the inception of the **Little Rock, AR** Safe Home Task Force in September 1999, 9 search warrants have been executed in and around public housing throughout North Little Rock and Pulaski County, and 148 individuals have been arrested on drug related charges and distribution of a controlled substance. In addition, over 40 pounds of marijuana, 60 grams of cocaine, \$8,727 in cash, 3 weapons, 1 vehicle, weigh scales, and narcotics paraphernalia have been confis-



cated. This Task Force is composed of OIG, the North Little Rock Police Department, and the Pulaski County Sheriff's Office.

In connection with "Operation East Orange," a Safe Home initiative conducted by OIG and the **East Orange, NJ** Police Department Vice/Narcotics Squad, 74 individuals were arrested near the Arcadian Gardens public housing development. In one case, 13 individuals were charged with various narcotics violations, including distribution. These arrestees included a lieutenant of a security firm who purchased narcotics, while dressed in full uniform, and an employee of the Department of Veterans Affairs who purchased narcotics while on official duty and while driving a government owned vehicle. Another of the 13 was also charged with endangering the welfare of a minor by purchasing narcotics in the presence of a 4-year old child. In addition to the arrests, about 40 grams of cocaine, over 60 packets of heroin, a 9mm handgun, over \$9,400 in cash, and a variety of drug paraphernalia were seized. Agents and Investigators from the FBI, DEA, ATF, the Essex County Prosecutor's Office/Narcotics Unit, and the East Orange Police Department assisted in the arrests.

Sixty-seven individuals were arrested in pre-dawn raids conducted in **Key West, FL**, for distributing heroin and crack cocaine in Key West public housing developments. The individuals were charged with conspiracy and distribution of crack cocaine; 34 of the 67 were charged federally. The individuals were members of an organization that supplied the majority of crack cocaine to these public housing developments. Three search warrants were also executed, resulting in the seizure of nearly 5 kilograms of cocaine, 2 kilograms of crack cocaine, 15 pounds of marijuana, 25 ounces of heroin, 750 ecstasy tablets, 25 handguns, and over \$68,000 in cash. The arrests were the result of a 6-month undercover investigation called "Operation Sundown" which was conducted by the DEA, OIG, USCS, and the Key West Police Department. The USMS, Monroe County Sheriff's Office, and Florida Division of Law Enforcement also assisted in the arrests.

In **Las Cruces, NM**, 21 people, including the Mesilla, NM Marshal and his son, were arrested in a pre-dawn operation in one of the largest drug raids to take place in the Las Cruces area. The raid was part of the Las Cruces Safe Home Task Force, which has been in operation for over 2 years. The arrests involved criminal activity that occurred in, or was associated with, public and assisted housing developments. The Marshal and his son were charged with racketeering, among other charges. The other 19 individuals were charged with a variety of crimes, including drug trafficking. Some of the arrestees were conducting illegal activities in public housing areas and at a bar owned by the Marshal and his son. A manager of the bar who was arrested lived in public housing. The Las Cruces Safe Home Task Force is comprised of OIG and the Las Cruces/Dona Ana County Metro Narcotics Agency.

"Operation Streetsweeper" is a Safe Home initiative undertaken to target street level narcotics dealers in and around public housing in **Manchester, NH**. In one effort, 19 people were arrested following an undercover narcotics purchase. The operation was conducted by the OIG, DEA, ATF, USMS, Manchester Police Department, New Hampshire State Police, and the Hillsboro County Sheriff's Office.



Five individuals were arrested in **Richmond, VA**, after members of the Richmond Area Fugitive Team (RAFT) served arrest warrants on several residents of Fairhills Apartments, a Section 8 complex. These five individuals, who were Fairhills residents, had outstanding arrest warrants for infractions including grand larceny, failure to comply with a court mandated drug rehabilitation program, and failure to appear in court. A search incident to the arrest of one of the individuals resulted in an additional charge for possession of a small amount of marijuana. OIG is assisting the management of Fairhills Apartments with the eviction of two of the arrestees. RAFT is made up of the FBI, OIG, USSS, Henrico County, Chesterfield County, and Richmond Police Departments, Henrico, Chesterfield, and Richmond Sheriff's Departments, Virginia State Police, and the Virginia Department of Corrections.

In **Minneapolis/St. Paul, MN**, the Thai Lottery Task Force simultaneously executed nine search warrants in several locations. Two of the warrants were executed in the McDonough Homes public housing development, and the remaining warrants were executed at private residences. The warrants were in response to an investigation of an Asian organized gambling ring operating in and around public housing developments and local Asian stores. The warrants resulted in the seizure of 18 firearms, including a sawed-off shotgun, \$34,700 in cash, \$100,000 worth of cut diamonds, and miscellaneous jewelry valued at approximately \$50,000. The Thai Lottery Task Force is made up of the FBI, OIG, Minneapolis and St. Paul Police Departments, and the Minnesota Department of Public Safety.

Phoenix, AZ Police Department Officers and OIG Agents arrested two individuals and executed four narcotics search warrants at Villas West, a townhouse complex with a large Section 8 resident population. One of the searches resulted in the seizure of \$645 in cash, 1 handgun, and 4 grams of crack cocaine. The head of household resident was charged with possession of narcotics for sale; abatement of the Section 8 subsidy was initiated. Searches at the other three locations resulted in the seizure of 1 pistol, 1 ounce of marijuana, and 11 grams of crack cocaine. A second individual was charged with possession of narcotics for sale. The landlords/owners were notified that the warrants had been executed.

A cocaine dealer was arrested in **Hillsboro, OR**, after the Hillsboro Safe Home Task Force executed an arrest warrant on a person known to operate in and around HUD funded housing, including the Woodland Park housing complex. The dealer has six prior convictions for possession of controlled substances and driving with a suspended license, and two failure to appear warrants. He faces 30 months incarceration for illegal re-entry into the United States due to two prior deportations. The Task Force is made up of the Hillsboro Police Department, INS, and OIG.

Other Significant Investigations

During this reporting period, OIG investigations disclosed one case of impersonating a federal employee and one case of misapplication of fiduciary property.



In **San Juan, PR**, Alejandro Diaz-Giral pled guilty to nine counts of mail fraud and one count of impersonating a federal employee. The plea is the result of an investigation conducted by the FBI, OIG, and the Puerto Rico Police Department. Diaz-Giral devised a scheme in which he claimed to be a representative of the U.S. Government, working for an agency known as the "HUD Liaison Office," which he claimed was responsible for monitoring HUD funds in Puerto Rico. He was arrested at a "seminar" where he promised individuals federal jobs with the "HUD Liaison Office." Diaz-Giral would require job applicants to pay \$237 to participate in training that was allegedly scheduled in the Dominican Republic. He told these job applicants that the training was required for federal employment. The investigation disclosed that over 250 individuals paid the training costs expecting federal employment.

Jerry Wernard Williams, a Community Planning and Development Specialist in the HUD **Beaumont, TX** Office, pled guilty in state court to misapplication of fiduciary property. He was sentenced to 10 years probation and 360 hours of community service, and was ordered to pay \$13,000 in restitution. Williams was arrested in December 1998 by a Harris County Deputy Constable and an OIG Special Agent. Williams stole about \$19,000 from a former legal client when he worked as an attorney in a private law firm prior to being employed by HUD.



This page intentionally left blank.



Chapter 5

Legislation, Regulations and Other Directives



Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility has taken on added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the OIG reviewed 129 legislative, regulatory, funding notices, and other HUD directive proposals. In addition, the OIG submitted two legislative proposals to Congressional Committees and Subcommittees having jurisdiction over housing programs. This Chapter highlights some of the resultant OIG recommendations.

We remain concerned about the proliferation of new programs and the announcement of new programs before policies have been put in place. HUD's Directives System is the appropriate mechanism to receive comments from affected program staff when new policies or regulations are being developed. This review process could have a major impact on the policies under development. A recent example of this was the "Good Neighbor Policy" announced by the Secretary on March 1, 2000, in which HUD homes were to be sold to local governments for \$1. The policies on how properties would be identified and how existing contractors would be paid are being determined after the announcement of the policy. While the HUD Directives System has worked well in the past, the current HUD Administration has not adhered to the principles underlying this system. The Administration's actions are particularly troubling in view of our statutory mandate to review regulations proposed by HUD and to recommend policies to promote economy and efficiency in the administration of HUD programs and activities.

Legislation

OIG Legislative Proposals

In February 2000, the OIG submitted two legislative proposals to the various Congressional Committees and Subcommittees having jurisdiction over housing programs. These proposals, which are based on our prior audit and investigative work, focus on Single Family housing. The proposals are described below.

