

*Semiannual Report to the Congress*



*as of September 30, 2000*

# 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

I'd like to draw your attention to two key topics discussed in this Semiannual Report to the Congress: the HUD 2020 management reform, and the Single Family Mortgage Insurance Program. In the OIG's opinion, both of these topics warrant close scrutiny by the new Congress and the new Administration.

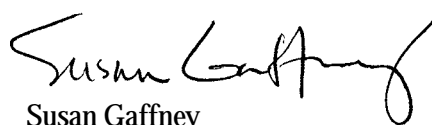
- With respect to HUD 2020, Chapter One presents a status report at the 3 and one-half year mark. While numerous organizational and business process changes have been made, the OIG sees HUD 2020 as a work continuously in progress, with promised performance improvements yet to materialize. Moreover, despite the myriad HUD 2020 changes, HUD still doesn't have a solid foundation of skilled staff, a streamlined program inventory, and effective management systems—elements that the OIG views as essential for meaningful HUD reform.
- With respect to the single family mortgage insurance program, Chapters two and four present evidence that the program—generally viewed as a national treasure—is beset by massive fraud. These frauds can have devastating impacts on victimized borrowers, and the growing number of foreclosures can destroy neighborhoods. In our last Semiannual Report to the Congress, we reported that single family loan origination fraud was being enabled by a breakdown in HUD program controls. Since that time, HUD management has promised to strengthen those controls; and we will all need to be monitoring HUD's progress in that regard. The OIG believes, however, that the new Congress and the new Administration must also examine the potential relationship between current single family policies intended to increase the homeownership rate and the rising incidence of single family fraud.

Another topic deserving of your attention is the situation at the Puerto Rico Public Housing Administration (PRPHA). On July 8, 2000, I took the unusual step of notifying Secretary Cuomo, pursuant to Section 5(d) of the Inspector General Act of 1978, as amended, of HUD's failure to stop flagrant fraud, waste, and abuse in the operations of the PRPHA. In accordance with Section 5(d), within 7 days, Secretary Cuomo transmitted my report to the Congress. Since that time, I am gratified to report, the Congress has prohibited the release of funds under a \$130 million settlement agreement between the Governor of Puerto Rico and the Secretary of HUD "unless the Puerto Rico Public Housing Administration and the Department of Housing and Urban Development submit by December 31, 2000 a schedule of benchmarks and measurable goals to the House and Senate Committees on Appropriations designed to address issues of mismanagement and safeguards against fraud and abuse."

My "7 day letter" also motivated some action at HUD. Notably, HUD sent HUD staff and HUD consultants to PRPHA to assess the situation. But HUD's timetable for actually taking corrective action remains pretty much the same as it has been since March 2000, when we issued a comprehensive report on serious problems with PRPHA procurements. That is, by March 2001, HUD intends to be in a position to decide what corrective action needs to be taken vis a vis the PRPHA overall; by July 2001, HUD intends to make decisions on over \$25 million in ineligible costs identified by OIG auditors; and by October 2001, HUD intends that the PRPHA implement new procurement policies. This is not the type of immediate and decisive action that the OIG had hoped for in the face of flagrant fraud, waste, and abuse, which victimize the residents of PRPHA as well as the taxpayers.

Meanwhile, see Chapter Four for an additional PRPHA-related guilty plea and an additional PRPHA sentencing this semiannual reporting period. And the criminal investigations relating to the PRPHA continue.

The OIG looks forward to working with the new Congress and the new Administration on these and other issues. They will be able to count on an OIG staff that is responsive, knowledgeable, objective, and committed to ensuring that HUD programs serve their intended and deserving beneficiaries.

  
Susan Gaffney  
Inspector General

# Chapter 1

## HUD Management Issues



## HUD Management Issues

Since Secretary Cuomo announced the HUD 2020 Management Reform Plan in June 1997, we have focused our audit and investigative efforts on evaluating the progress and effectiveness of these reforms. This Chapter provides our current assessment of the HUD 2020 Management Reform and discusses some of the future challenges facing HUD.

The start of HUD's most recent reform effort traces back to February 1993. After the HUD scandals of the late 1980's, HUD was under intense Congressional scrutiny. Secretary Cisneros put together a reinvention plan which he felt was vital to HUD's survival. Secretary Cisneros' "Reinvention Blueprint" proposed: (1) major legislative changes to consolidate programs; and (2) serious staffing cuts, bringing HUD's staffing levels from about 13,000 to 7,500. Efforts to make the legislative changes during the Cisneros Administration proved unsuccessful but the Congress endorsed the proposal for reduced staffing.