Eliminating Investor Mortgages Under the Section 203(k) Program

We proposed that the National Housing Act (12 U.S.C. Section 1709 (k)) be amended to prohibit investor participation in the Section 203(k) Rehabilitation Home Mortgage Insurance Program. This program is intended to promote and facilitate restoration and rehabilitation of existing housing stock. Of the nearly 23,000 loans insured under this program in the 10 years ending in Fiscal Year 1995, about 20 percent were made to investors. Our audit (Report No. 97-AT-121-0001) found that the program's design encourages risky deals, land sale schemes, overstated appraisals, and excessive or phony fees, making it highly vulnerable to fraud and abuse. The schemes were found to be especially prevalent among investors, who use the program to turn a quick profit. While our audit recommended permanently removing investors from the program, the Department placed a moratorium on all Section 203(k) investor loans. We believe that the moratorium is only an acceptable interim solution, which can easily be undone in the future without a legislative fix.

Amendment to Money Laundering Statute

Our most experienced Criminal Investigators all agree that a simple amendment to the money laundering statute, 18 U.S.C. 1956, would enhance prosecutions of single family loan origination fraud, including fraudulent “flipping” schemes and equity skimming. Specifically, we suggest that 18 U.S.C. 1010 (false statements in HUD/FHA transactions) and 12 U.S.C. 1709-2 (equity skimming) be added to the definition of a “specified unlawful activity” in the money laundering statute. This change would significantly increase the penalties for engaging in fraudulent activities relevant to the HUD/FHA mortgage insurance programs, and thus, we believe it would have a profound deterrent impact.

Regulations

Amendments to HUD’s Civil Money Penalty Regulations

This proposed rule would implement Sections 561 and 562 of the Multifamily Assisted Housing Reform and Affordability Act of 1997. These sections concern HUD’s ability to impose civil money penalties. Section 561 expands the list of parties and violations subject to civil money penalties relating to multifamily properties. Section 562 authorized HUD to impose civil money penalties for violations of Section 8 project-based housing assistance payments contracts. This proposed rule would implement these sections by revising HUD’s civil money penalty regulations at 24 CFR 30.

We nonconcur in the proposed rule. We believe these regulations should clearly define the terms “decent, safe, and sanitary” and refer to 24 CFR Section 5.703 in using the terms. To be consistent with HUD’s Physical Condition Standards, the regulations should state that the Section 8 owner may be sanctioned and assessed a money penalty if the units are not “in good repair,” as well as not “decent, safe, and sanitary.” Also, the proposed rule provides a definition for identity of interest agent which differs from the definition contained in HUD Handbook 4381.5 Rev-2, The Management Agent Handbook. We believe having just one definition would cause less confusion and lessen the likelihood of creating problems in enforcing either the handbook or the regulations. Subsequently, the Department revised the proposed rule to address our comments about clearly defining the terms “decent, safe and sanitary.” However, the Department took no actions to address our comments about having only one definition for identity of interest agent. Therefore, we nonconcur with the revised version of the proposed rule.

The Department addressed our nonconcurrency; however, the rule had not been published by the end of this semiannual reporting period.

Strengthening the Title I Property Improvement Loan Insurance Program

This proposed rule would amend HUD regulations for the Title I Property Improvement Loan Insurance Program to strengthen the financial viability of the program by placing additional controls over lenders and strengthening loan inspection requirements. While we supported changes to strengthen the program, we nonconcur in the proposed rule because it did not require post inspections of property improvements completed by dealers prior to loan disbursement. The Office of Housing addressed our comments satisfactorily and we lifted our nonconcurrency. The proposed rule was published in the Federal Register on March 30, 2000.



Notices of Funding Availability (NOFAs)

FY 2000 Super NOFA, Fair Housing Outreach, Enforcement and Housing Counseling

This NOFA provided funding, totaling \$18 million, for 3 initiatives to increase compliance with the Fair Housing Act, and with substantially equivalent state and local fair housing laws. The private enforcement initiative assists private fair housing enforcement organizations in investigating and enforcing violations of fair housing laws. The education and outreach initiative assists projects that inform and educate the public about their rights and obligations under the Fair Housing Act. The fair housing organization initiative assists in creating new fair housing enforcement organizations and in building the enforcement capacity of existing fair housing organizations.

We nonconcurrented in the NOFA because several parts of the NOFA were clearly incomplete or needed to be expanded. On January 18, 2000, HUD revised the NOFA to address our comments. We lifted our nonconcurrency on January 24, 2000. The Super NOFA was published in the Federal Register on February 24, 2000.

FY 2000 Super NOFA, Drug Elimination in Public and Assisted Housing

This NOFA provided funding, totaling \$1.5 million, for drug elimination technical assistance, safety and security programs. HUD's Fiscal Year 2000 Appropriations Act authorized \$4.5 million for Drug Elimination Program technical assistance, training, and evaluation. Our nonconcurrency was based on our concerns about how HUD planned to allocate the remaining \$3 million. Based on discussions with HUD staff, we determined that HUD allocated the remaining funds for the gun buyback initiative and several cooperative agreements. We addressed our concerns about the use of these funds for the gun buyback initiative in our September 30, 1999 Semiannual Report to the Congress. Because this NOFA did not cover the gun buyback initiative, we lifted our nonconcurrency. Our position on the use of technical assistance funds for the gun buyback initiative remains unchanged. The Super NOFA was published in the Federal Register on February 24, 2000.

FY 2000 Super NOFA for Community Development and Empowerment Programs

HUD no longer issues separate NOFAs for the majority of its grant programs. Instead, the competitive grant programs are announced in one Super NOFA. The FY 2000 Super NOFA announced the availability of more than \$2.4 billion in HUD program funds covering 36 community development grant categories. Some of our comments on the Super NOFA are as follows:

University and College Partnership Programs

Contrary to the intent of the Super NOFA process, HUD continues to operate separate and distinct programs for Historically Black Colleges and Universities, Hispanic-Serving Institutions Assisting Communities, and now a third category for Alaska Native/Hawaiian Institutions. While each of the programs has the same purpose, we continue to see separate NOFAs with different procedures on how applications are rated and ranked. There are many other differences that are unnecessary. There seems to be no logical explanation other than the fact that these programs are being operated out of two separate offices in HUD. Last year, we wrote the Deputy Secretary and recommended that University Assistance Programs be placed in one office; however, no action was taken. Accordingly, we repeated our comments this fiscal year. At a time when this Department is suffering from limited staffing, it is illogical to continue to run redundant operations. The

Super NOFA was published in the Federal Register on February 24, 2000, without the Department addressing our comments.

***Resident Opportunity
and Supportive Service
Program***

We commented that it is unclear how physical improvements can be justified as eligible expenditures under the "technical assistance and training" category. This type of expenditure does not appear to be warranted. The Super NOFA was published in the Federal Register on February 24, 2000, without the Department addressing our comments.

Other HUD Directives

***Notice on Section 8
Contract Renewals for
Preservation Projects***

This Notice contains instructions for Section 8 contract renewals for preservation projects. Current law limits HUD's ability to provide comparable benefits called for under the approved Plans of Actions for certain projects. Until the Congress changes the law, HUD will apply the policies set forth in this Notice for renewing preservation projects as their Section 8 contracts expire.

We nonconcur with the proposed Notice because of our concerns over the renewal policy and enforcement of use agreements. Our concern with the renewal policy is that this process does not require that the rents of Section 8 and non-Section 8 units be approved at levels that would put them more in balance, i.e., begin increasing non-Section 8 rents that are below Section 8 rents. This adjusting would lessen the burden on the Section 8 Program for preserving the project while at the same time not having a severe effect on the non-Section 8 renters.

Our concern with the enforcement provisions is that requiring both the Office of General Counsel and the Enforcement Center to review violations before a referral can be made to the Enforcement Center burdens the process unnecessarily. Also, the Notice needs to provide guidance describing the type of violations that would warrant referral, and alternative actions Office of Housing staff should take if the Enforcement Center declines the referral.

The Department published the Notice without addressing our comments.

***Emergency Initiative
to Preserve Below-
Market Project-Based
Section 8 Multifamily
Housing Stock***

This Notice revises or clarifies certain provisions of three notices (H 99-15, H 98-34, and H 99-08) to revise certain Section 8 policies. We nonconcur with the provisions on conditional multi-year renewals, rent adjustment for subsequent contract renewals, and revisions to the housing assistance payments (HAP) contract.

Conditional 5-year renewals will now be available to all owners. We did not take issue with the method for determining rents for the contract's initial year; however, our concerns relate to the method for adjusting rents in the remaining 4 years. We believe the latter method is contrary to the Multifamily Assisted Housing Reform and Affordability Act of 1997. The Act requires that all renewals for exception projects be the lesser of: (a) current rents adjusted by an operating cost adjustment factor; or (b) a level that provides income sufficient to support a budget based rent.

The Notice again conflicts with the 1997 Act in that it does not require that Section 8 rent levels not exceed comparable rents for non-exception projects. Also, the method for adjusting rents in subsequent years, as described in the Notice, is contrary to the 1997 Act.



The Notice revises Paragraph 5 of the HAP contract to add that all subsequent adjustments to contract rents for projects whose rents are renewed under the emergency initiative shall be determined by an operating cost adjustment factor. Our concern is that there is no comparable market rent test. To provide a measure of rent reasonableness, the Notice should include provisions that Section 8 rents do not exceed rents for comparable unassisted units.