When Secretary Cuomo took office in 1997, he made it clear that he would not seek HUD legislative reforms, but he would continue reductions in HUD staffing. Secretary Cuomo wanted to correct HUD's long-standing management deficiencies and compensate for the staffing reductions through the HUD 2020 Management Reform Plan. The 2020 Plan was a very ambitious effort by Secretary Cuomo to quickly overhaul operations at HUD with a series of complicated, far reaching organizational and management process changes. The strategy was to centralize major operations and establish management systems organized by function rather than by program. As part of this strategy, staff was to be divided into two distinct components: those who deal with clients and communities (Community Builders), and those who handle "back office" processing operations (Public Trust Officers). Community Builders were hired and stationed in every HUD location, providing a presence in dealing with HUD's clients. Public Trust Officers, who administer HUD's programs, were charged with focusing greater attention on program monitoring.

Concurrent with the staffing reductions and organizational/management process changes, HUD 2020 envisioned correcting HUD's inadequate resource allocation, financial management, procurement, and information systems; and bringing the HUD staff's skill levels up to par. These management improvements were to be made while establishing the organizational infrastructure, without the benefit of program consolidation and within the context of staff reductions. This was and continues to be an extraordinarily complicated plan.

The Office of Inspector General (OIG) has spent 3 years evaluating various aspects of the HUD 2020 Management Reform. The Department has announced that HUD 2020 has been successful at transforming the Department into an efficient and effective agency. An August 2000 Progress Report on HUD 2020 entitled, "Promises Made — Promises Kept," indicates that HUD 2020 reforms are complete. And indeed, a number of changes — including the organizational changes, the hiring of Community Builders, the establishment and filling of Chief Procurement Officer and Chief Information Officer positions, and the establishment of a system for scoring the physical and financial health of public and assisted housing — have been completed. But the OIG has yet to see the performance improvement promised as a

result of these changes. In the OIG's view, HUD's reform efforts are a continuously changing "rough draft" — a situation that will present a major challenge in the next few years.

In a recent, HUD commissioned assessment of HUD 2020, The Public Strategies Group, Inc., said that "In our experience, public-sector reinvention on this scale takes at least 5 years before the systems, behavioral, and cultural changes yield dramatic improvements throughout the organization. We are convinced that HUD has created a powerful rock-solid foundation of reform." The OIG is not equipped to forecast whether HUD 2020 will result in dramatic performance improvements in 5 years. We do know, however, that HUD's foundation for reform is far from rock-solid.

One indicator of success of the 2020 Plan, reported by HUD senior management, is the reduction in reported material weaknesses in annual Financial Statement Audits from eight in Fiscal Year 1998 to five in Fiscal Year 1999. However, a simple numeric comparison does not accurately portray where HUD stands. For the most part, these differences were a result of changes in reporting methodology. In reality, all of the internal control issues reported in Fiscal Year 1998 were still present at the end of Fiscal Year 1999 either as material weaknesses or as reportable conditions. In addition to the five material weaknesses, HUD has reportable conditions, which are significant deficiencies in the design or operation of internal controls that could adversely affect HUD's ability to record, process, summarize and report financial data.

A material weakness concerning early warning and loss prevention on FHA projects was reported as a material weakness in 1998 but not in 1999. We changed this internal control issue in 1999 to a reportable condition, primarily because the Real Estate Assessment Center (REAC) had made progress in completing physical assessments of multifamily projects and starting financial assessments. However, to imply that REAC's progress has corrected the problem of early warning and loss prevention of FHA projects is a misrepresentation. Another material weakness reported in 1998 but not in 1999 concerns resource management. The internal control issues with resource management have not changed. During Fiscal Year 1999, we stopped reporting this separately, choosing to view it instead as a cause for many of the other reported weaknesses.

Another reported measure of HUD 2020 success was the fact that the OIG issued an unqualified opinion on HUD's 1998 Financial Statements. There were two big problems with this apparent success story. First, HUD paid a contractor more than \$2 million to get its financial statements in shape. Secondly, there were eight material weaknesses reported that constitute serious deficiencies in HUD's ability to assure that funds are spent for proper purposes.

At the start of HUD 2020, the OIG cautioned that the reorganization was moving too fast, without sufficient analysis or planning. In our September 1997 Semiannual Report to the Congress, we expressed concern that there was little assurance that the reforms would enable HUD to accomplish its mission. We also expressed concern that operating weaknesses were being exacerbated by the growth in HUD's programs. We felt it was premature and problematic that new organizations were being put in place, before staffing and system problems were resolved. We believed and continue to believe that a solid foundation of skilled staff, streamlined programs, and more effective management systems are essential for a reform effort to be effective. Each of these areas is discussed below.