The Department addressed our comments and issued the Notice.

***Financial Operations
and Regulatory
Requirements for
HUD Supported
Multifamily Housing
Projects***

This draft HUD Handbook replaces the former version, dated May 1992. The Handbook was revised to provide owners, management agents, and Independent Public Accountants with clearer guidance on the applicability of financial compliance requirements to various HUD supported multifamily housing projects, and to provide implementing guidelines for the new rule on "Uniform Financial Reporting Standards for HUD Housing Programs," 24 CFR Part 5 Subpart H. We noncon- curred in the proposed Handbook. We expressed concern that the Handbook did not fully describe HUD's legislative authority and criminal and civil statutes; did not address a specific retention period for mortgage loan records; allowed account deposits to exceed the Federal Deposit Insurance Corporation maximum insured amount; lacked clear guidance on required financial statements; and included a narrower definition of distributions than that included in the Regulatory Agreement.

The Department is still considering our comments and has not yet issued the Handbook.

Chapter 6

Audit Resolution



Audit resolution is the process where OIG and HUD management agree to needed changes and timelines for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant issues where actions on audits have been delayed, where management decisions were revised, where recommendations were reopened, or where OIG disagreed with a management decision. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 3/31/00," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/00."

Delayed Actions

Housing Authority of the City of Las Vegas

Issued January 20, 1989, October 15, 1992, & February 23, 1996. The Las Vegas Housing Authority used federally assisted low-rent housing funds to support other non-assisted housing projects. We first reported this in 1989 when we disclosed that the Authority had misused over \$6 million. In 1992 and again in 1996, we reported that the improper practices were continuing and that the ineligible expenditures had increased to over \$7 million.

In February 1997, HUD management and the Housing Authority negotiated a \$7.2 million repayment plan, including \$2.7 million to be repaid to HUD and the balance to the Authority's Low-Rent Program over 5 years. To date, the Authority has repaid the \$2.7 million to HUD and about \$1 million of the amount owed the Low-Rent Program. The Authority submitted requests for approval of a new repayment plan in December 1997 and November 1998, which extended the repayment from 5 to 16 years. Although HUD approved the revised plan in principle, the plan was never officially executed or approved by HUD. Moreover, although the plan would have required annual payments of about \$220,000 per year, the Authority has made no repayments since May 1998.

On January 8, 1999, the executive director wrote to HUD requesting that the remaining debt of \$3.5 million be forgiven by HUD because the repayments were adversely affecting the Authority's ability to provide affordable housing to senior citizens. On July 12, 1999, the Deputy Assistant Secretary, Office of Public and Indian Housing (PIH), requested that the OIG approve a write-off of the \$3.5 million debt. The Quality Housing and Work Responsibility Act of 1998 includes provisions specific to the Las Vegas Housing Authority. Among other provisions, the Act states that the Secretary should assist the Authority in identifying alternative repayment options and executing an amended repayment plan that will not adversely affect senior citizen housing owned by the Authority. The Act does not refer to forgiveness as an option. The OIG did not agree with the suggestion that amounts due be written off because such a write-off is not permissible under provisions of the Quality Housing and Work Responsibility Act of 1998.

Our recent review of the Authority's records disclosed that an alternative repayment option is feasible. The Authority could comply with its obligation to



repay the amounts owed to its Low-Rent Program without adversely affecting the senior citizen housing that does not receive HUD assistance. Based on a 5-year-old appraisal log and the balance of mortgages payable, we determined that the Authority would have an equity of about \$8.3 million. For the 8 months ended May 31, 1999, the Authority generated an average monthly net profit from its non-assisted program of \$30,000. This profit makes a write-off unnecessary since the Authority has the ability to refinance its current mortgages to obtain the funds needed to repay its Low-Rent Housing Program.

In his March 2000 response to our conclusion that the Authority has the ability to repay, the Assistant Secretary for PIH requested concurrence to extend the repayment period from 5 to 10 years. Based on our previous analysis, we believe the original repayment plan is feasible and best serves the Department's interests. We do not believe the management decision should be revised. (Reports Nos. 89-SF-209-1004, 93-SF-209-1001, and 96-SF-204-1003)

***Audits of HUD's
FY 1991 through
1999 Financial
Statements***

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 9 fiscal years, beginning with Fiscal Year 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for Fiscal Year 1999, we were unable to perform sufficient procedures to opine on HUD's financial statements in time to meet the March 1, 2000 statutory due date. Had we completed our audit, we might have found additional matters we would have reported. We were unable to express an opinion on HUD's principal financial statements because our scope was limited based on: (1) the undetermined effects of the conversion problems during the fiscal year of the general ledger from the Program Accounting System to HUD's Central Accounting and Program System; (2) the inadequate state of HUD's reconciliation efforts and their documentation for the general ledger accounts for the fund balance with Treasury; and (3) the late manual posting of numerous and significant adjustments directly to the financial statements, for which we lacked sufficient time to test their legitimacy.

In addition, results from our Fiscal Year 1999 report on internal controls are consistent with results reported in Semiannual Reports to the Congress from prior years. Although there has been some progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; (2) ensure that subsidies are based on correct tenant income; and (3) improve monitoring of multifamily projects. In addition to weaknesses that continue to exist from prior years, our report also includes additional material weaknesses with respect to the need to: (1) improve controls over the Federal Housing Administration's (FHA) budgetary funds and funds control; and (2) enhance FHA's information technology system to more effectively support FHA's business processes. Corrective action plans have continued to change over the last 9 years.

***Audit of FHA's
FY 1991 through
1999 Financial
Statements***

First issued March 27, 1992. FHA has been preparing financial statements for 9 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's Fiscal Year 1999 financial statements discussed problems similar to most of those that have been reported since the audit of FHA's Fiscal Year 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its accounting and financial management systems; (2) place more emphasis on early warning and loss prevention for insured mortgages; (3) more quickly resolve Secretary held mortgage notes and minimize additional mortgage note assignments



as well as note servicing responsibilities; and (4) monitor and account for its single family property inventory. A weakness reported since the Fiscal Year 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. The Fiscal Year 1998 report added a new issue, that FHA must improve federal basis and budgetary accounting to develop support for the preparation of future federal basis financial statements. The Fiscal Year 1999 FHA report, issued February 29, 2000, revised the budgetary accounting issue to include the need for improved funds control and added a new issue that FHA must improve its review process for estimating reserves for the insured portfolio.

FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The Fiscal Year 2000 financial statement audit will assess FHA's accomplishments in correcting these conditions.

***Community
Development Block
Grant Program,
Huntington, WV***

Issued July 10, 1992. Our report disclosed the grantee did not administer the Special Economic Development Revolving Loan Fund Program according to federal regulations and guidelines. As a result, the grantee: (1) awarded 19 ineligible and unsupported loans to borrowers amounting to \$4.5 million; and (2) did not support achievement of national program objectives; conduct on-site monitoring of borrowers; ensure funding provided to borrowers was necessary and appropriate; document the eligibility of borrower loan expenditures; or follow its own program guidelines when processing loan applications. We recommended that the grantee repay nearly \$2.18 million from non-federal funds and review loans valued at nearly \$2.48 million for compliance with Community Development Block Grant and grantee regulations and requirements. The issues were referred to the Headquarters Office of Community Planning and Development (CPD) by field office staff.

After numerous meetings between OIG and Headquarters CPD staff, all issues except for three loans have been resolved. On August 10, 1999, we reached agreement with CPD on the actions necessary to resolve the recommendations involving the three loans. As of March 31, 2000, CPD had received and evaluated all the additional information submitted by the City of Huntington, but had not yet decided on the appropriate actions. (Report No. 92-PH-241-1009)

***Audits of Bond
Refundings of
Section 8 Projects***

Issued October 30, 1992, and April 30, 1993. In our Semiannual Report for the period ending March 31, 1997, we identified these as two reports for which we reopened several recommendations because corrective actions were not implemented. Over 7 years have gone by since we first reported to HUD officials that some State Housing Finance Agencies (HFAS) were violating federal regulations by collecting duplicate fees for administering Section 8 contracts.

We reported that two of three HFAS we reviewed were collecting duplicate fees. The excessive fees for one of these HFAS amounted to over \$640,000 for the 8-year period covered by our audit. While the Office of Housing's current position is to prevent HFAS from collecting both fees on future deals, the Office of Housing has proposed to allow HFAS to continue to collect duplicate fees on previous deals if they request a waiver and justify keeping both fees. We believe it would be illegal to grant HFAS retroactive waivers to keep moneys inappropriately obtained from HUD, unless HUD complies with the Debt Collection Act, which it currently does not intend to do. Also, allowing some HFAS to collect and keep fees amounting to almost twice as much as those collected by HFAS who abided by the regulations is unfair



and sends the wrong message. HFAs and other entities doing business with the Department may conclude that overbilling for services will be overlooked by HUD.

Despite numerous attempts to have this issue resolved, including involvement of the Deputy Secretary, the Department is unwilling to take corrective actions. Not one dollar of duplicate fees has yet been repaid to HUD. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

**Section 203(k)
Rehabilitation
Mortgage Insurance
Program**

Issued February 6, 1997. Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and nonprofit borrowers and a very high rate of default on their loans. Because of the serious potential drain on the insurance fund, we recommended that HUD: (1) no longer allow investors to participate in the program; and (2) make improvements in program procedures for loans to nonprofit borrowers.

Instead of permanently removing investors from the program, HUD placed a temporary moratorium on investor participation. On June 9, 1997, this matter was referred to the Deputy Secretary. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decided whether to implement a new rehabilitation program. While we believe HUD should permanently ban investors from the 203(k) Program, as it has done in other Single Family Programs, the suspension was an acceptable interim solution. Over the long term, however, we are convinced that investors should be banned from the Section 203(k) Program.

On August 14, 1997, the former Assistant Secretary for Housing-Federal Housing Commissioner proposed to implement revised program procedures to improve controls over loans to nonprofit borrowers. The improved controls were to be included in a mortgagee letter which was to be issued by December 31, 1997. We concurred in the draft mortgagee letter, but the Assistant Secretary never issued it. As a result, the program improvements recommended have not been implemented.

On June 14, 1999, the General Accounting Office (GAO) issued its report entitled "Problems Persist With HUD's 203(k) Home Rehabilitation Loan Program." The GAO reported that despite the recognized risk associated with the 203(k) Program and the potential for mounting losses to the General Insurance Fund, HUD has done little to address the problems identified by its Inspector General and others. HUD is not adequately overseeing key aspects of the program. Additionally we found that as of March 2000, the Department had not initiated action on any of the recommendations in the GAO report. (Report No. 97-AT-121-0001)

**Section 203(k)
Program Consultants**

Issued August 27, 1997. HUD's procedures for approving consultants and consultant trainers for the Section 203(k) Program were not properly documented and resulted in inconsistent decisions by HUD Headquarters and Field Office staff. The former Assistant Secretary for Housing-Federal Housing Commissioner proposed to develop a certification examination for 203(k) consultants which would be administered by a HUD approved testing organization. The improvements which were to have been completed by January 5, 1999, have not yet been made. (Report No. 97-AT-121-0803)



**Section 203(k)
Rehabilitation
Mortgage Insurance
Program**

Issued May 1, 1998. Our audit of the Section 203(k) Program as it pertains to owner/occupant borrowers found incomplete and poor rehabilitation work even though inspectors had certified the work was properly completed. As a result, HUD's risks were increased and the borrowers' living conditions were poor. The Office of Housing drafted a mortgagee letter requiring lenders to field review the final inspection report for a sample of lenders' loans. We concurred in the proposed corrective action and the January 4, 1999 draft mortgagee letter. The mortgagee letter, which was to be completed by June 30, 1999, has not yet been issued. (Report No. 98-AT-121-0002)

**Single Family
Property Disposition
Program**

Issued September 17, 1999. On March 29, 1999, after completion of a nationwide internal audit on the Property Disposition Program, most of the FHA property disposition functions were contracted out to Management and Marketing (M&M) contractors. M&M contracts did not contain: (1) sufficient information regarding FHA's reimbursement to contractors for property repair costs; or (2) monetary penalties for contractor noncompliance. In addition, the new contract monitoring manual did not provide comprehensive guidance for reviewing and approving reimbursement of repair costs, conducting contract risk assessments, and documenting monitoring results. While it was too early to evaluate these contracts, we recommended improvements to contract monitoring policies. Our report, "Follow-Up Review of HUD Contracting," expressed concern that HUD had taken a great risk by putting the multi-billion dollar Real Estate Owned (REO) workload into the hands of a few contractors. We also found HUD did a poor job of evaluating the contractors' capacity to properly manage such a large operation. These concerns were realized subsequent to completing our audit. On September 22, 1999, the Department was forced to terminate its largest M&M contractor for non-performance. This is a major and costly setback in the Department's desire to contract out the REO function. This matter was referred to the Assistant Secretary for Housing-Federal Housing Commissioner on March 10, 2000. Despite repeated requests, we have not received proposed management decisions from the responsible FHA officials on actions to be taken to address the audit recommendations. (Report 99-AT-123-0001)

**Follow-Up Review of
HUD Contracting**

Issued September 30, 1999. Our report contained 4 findings with 19 recommendations. The four findings dealt with: (1) the Contract Management Review Board (CMRB); (2) the cost analysis and evaluation of significant contracting actions; (3) indefinite quantity contracts; and (4) contract monitoring and oversight.

While the Department's reform initiatives have laid the groundwork for an effective acquisition process, HUD needs to improve its acquisition process by utilizing fully the new policies, procedures, and procurement structure it is implementing. An important reform initiative was the establishment of the CMRB to improve the planning, implementation, and monitoring of HUD procurement actions. However, the CMRB was not substantively involved in certain facets of the procurement process and was unable to carry out its mission of ensuring HUD procurements represented the best values. Contrary to what is recommended in OMB Circular A-76, the Department did not compare the costs or effectiveness of having HUD staff perform two significant contracting actions previously performed in-house and expected to cost the Department about \$400 million annually. We found that some of the Indefinite Quantity Contracts awarded by the Department were vulnerable to abuse since they were awarded with broad statements of work and



undefined maximum award authority. We also found some Government Technical Representatives (GTRs) were not maintaining adequate file documentation or carrying out their basic GTR responsibilities according to HUD guidelines and recent procurement office reforms.

HUD management responded to the report on November 30, 1999, and March 13, 2000. HUD management concurred and management decisions were reached for 18 of the 19 recommendations. A management decision has not been reached on our recommendation that the Department conduct OMB Circular A-76 cost benefit studies when significant spending decisions are evaluated. We will be referring this recommendation to the Deputy Secretary. Final action on several of the recommendations is overdue as HUD management has not implemented promised actions. (Report No. 99-PH-163-0002)

Revised Management Decisions

Charlestowne at Cavalier Mutual Homes

Issued February 2, 1999. Our report addressed numerous management and operational deficiencies. Most significant was that the project had failed to remit over \$500,000 in excess income due HUD. Management decisions were reached with final action target dates of February 2000. However, in recent correspondence, the HUD action office stated that project management has not complied with the recommendations and the financial and physical condition of the project has worsened. Accordingly, HUD has initiated a mortgagee-in-possession (MIP) action in anticipation of taking possession of the project. Revised final action target dates of October 15, 2000, were established pending the outcome of HUD's MIP action. (Report No. 99-PH-212-1001)

Memphis Housing Authority

Issued January 13, 1997. The Memphis Housing Authority (MHA) has been and is still unable to provide decent, safe, and sanitary housing to its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated, and ineffective maintenance has been a long-standing problem. These conditions are identical to those found in a 1983 OIG audit of the MHA (Report No. 83-AT-201-1039). Prior efforts by HUD and management reforms at the MHA have not been effective in reversing the trend.

Our report recommended obtaining an independent assessment of needs in MHA's maintenance and modernization programs by a consultant or team of knowledgeable HUD individuals from other HUD Districts. In addition, the assessment should consider MHA's physical inventory, rehabilitation needs, financial requirements and resources, and such other factors as considered necessary, and provide recommendations to be used as a basis for structuring new management.

On August 25, 1999, the Assistant Secretary for PIH requested our concurrence in revisions to the management decisions on this audit. Rather than contracting for private management of its maintenance department, the Assistant Secretary wishes to allow the newly appointed MHA executive director the opportunity to improve his in-house maintenance operations. HUD is negotiating a new Memorandum of Agreement (MOA) with the MHA describing its expectations. We concurred in the revised management decision based on an MOA between HUD and MHA being in place by January 10, 2000; however, this agreement has not been signed. As of



March 31, 2000, the draft MOA/Strategic Plan was still being negotiated between the Department and MHA. Troubled Asset Recovery Center staff expect the new MOA/Strategic Plan will be signed and in place by April 30, 2000. (Report No. 97-AT-201-1001)

Reopened Recommendations

HUD management is responsible for closing audit recommendations when they determine all corrective actions have been completed. Sometimes, we become aware of inappropriate closures when performing corrective action verification reviews, or during subsequent audit work relating to the previously reported problems. These reviews provide an element of quality control over the audit resolution process. Recommendations closed inappropriately are reopened and cannot be closed without our review and concurrence. This means that HUD management must address the problems originally reported.

City of Covington, KY

Issued September 3, 1998. The OIG issued an audit related memorandum on the City of Covington, KY, and reported its Urban Revitalization and Investor Rehabilitation Loan Programs lacked written operational procedures, and property acquisition and disposition files were inadequately documented. In addition, some loans in the Investor Rehabilitation Loan Program were disbursed contrary to loan terms. We recommended that the City improve its management controls in these HUD funded programs. In May 1999, the HUD Kentucky State Office accepted the City's promise to revise its procedures and implement corrective actions for both programs. Based on the promised action, the recommendation was closed on June 16, 1999.