## Management of Resources

The adequacy of staff resources in the Department has long been a concern of the OIG and, we believe, a root cause of many of HUD's material weaknesses. Audits have consistently found a mismatch between the number and complexity of HUD's programs and the capability of HUD staff to administer those programs. In a 1997 count of HUD programs, we identified over 300 separable program/activities. A count today using similar measures would likely show programs/activities increasing. We are concerned when the Secretary announces new initiatives, such as Teacher Next Door, Officer Next Door, Gun Buyback, Gun Safety, and Healthy Homes. While these activities in and of themselves may offer benefits, HUD cannot afford to deal with an increasing number of small programs that are staff intensive to manage. It is unlikely that HUD staffing will be increased to manage and operate these new initiatives. Consequently, HUD must more sharply focus on its core mission and gain efficiencies through program consolidations and more effective management techniques. Adding more weight to an already weak foundation makes HUD an increasingly vulnerable organization.

To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills. Several years ago, our office and the National Academy of Public Administration (NAPA) recommended that HUD develop a resource management system to align resources with program needs. HUD's 2020 Plan called for implementing a resource estimation process that "would be a disciplined and analytical approach, to identify, justify, and integrate resource requirements and budget allocations." HUD worked with NAPA to develop a methodology for resource estimation and allocation. NAPA's methodology was tested and refined in several HUD offices.

In HUD's Annual Performance Report dated October 18, 1999, the Department announced its intention to adopt NAPA's methodology throughout HUD over a 12- to 18-month period. The Office of the Chief Financial Officer was designated the lead organization to manage this process. Phase I of the implementation was "an independent baseline study of work functions, workload, and related resource requirements." This phase was started in September 2000, 11 months after HUD's announcement that the NAPA methodology would be implemented Departmentwide within 12 to 18 months.

Our recent review of Resource Estimation and Allocation Process (REAP) implementation found that plans were still not progressing with the urgency one would expect for a priority status project. The implementation has experienced inadequate funding with only a portion of the implementing contract funded in Fiscal Year 2000. The study of Single Family Housing Programs, which experienced the greatest staffing cuts and could greatly benefit from REAP, was moved to a later phase of the project. The earliest estimated completion date for REAP is now in early Fiscal Year 2002. In response to our draft audit report, the Deputy Secretary affirmed the Administration's commitment to the REAP project by fully funding the implementing contract.

Nowhere is the need for a resource allocation study more evident than in the numerous ongoing investigations involving single family loan origination fraud. In our Housing Fraud Initiative in Judicial District locations such as the Eastern District of New York, the District of Maryland, the District of Columbia, the Northern District of Illinois, the Central District of California, and the Northern District of Texas, serious fraud involving FHA insured mortgages continues to be uncovered. Our audits and investigations have found that HUD's current procedures

for monitoring lenders, overseeing contractors, and supervising HUD staff activities are less than effective. This lack of oversight and accountability results in criminal activities going undetected and major losses to the insurance fund.

For example, last year, a HUD employee in the Santa Ana Homeownership Center was convicted for accepting bribes and tax evasion. The employee conspired with a real estate agent to carry out a systematic scheme of selling HUD owned properties at prices far below HUD's listed price. FHA lost several million dollars as a result of this scheme. We found that established internal controls had not been followed. Notably, the HUD Chief Property Officer (CPO) was not signing off on property discounts as required, meaning that the employee was making major financial decisions with no oversight. We recommended disciplinary action be taken against the CPO for failing to perform his duties. The Department responded: "The CPO at the time would not have been able to perform all the supervisory and monitoring duties prescribed in the Handbook and should not be subject to any administrative actions." This major breach of internal controls was dismissed for a lack of staff.

HUD is compensating for staff shortages through contracting out major activities. Unfortunately, HUD is not prepared to effectively monitor this increased level of contractor activity. A recent comprehensive audit of the Single Family Property Disposition Program found HUD ill equipped to oversee contractor performance. Management and Marketing contractors (M&Ms) are expected to maintain and market HUD properties and their fee is based on a set percentage of the final sales price. Because the contractor shares in a percentage of the final sales price, HUD considers these contracts as performance based. We found that these contracts, while performance based, did not assure the top return to HUD.

The following hypothetical example shows the business reality of the M&M sales. An M&M contractor that charges a 5 percent fee lists a HUD property for \$100,000. If the M&M contractor spends \$500 for repairs, its net fee would be \$4,500. To recover the \$500 in repair costs, the property would need to sell for \$110,000. More realistically, the contractor could forego the repairs and drop the price to \$90,000 and still realize the same \$4,500. As seen by this illustration, the contractor has little incentive to make the repairs. The lower price will result in the quicker sale. FHA and neighborhoods have the most to lose through this incentive fee.