Our January 12, 2000, a review of the corrective action taken found that the City had not taken sufficient corrective actions to correct the weaknesses in its Investor Rehabilitation Loan Program. As a result of the corrective action verification review, we reopened the recommendation. (Report No. 98-AT-245/255-1811)

Significant Management Decisions With Which OIG Disagrees

Nationwide Audit of Community Builders

Issued September 30, 1999. In the fall of 1997, HUD created a new position of employees called "Community Builders." The Community Builders were to be responsible for outreach and customer relations. These employees were separate from the management and monitoring of HUD's programs. HUD filled the positions of Community Builders with permanent and external employees. HUD hired the external employees (Fellows) under excepted service requirements that allowed HUD to hire people on a temporary basis, typically 2-4 years. As of July 26, 1999, HUD had 370 permanent and 408 external Community Builders.

Our audit disclosed that HUD had not properly planned for the new position; violated requirements in hiring the external Community Builders; hired the external Community Builders at significantly higher salaries than other HUD employees; and



allocated a significant amount of resources to this position at the expense of management and monitoring of HUD's programs. Audit work conducted at 11 sites concluded that overall, the Community Builders had an indeterminable impact on HUD's mission and did little to correct HUD's long-standing problems. Further, in interviews with 69 Community Builders, 39 (56.5 percent) of the Community Builders stated that they spent 50 percent or more of their time on public relations activities.

As a result of our audit findings, we strongly recommended the elimination of the Community Builder position and allocating the resources back to the management and monitoring of HUD's programs. In lieu of eliminating the position, we recommended that HUD take actions to correct past hiring practices and to improve the hiring, duties, reporting, and performance of Community Builders. In addition, we recommended that HUD allocate limited resources efficiently and effectively between the Community Builders and Public Trust Officers. We referred the hiring practices used by HUD to the Office of Special Counsel. The Office of Personnel Management (OPM) issued an Oversight Review Report of HUD in March 2000. OPM confirmed that HUD inappropriately used Schedule A appointment authority, improperly applied veteran's preference, and was insufficiently rigorous in classifying so many positions at the GS-14 and GS-15 levels. OPM informed HUD that it normally requires corrective action in instances involving veteran's preference errors. However, OPM made an exception and did not require HUD to correct the flawed appointments saying it was impossible to determine which veterans HUD had disadvantaged and that the Congress had prohibited HUD from further use of the Schedule A appointment authority. OPM plans to assess HUD's future competitive hiring for Community Builder employees because of the serious nature of the examining errors HUD had committed. The Deputy Secretary has stated to the OIG that OPM's conclusion that "no corrective action is required" validates his position not to implement the report's recommendations. However, OPM's report only dealt with the hiring irregularities, and not whether or not the Community Builders had a positive effect on HUD's mission and whether HUD should continue the position.

The Community Builder position has had an adverse effect on the morale of career HUD employees and generated significant interest by the Congress, including two hearings. The Congress took action to prevent HUD from hiring or retaining the external Community Builders in its Fiscal Year 2000 Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act. The Act reads in part "Provided further, That the Secretary is prohibited from using funds under this heading or any other heading in this Act to convert any external community builders to career employees, and after September 1, 2000, to employ any external community builders."

The Deputy Secretary disagreed with our findings at the time of our audit. The Deputy Secretary criticized our report as not being an "accurate reflection of the work and impact of Community Builders and certainly cannot reasonably serve as the basis for a decision as significant as the elimination of the program." In the Deputy Secretary's February 24, 2000 testimony before the Senate Subcommittee on Housing and Transportation, he stated that "the Community Builders program is absolutely necessary to carrying out HUD's mission and has been a remarkable success." The Deputy Secretary responded to each of the recommendations on March 30, 2000. In his memorandum, the Deputy Secretary affirmed that "the Department should not eliminate the Community Builder occupation." For the



remaining recommendations, the Deputy Secretary affirmed that HUD has taken actions consistent with our recommendations.

We maintain our position that HUD should eliminate the Community Builder position and allocate the resources to the management and monitoring of its programs. No evidence has come to our attention to warrant us changing our position. However, since the Deputy Secretary is the Department's principal audit follow-up official and makes the final decision on audit resolution matters, we have recorded his management decision and closed this recommendation. For the remaining recommendations, we will perform a corrective action verification of the actions taken. (Report No. 99-FW-177-0002)

Community Builders' Role In Multifamily Property Disposition

Issued September 30, 1999. Because of Community Builder interference in the property disposition process, Office of Multifamily Housing officials delayed the disposition of one multifamily property in Dallas, TX, and two in St. Louis, MO. Because Community Builders interfered in the normal process, Multifamily Housing officials had to have prolonged negotiated sales to nonprofit entities through a city or local housing authority. As a result of Community Builders' influence, HUD incurred \$4.7 million in holding costs or lost sales proceeds.

We recommended that HUD: (1) sell the St. Louis projects on the open market; (2) establish a protocol for the disposition of properties, ensuring that all HUD team members work together to accomplish HUD's mission while protecting its financial interest and eliminating service agreements between Community Builders and Property Disposition Centers; (3) ensure HUD directors do not act without a plan of disposition consistent with the National Housing Act that protects the financial interests of HUD; (4) ensure Community Builders cannot exert undue influence over the business decisions of Public Trust Officers; and (5) take appropriate disciplinary action against those Community Builders who have interfered in the property disposition process.

The Deputy Secretary responded to each of the recommendations on December 7, 1999, stating he did not believe any action was necessary. He maintained HUD clearly has the authority to sell multifamily properties on both a negotiated and competitive basis to implement the purposes of the Multifamily Property Disposition Reform Act of 1994. He did not believe our audit supported the recommendation to eliminate service agreements between Community Builders and the Property Disposition Centers. Also, he stated that HUD recently updated service agreements to clarify the Community Builders' role in troubled multifamily properties. The Deputy Secretary also said the Community Builders acted within their defined area of responsibility, and therefore, HUD would not take disciplinary action.

We responded to the Deputy Secretary on December 16, 1999. We concurred with closing the first recommendation because HUD had contracts of sale on the properties which closed on February 29, 2000. The Deputy Secretary declined to take appropriate disciplinary action against those Community Builders who have interfered in the property disposition process. We now understand the two Community Builders involved have since left HUD. Therefore, disciplinary action may no longer be appropriate and we have closed the recommendation.

The Deputy Secretary reached a management decision that no action was required on the other three recommendations. Although we do not agree with his decision, since he is the Department's principal audit follow-up official and makes the final decision on audit resolution matters, we have recorded his management decision and closed the recommendations. (Report No. 99-FW-177-0803)



**Florida Servicing
and Management
Corporation,
San Juan, PR**

Issued September 5, 1991. At HUD's request, we audited this agent's management of two HUD insured projects. We found that the agent's system of controls was inadequate to safeguard the project assets, assure reliable accounting data, and assure operational efficiency. The agent failed to comply with the terms of its Regulatory Agreement pertaining to: (1) distributions to owners; (2) reasonableness and allocability of funds charged to the projects; (3) financial management systems; and (4) occupancy requirements. These deficiencies resulted in nearly \$2 million in ineligible and unsupported costs being charged to the projects. The majority of this was due to excessive costs to the projects for services provided by undisclosed identity of interest firms.

HUD sustained the costs and began action to correct the problems, starting with replacing the management agent. HUD attempted to impose a limited denial of participation against the agent, but was unsuccessful due to a legal error. HUD then referred the case for civil litigation. The Assistant U.S. Attorney declined to pursue civil enforcement because of the risk of a court ruling that the claim would be debarred by collateral estoppel. On September 28, 1999, the Deputy Secretary authorized the write-off of the nearly \$2 million debt and the closure of 11 open audit recommendations.

We disagree with the Deputy Secretary's action. However, as the Department's principal audit follow-up official, he makes the final decisions on audit resolution matters including referrals from the OIG relating to OIG's nonconurrence with program management's proposed management decisions. Therefore, we closed the audit recommendations and processed the write-off of the debt. There is no evidence that HUD ever attempted to implement the recommendations and collect this claim from the agent through its normal process. In view of the egregious actions of the management agent, we still believe HUD should have made the attempt to impose sanctions and recover the debt. (Report No. 91-AT-214-1020)

**Public Housing Drug
Elimination Program,
New Haven, CT**

Issued October 6, 1997. We reviewed New Haven's Public Housing Drug Elimination Program (PHDEP) to determine whether accountability existed over the funds expended and reported expenditures were eligible and reasonable. Our review disclosed that there was no accountability. Therefore, we recommended that the New Haven Housing Authority reconstruct adequate audit trails and documentation for all undocumented PHDEP expenditures.

During the audit resolution process, HUD Troubled Asset Recovery Center staff relied on the certification made by the executive director, New Haven Housing Authority, on the reasonableness and eligibility of all PHDEP expenditures in the 1993 and 1994 grant years. The Authority performed the reconstruction and identified possible ineligible costs totaling \$135,485. The Assistant Secretary for PIH decided to write off the disallowed costs. Because of the Authority's continued demonstrated mismanagement and accounting for federal funds, we disagreed with his decision to write off these costs. (Report No. 98-BO-209-1001)

**Federal Financial Management Improvement Act of 1996
(FFMIA)**

As part of the audit of HUD's financial statements, FFMIA requires that we report whether HUD's financial management systems are in substantial compliance



with federal financial management systems requirements, applicable accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Because HUD's systems were determined not to be substantially compliant, HUD has prepared an updated remediation plan, as of the end of Fiscal Year 1999, outlining the actions needed to bring them into substantial compliance. FFMIA requires that HUD implement a remediation plan that will accomplish this in 3 years or obtain OMB's concurrence if more time is needed. HUD initially determined in April 1998 that under FFMIA, 38 of its systems were not in substantial compliance. As a result, those systems must be in substantial compliance no later than April 2001. This date will likely not be met due, in part, to conversion problems that need correction prior to additional conversion efforts.

HUD reported in its Fiscal Year 1999 accountability report that 18 financial systems were not in substantial compliance with FFMIA. HUD's financial management systems did not substantially comply with: (1) Federal Financial Management Systems Requirements; (2) Federal Accounting Standards; or (3) the Standard General Ledger at the transaction level.

In our attempt to audit HUD's Fiscal Year 1999 financial statements, we continued to criticize HUD's remediation plan because it did not include the required resource information and all noncompliance issues were not addressed in the plans for some nonconforming systems. In addition, we took exception to seven systems the Department had reclassified as conforming because HUD did not take the problems causing material weaknesses into consideration when assessing the reclassifying of those systems. We also noted that remediation plans for systems need to be updated to address weaknesses with transferring FHA general ledger data to the HUD general ledger, correcting deficiencies with general ledger interfaces, and implementing funds control in all FHA systems. (Report No.00-FO-177-0003)





Audit Report

Appendices

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

10-20-2000

APPENDIX 1 - AUDIT REPORTS ISSUED

Internal Reports

Audit Reports

FHA Housing

00-FO-131-0002 Federal Housing Administration, Audit of FY 1999 Financial Statements, 2/29/00.

Single Family

00-SE-121-0001 Final Report of Nationwide Audit, Down Payment Assistance Programs, 3/31/00.
00-SF-121-0001 Single Family Production Homeownership Centers, 3/30/00.

Multifamily

00-BO-111-0002 Office of Housing Use of REAC's Physical Inspection Assessments, Boston, MA, 3/31/00.

PIH

00-BO-101-0001 Office of Public and Indian Housing Use of REAC's Physical Inspection Assessments, Boston, MA, 3/28/00.
00-DE-101-0001 HUD Office of Native American Programs, Noncompetitive 1998 Rural Housing and Economic Development Grant Awards, 3/31/00.
00-KC-105-0001 Assessment of Resident Association Grants, Multi-location Summary Report, 3/31/00.

Miscellaneous

00-DP-166-0001 HUD Information Technology Investment Practices, 10/29/99.
00-DP-166-0002 Initial Development Efforts of the Departmental Grants Management System, 11/04/99.
00-AO-177-0001 Nationwide Audit of Storefront Operations, 3/31/00.
00-FO-177-0001 Government National Mortgage Association, Audit of FY 1999 Financial Statements, 2/24/00.
00-FO-177-0003 Attempt to Audit the FY 1999 Financial Statements, US Department of HUD, 3/1/00.
00-NY-177-0001 Nationwide Audit - Enforcement Center, 3/28/00.

Single Family**Audit-Related Memoranda**

00-AT-123-0802
 00-AT-123-0803
 00-SF-123-0801

Atlanta, GA Homeownership Center, Real Estate Owned, Single Family Property Disposition Program, Area-2, 3/17/00.
 Interim Report, Atlanta, GA Homeownership Center, Real Estate Owned, Single Family Property Disposition, Area-3, 3/31/00.
 Limited Reivew - REO Division Operations, 2/10/00.

PIH

00-AT-106-0801
 00-BO-101-0801
 00-DP-101-0801

HUD's Approval of Noncompetitive Procurement, Public Housing Division, San Juan, PR, 11/15/99.
 Settlement Agreement with Creative Choice Homes, Inc., Bridgeport, CT Housing Authority, 2/3/00.
 Housing Authorities' Year 2000 Readiness Activities, 10/6/99.

Miscellaneous

00-DP-166-0802
 00-DP-166-0803
 00-FW-177-0801

Year 2000 IV and V Review of HUDCAPS and A43C Claims Modules, 11/8/99.
 Review of the Department's Year 2000 Clean Management Procedures and Preparedness for the Millennium Rollover, 11/30/99.
 Community Builder's Role in Phoenix Point Transitional Housing, Alexandria Housing Authority, New Orleans, LA, 10/14/99.

External Reports**Single Family****Audit Reports**

00-AT-225-1001
 00-AT-221-1006
 00-CH-229-1001

Mego Mortgage Corporation, Title I Approved Lender, Atlanta, GA, 10/4/99.
 Professional American Mortgage Institute, Title II Loan Correspondent, Sunrise, FL, 3/30/00.
 Great Lakes Housing, Inc., Section 203(k) Mortgage Insurance Program & Partners for Affordable Homeownership Program, Wyoming, MI, 10/19/99. Questioned: \$79,125.

Multifamily

00-NY-212-1002

Target V Phase I Development Associates - Multifamily Housing Program, Bronx, NY, 12/8/99. Questioned: \$260,947,
 Unsupported: \$26,524.

External Reports - continued

PIH

Audit Reports - continued

00-AO-201-1001 Tenant Opportunity Program Grantees, Washington, DC, 3/30/00. Questioned: \$144,038, Unsupported: \$144,038.

00-AT-204-1002 The Housing Authority of the City of Meridian, MS, Audit of the Grant Programs, 1/3/00. Questioned: \$339,102, Unsupported: \$303,247.

00-AT-201-1003 Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR, 3/6/00. Questioned: \$21,810,790, Better Use: \$4,127,801.

00-AT-202-1004 Pinellas County Housing Authority, Clearwater, FL, 3/23/00. Questioned: \$1,480,059, Unsupported: \$1,336,225.

00-AT-202-1005 Benson, NC Housing Authority, Public Housing Programs, 3/27/00.

00-CH-201-1002 Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH, 3/31/00. Questioned: \$11,312,501, Unsupported: \$10,735,243.

00-DE-207-1002 Oglala Sioux Housing Authority, Review of Construction Contractor's Claim, Pine Ridge, SD, 3/30/00. Questioned: \$49,968.

00-FW-201-1001 New Orleans, LA Housing Authority, Executive Monitor Contract with Moten & Associates, 1/19/00. Questioned: \$427,074, Unsupported: \$421,760.

00-KC-201-1001 Omaha, NE Housing Authority Operations, 12/3/99. Questioned: \$1,216,229, Unsupported: \$911,415

00-NY-202-1001 City of Glens Falls, NY Housing Authority, 11/10/99. Questioned: \$157,466, Unsupported: \$156,365.

00-NY-209-1003 Housing Authority of Plainfield, NJ Low-rent Housing Program, 12/30/99. Questioned: \$125,778, Unsupported: \$117,095.

00-PH-201-1001 Pittsburgh, PA Housing Authority, Public Housing Drug Elimination Program, 10/20/99. Questioned: \$887,914, Unsupported: \$387,002.

00-PH-201-1002 Philadelphia, PA Housing Authority Police Department, 11/15/99.

00-PH-203-1003 Virginia Housing Development Authority, Section 8 Certificate and Voucher Programs, Richmond, VA, 2/11/00.

00-SF-201-1001 San Francisco, CA Housing Authority, Low-income and Section 8 Programs, 3/31/00. Questioned: \$1,847,521, Unsupported: \$1,277,711.

CPD

00-BO-255-1001 HOME Program, Holyoke/Chicopee Consortium, Holyoke, MA, 10/8/99. Questioned: \$330,782.

00-BO-255-1002 HOME Program, North Suburban Consortium, Malden, MA, 12/30/99. Questioned: \$1,230,108, Unsupported: \$1,050,902.

00-DE-259-1001 City and County of Denver, CO, Housing Opportunities for Persons with AIDS Program, 2/25/00. Questioned: \$118,187, Unsupported: \$80,330.

00-FW-255-1002 Texas Department of Housing and Community Affairs, HOME Investment Partnership Program Administration Costs, Austin, TX, 1/27/00. Questioned: \$1,671,274, Unsupported: \$1,671,274.

00-NY-255-1004 City of Troy, NY Homebuyers Incentive (HOME) Program, 1/27/00. Questioned: \$37,500, Unsupported: \$37,500.

External Reports - continued

Multifamily

Audit-Related Memoranda

00-CH-211-1802	Onterie Center, Multifamily Equity Skimming, Chicago, IL, 10/20/99.
00-CH-211-1803	RLJ Management Company, Fee-splitting Agreement, Gahanna, OH, 11/30/99.
00-CH-211-1804	YMCA of Metropolitan Chicago Foundation, Chicago, IL, 12/15/99.
00-CH-211-1805	Mayfair Manor, Multifamily Equity Skimming, Indianapolis, IN, 12/9/99.
00-CH-211-1806	Low Avenue Terrace Apartments, Multifamily Equity Skimming, Chicago, IL, 1/20/00.
00-CH-211-1807	MJM Management Company, Multifamily Equity Skimming, Cleveland, OH, 1/13/00.
00-SF-212-1801	Results of Limited Review of Rehabilitation Activities, Martin Luther King, Marcus Garvey Square, San Francisco, CA, 1/13/00.

PIH

00-AT-201-1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR, 3/9/00.
00-CH-202-1801	Peoria, IL Housing Authority, HOPE VI Grant, 10/6/99.
00-NY-209-1801	Atlantic City, NJ Housing Authority, Low-rent Housing Program, 3/24/00. Questioned: \$532,965.
00-SE-209-1801	Holly Park HOPE VI Revitalization Complaint Alleging Conflict of Interest, Seattle, WA, 1/19/00.

CPD

00-CH-251-1808	Omni Social Services, Inc., Supportive Housing Program Grant, Chicago, IL, 2/16/00. Questioned: \$329,815, Unsupported: \$329,815.
00-FW-251-1801	Dallas, TX Jewish Coalition for the Homeless, Supportive Housing Grant, 1/18/00. Questioned: \$91,948.
00-PH-259-1801	Allegheny County, Supportive Housing Grants, Pittsburgh, PA, 11/1/99. Questioned: \$178,521, Unsupported: \$82,185.

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH
NO MANAGEMENT DECISION AT 03/31/00

*Significant Audit Reports Described in Previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
*99AT0001. Single Family Property Disposition Program.	The Assistant Secretary for Housing-Federal Housing Commissioner has not responded to repeated requests for management decisions. The OIG is not aware of any disagreements, and will refer the matter to the Deputy Secretary for management decisions.	9/17/99 5/31/00
*99PH0002. HUD Contracting, Follow-Up Review.	The Chief Procurement Officer does not believe the Department should conduct an OMB Circular A-76 cost benefit study when evaluating significant spending decisions when none is required. We will refer this issue to the Deputy Secretary for a management decision.	9/30/99 5/31/00

TABLE BSIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS
WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 03/31/00

Report Number	Report Title	Issue Date	Decision Date	Final Action
90FW1004	Regency Place Apartments	04/05/90	07/31/90	Note 2
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	02/25/91	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	Note 2
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 1
92PH1009	Huntington, WV Community Development Block Grant Program	07/10/92	11/07/92	Note 1
92SF1009	San Francisco, CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 1
93FW1003	Grimmet Drive Apartments	12/10/92	04/08/93	Note 2
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 1
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	Note 1
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	Note 1
93SF1011	Casa Sandoval Apartments	07/02/93	10/26/93	Note 2
93SF1014	Tucson Health Care Limited Partnership	09/23/93	01/21/94	Note 2
93FW1016	Anthony and Associates, Inc.	09/28/93	12/10/93	Note 1
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 1
95SF0001	Multi-district Audit of Section 236 Program	12/21/94	03/31/96	09/30/00

Report Number	Report Title	Issue Date	Decision Date	Final Action
95CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 2
96FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	Note 2
96SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	Note 1
96DE1003	City Wide Mortgage, Nonsupervised Mortgagee, Smyrna, GA	03/08/96	06/12/96	Note 1
96PH1016	Montgomery County Department of Housing Services, Norristown, PA	05/20/96	09/17/96	10/15/00
96AT1821	Puerto Rico Public Housing Administration, Comprehensive Grant and Drug Elimination Programs, San Juan, PR	06/26/96	12/10/96	Note 1
96FO0003	HUD Fiscal Year 1995 Financial Statements	08/16/96	02/12/97	Note 2
96FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	08/16/96	10/17/96	Note 2
96DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 1
97BO1801	Equity Skimming Review, Rap-up 11B, Roxbury, MA	11/18/96	03/11/97	Note 2
97PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 2
97AT1001	Memphis, TN Housing Authority	01/13/97	03/31/98	04/30/00
97KC0801	Multifamily Housing Programs, Multi-District Review of Excess Insurance Proceeds	02/05/97	07/16/97	Note 2
97AT0001	Section 203(k) Rehabilitation Mortgage Insurance Program	02/06/97	07/01/98	Note 2
97AT0002	Tenant Opportunity Program, Grantees of Atlanta Housing Authority Developments, Atlanta, GA	02/21/97	06/18/97	06/30/00
97NY0802	Riverside South Apartments, New York, NY	02/21/97	09/30/99	Note 2
97SF1002	Granada Gardens, Granada Hills, CA	04/14/97	07/16/97	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
97AT1806	Limited Review of Martin Street Plaza, Atlanta, GA	04/17/97	07/14/97	06/30/00
97DE1003	Turtle Mountain Housing Authority, Housing Development Program, Belcourt, ND	05/21/97	09/09/97	Note 1
97CH1007	Developing Economical and Better Living, Inc., Single Family Direct Sales Program, Chicago, IL	05/22/97	09/19/97	Note 1
97BO0805	Section 8 Rent Increase, Melrose Apartments, Providence, RI	06/25/97	10/24/97	07/31/00
97FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
97AT0803	Review of HUD Procedures for Approval of Section 203(k) Program Consultants	08/27/97	01/05/98	Note 1
97CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/97	01/06/98	Note 1
97PH0001	HUD Contracting	09/30/97	02/10/99	Note 2
98FW1002	New Orleans, LA Housing Authority, Contract with Tucker and Associates, Inc.	10/24/97	01/21/98	Note 2
98NY1001	Limited Review of Braco I - Multifamily Operations, Buffalo, NY	10/24/97	12/23/97	Note 1
98HQ0801	Review of HUD's 2020 Management Reform Plan	11/25/97	07/14/98	Note 1
98CH1804	Detroit, MI Housing Commission, Update of Progress Made on Agreements with HUD	12/11/97	03/09/98	02/19/03
98SE1001	Congressional Inquiry, Citizen Complaint, Cascade Inter-Tribal Housing Authority, Sedro Woolley, WA	01/30/98	06/26/98	Note 2
98SF1001	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz, CA	03/24/98	09/24/98	05/31/00
98AT1003	City of Miami, FL Community Planning and Development Programs	03/26/98	09/22/98	Note 1
98SF1002	Redwood Villa, Multifamily Mortgagor Operations, Mountain View, CA	03/31/98	08/14/98	04/03/02
98AT1005	Housing Authority of the City of Tampa, FL	04/23/98	10/21/98	07/31/00
98AT0002	Audit of Section 203(k) Rehabilitation Mortgage Insurance Program	05/01/98	01/04/99	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
98BO1004	City of New Haven, CT Housing Corporation (Subgrantee)	05/07/98	07/07/98	07/31/00
98AT1006	Centro Campesino, Youthbuild Grants, Florida City, FL	05/19/98	03/25/99	Note 2
98SE1002	Request for Assistance, Nampa, ID Housing Authority, Child Care Center	06/03/98	10/14/98	05/30/01
98AT1808	Hazard, KY Housing Authority	07/07/98	02/05/99	12/01/02
98SF1003	San Francisco, CA Housing Authority, Drug Elimination Program	07/22/98	12/09/98	Note 2
98AT1811	City of Covington, KY	09/03/98	02/25/99	09/01/00
98SF0002	Audit of the Office of Fair Housing and Equal Opportunity	09/15/98	02/24/99	Note 2
98AO1804	Upfront Grant for Ridgecrest Heights Apartments - Washington, DC	09/24/98	05/25/99	04/15/00
98CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	06/30/00
98CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	06/30/00
98DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	09/29/99	09/30/00
99NY1001	Buffalo, NY Municipal Housing Authority, Drug Elimination Program	10/17/98	03/29/99	Note 2
99AT1001	Municipality of Arecibo, PR, CDBG and Section 108 Loan Guarantee Assistance Programs	11/05/98	03/09/99	09/15/05
99PH0001	Youthbuild Program, Multiple Location Review	11/10/98	03/08/99	Note 2
99CH1801	Assessment of Progress Follow-up, Chicago, IL Housing Authority	12/02/98	03/31/99	Note 2
99AT1003	Eastover Apartments, Multifamily Mortgagor Operations, Indianola, MS	01/26/99	04/19/99	04/19/00
99BO1001	Narragansett Indian, Wetuomuck Housing Authority, Housing Development Grant, Charlestown, RI	01/29/99	04/08/99	04/07/00
99FW1003	San Antonio, TX Housing Authority, HOPE VI Grants	01/29/99	09/30/99	04/30/00

Report Number	Report Title	Issue Date	Decision Date	Final Action
99DP0001	Commercial Credit Card Program	02/01/99	09/30/99	Note 2
99PH1002	Norfolk, VA CDBG Program	02/16/99	06/11/99	05/31/00
99NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	06/25/00
99CH1004	Detroit Revitalization, Inc., Section 203(k) Mortgage Insurance Program & Partners for Affordable Housing, Detroit, MI	02/22/99	06/28/99	09/28/00
99AT1004	Housing Authority of the City of Sarasota, FL	02/24/99	04/29/99	04/29/00
99FO0002	Federal Housing Administration Audit of FY 1998 Federal Basis Financial Statements	03/12/99	09/30/99	12/31/00
99FW1004	Houston, TX Homebuyers Assistance Program	03/23/99	06/14/99	06/01/00
99FO0003	U.S. Department of HUD FY 1998 Financial Statements	03/29/99	09/30/99	09/30/00
99CH0001	HUD's Oversight of the Empowerment Zone Program	03/30/99	09/17/99	Note 2
99CH1005	MCA Mortgage Corporation, Southfield, MI	04/11/99	06/28/99	06/28/00
99AT1804	Housing Authority of the City of Asheville, NC	04/14/99	10/26/99	08/31/07
99AT1805	Citizen Complaints, Residents Council of Asheville Housing Authority, Inc., Asheville, NC	04/14/99	09/22/99	06/30/00
99DE1801	Whitefish, MT Housing Authority, Review of Housing Activities and Related Controls	04/16/99	08/05/99	10/01/00
99PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	10/01/00
99AT1806	Citizen Complaints, Housing Authority of the City of Winston-Salem, NC	06/03/99	12/02/99	07/31/00
99AT1807	Citizen Complaints, Housing Authority of the City of Charleston, SC	06/15/99	12/08/99	06/30/00
99BO1003	Housing Authority of the City of Newport, RI Low-Income Housing Program	07/01/99	11/01/99	10/30/00
99NY1006	Irvington, NJ Housing Authority, Low-Rent Housing Program	07/30/99	11/08/99	06/30/00

Report Number	Report Title	Issue Date	Decision Date	Final Action
99AT1810	Tenant Opportunity Program, Grantees of Atlanta, GA Housing Authority Developments	08/02/99	12/03/99	07/31/00
99SF1003	City of Lynwood, CA CDBG and HOME Programs	08/19/99	12/16/99	07/31/00
99SF1803	Northern Pueblos Housing Authority, Limited Review of Operations, Santa Fe, NM	09/08/99	11/09/99	11/01/00
99CH1803	Fairfield County Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	08/10/00
99AT0001	Single Family Property Disposition Program	09/17/99		Note 3
99NY1007	Alliance Mortgage Banking Corp., Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	02/16/01
99KC1002	Community Development Block Grant Program, St. Louis, MO	09/28/99	01/21/00	05/04/00
99DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	09/30/01
99FO0802	Survey of the Troubled Agency Recovery Centers and Related Field Office Activities	09/30/99	01/10/00	04/30/00
99PH0002	HUD Contracting, Follow-up Review	09/30/99		Note 3

AUDITS EXCLUDED:

- 17 audits under repayment plans
- 19 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 REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 03/31/00 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	11	\$4,881	\$3,183
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	10	\$16,162	\$4,788
A3 For which additional costs were added to reports in beginning inventory	0	\$605	\$403
A4 For which costs were added to non-cost reports	1	\$58	0
B1 Which were issued during the reporting period	23	\$44,660	\$19,069
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	45	\$66,366	\$27,443
C For which a management decision was made during the reporting period	22 ¹	\$11,009	\$7,259
(1) Dollar value of disallowed costs:			
• Due HUD	8 ²	\$4,348	\$2,821
• Due Program Participants	16	\$5,346	\$3,630
(2) Dollar value of costs not disallowed	9 ³	\$1,315	\$808
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	9	\$15,153	\$4,374
E For which no management decision had been made by the end of the reporting period	14 < 36 > ⁴	\$40,204 < \$40,204 > ⁴	\$15,810 < \$15,810 > ⁴

1 1 audit report also contains recommendations with funds to be put to better use.

2 3 audit reports also contain recommendations with funds due program participants.

3 8 audit reports also contain recommendations with funds agreed to by management.

4 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
AT 03/31/00
(DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	1	\$1,697
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	2	\$3,911
A3 For which additional costs were added to reports in beginning inventory	0	0
A4 For which costs were added to non-cost reports	1	\$56
B1 Which were issued during the reporting period	1	\$4,128
Subtotals (A + B)	5	\$9,792
C For which a management decision was made during the reporting period	2 ¹	\$1,753
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	2	\$1,753
• Due Program Participants	0	0
(2) Dollar value of recommendations that were not agreed to by management	0	0
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	\$3,911
E For which no management decision had been made by the end of the reporting period	1 < 2 > ²	\$4,128 < \$4,128 > ²

¹ 1 audit report also contains recommendations with questioned costs.

² The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

Explanations of Tables C and D

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

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

Profile of Performance

for the period
October 1, 1999 through March 31, 2000

Audit and Investigation Results	Audit	Investigation	Combined
Recommendations That Funds Be Put to Better Use	\$4,183,573		\$4,183,573
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$1,752,772		\$1,752,772
Questioned Costs	\$45,322,132		\$45,322,132
Management Decisions on Audits with Questioned Costs	\$11,008,813		\$11,008,813
Indictments		129	129
Successful Prosecutions		59	59
Years of Prison Sentences		106	106
Investigative Recoveries	\$13,867,213	\$5,383,232	\$19,250,445
Collections From Audits and Investigations	\$9,446,166	\$1,170,267	\$10,616,433
Arrests		2,500	2,500
Search Warrants		333	333
Value of Drugs Seized		\$3,132,498	\$3,132,498
Weapons Seized		292	292
Administrative Sanctions	4	59	63
Subpoenas Issued	13	127	140

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

Calling the OIG Hotline:

1-800-347-3735 Nationwide
1-202-708-4200 in the DC area
1-800-304-9597 by TDD
1-202-708-4829 by fax

Sending written information to:

OIG Hotline
Office of Investigation
Room 8270
451 7th St., SW
Washington, DC 20410-4500

via the internet: www.hud.gov/oig/oighot.html

or contacting your local HUD OIG District Office:

New England District
Thomas P. O'Neill, Jr. Building
10 Causeway St.
Boston, MA 02222-1092
Tele: 617-565-5293
fax: 617-565-6916
States: CT, MA, ME, NH, RI, VT

Midwest District
Ralph Metcalfe Federal Building
77 W. Jackson Boulevard, Suite 2646
Chicago, IL 60606-3507
Tele: 312-353-4196
fax: 312-353-3188
States: IL, IN, MI, MN, OH, WI

Pacific/Hawaii District
Phillip Burton Federal Building & Courthouse
450 Golden Gate Blvd., Room 8-5139
San Francisco, CA 94102-3448
Tele: 415-436-8108
fax: 415-436-8114
States: AZ, CA, HI, NV

New York/New Jersey District
26 Federal Plaza
New York, NY 10278-0068
Tele: 212-264-8062
fax: 212-264-4933
States: NJ, NY

Southwest District
1600 Throckmorton
P.O. Box 1839
Ft. Worth, TX 76113-2905
Tele: 817-978-9310
fax: 817-978-9373
States: AR, LA, NM, OK, TX

Northwest/Alaska District
Seattle Federal Office Building
909 1st Ave., Suite 125
Seattle, WA 98104-1000
Tele: 206-220-5380
fax: 206-220-5160
States: AK, ID, OR, WA

Mid-Atlantic District
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3390
Tele: 215-656-3410
fax: 215-656-3409
States: DE, MD, PA, VA, WV

Great Plains District
Gateway Tower II
400 State Ave.
Kansas City, KS 66101-2406
Tele: 913-551-5866
fax: 913-551-5496
States: IA, KS, MO, NE

Capital District
800 North Capitol Street, NW
Suite 590
Washington, DC 20002
Tele: 202-501-1200
fax: 202-501-1312
States: DC metropolitan area

Southeast/Caribbean District
Richard B. Russell Federal Building
75 Spring St., SW
Atlanta, GA 30303-3388
Tele: 404-331-3359
fax: 404-331-1243
States: AL, FL, GA, KY, MS, NC, SC, TN, and Puerto Rico

Rocky Mountains District
First Interstate Tower North
633 17th Street
Denver, CO 80202-3607
Tele: 303-672-5449
fax: 303-672-5087
States: CO, MT, ND, SD, UT, WY

All information is
confidential and
you may remain
anonymous.

HUD Office of Inspector General

Semiannual Report to the Congress

as of March 31, 2000

www.hud.gov/oig/oigindex.html