FHA has realized some success from this outsourcing to M&M contractors: sales volume has increased; the number of properties in inventory is down; and contractors are implementing new marketing tools such as bidding through the Internet. Despite these positive strides, FHA has not accomplished other core elements of its program mission. The outsourcing has not maximized return to the mortgage insurance fund nor has it resulted in properties being maintained in a manner that has strengthened neighborhoods and communities. Our audit determined that outsourcing of program operations resulted in reduced returns to the mutual mortgage insurance fund of about \$188 million due to poor sales performance and substantially increased program costs. Contractors did not perform timely inspections, correct hazardous conditions, make repairs, or perform routine maintenance to preserve and protect properties. The poor property conditions decreased marketability, increased FHA's holding costs and negatively affected surrounding communities. Although FHA repeatedly reported the deficiencies in their monthly performance assessment reports, FHA has not had success in improving property conditions and compliance.



## HUD's Mission

When Secretary Cuomo announced his HUD 2020 Management Reform Plan, he said “For HUD to fulfill its mission, it must have credibility — with Congress, with local government and with the customer. They must all believe that HUD has the competence and capacity to perform its functions. It’s time HUD put its own house in order.” To achieve this objective, Secretary Cuomo set forth two missions: “empowering people and communities, and restoring the public trust.”

HUD’s strategy for accomplishing the first mission, empowering people and communities, was to hire Community Builders to improve community outreach and establish storefront offices and kiosks for the public to obtain information about HUD. About 10 percent of HUD’s salaries and expenses resources were committed to the Community Builder functions. Secretary Cuomo said that Community Builders would spearhead an effort to “empower America’s people and local governments to take the leading role in improving lives and strengthening communities.”

Our audits of the Community Builder Program and storefront/kiosk operations found little, if any, measurable results for these activities. The Community Builders’ impact on HUD’s mission was for the most part indeterminable. The Secretary established a visionary mission whereby Community Builder staff would solve “the toughest economic and social problems facing communities.” Our discussions with other HUD staff and outside customers found the impact of Community Builders to be minimal. The majority of the Community Builders interviewed said that they spent more than half of their time on public relations activities. In some instances, we found that Community Builders’ limited knowledge of HUD programs and/or their poorly defined responsibilities caused Community Builder staff to give inappropriate guidance to communities or improperly interfere with HUD matters outside of their authority. Additionally, significant funds were expended to operate and maintain 6 storefronts and install 73 kiosks. HUD had little evidence of benefits derived from these operations.

HUD redirected a significant amount of resources to outreach and customer relations activities at a time when additional resources were needed for operational activities. The Secretary and the OIG see this situation differently. The Secretary views public relations as an important function. The OIG views these outreach activities as doing little to support HUD’s core mission. Our audits have demonstrated that HUD needs to focus on more wholesale management approaches, i.e., improving and empowering operations of major constituents, such as public housing authorities, lenders, and multifamily owners.

HUD’s second mission, restoring the public trust, has entailed establishment of various centralized centers to address long-standing management problems. The purpose of the Real Estate Assessment Center is to assess the physical conditions and financial integrity of multifamily developments and public housing authorities. The purpose of the Troubled Agency Recovery Center is to deal promptly with troubled public housing projects. The purpose of the Enforcement Center is to take independent enforcement actions against owners and managers of FHA insured and/or assisted multifamily housing properties. The purpose of the Homeownership Centers is to consolidate single family operations at four locations.

The consolidation of these many functions, while perhaps attractive from the narrow perspective of an efficiency expert, has eroded empowerment and may be uniquely suited to the management style of the current Secretary. The Centers place all control for functions in central locations using highly regimented approaches. This serves to eliminate the knowledge base in the various field offices/hubs of local

problems and, in some cases, it has angered customers. For example, the physical inspection of public housing portfolios has caused so much customer dissatisfaction that the use of the scoring process has been delayed. Further, these Centers have come at a considerable cost to the government to develop systems and protocols. Centers such as the Troubled Agency Recovery Centers and the Enforcement Center are operating well below their intended capacity.

In summary, we see the changes being brought about by HUD 2020 as almost contrary to the two intended missions. Empowerment should be the devolution of power, that is, moving decision making processes to the communities that HUD serves. Restoring the public trust should, we believe, be grounded in less regimented—but more substantively meaningful—approaches in dealing with those who administer HUD programs.

## Information Systems Issues

HUD 2020 has led to the successful development and implementation of certain information technology solutions. Touch screen computer kiosks systems are now available to provide information to the public. Housing inspectors are now armed with hand held computers to collect and transmit real time data on the conditions of public and assisted housing facilities. And in keeping with the thrust toward e-government, HUD has developed Internet applications through which the public can submit housing discrimination complaints electronically. The “Clinger-Cohen” Act intended that Chief Information Officers would have full control and provide leadership and accountability over information and technology resources.

It has long been the OIG’s position that HUD’s Chief Information Officer (CIO) should be positioned in the organization to ensure compliance with the “Clinger-Cohen” Act. Instead, HUD’s organizational structure provides fragmented control over information technology resources. It splits information technology planning/policies, operations, and technical services between the CIO, the Office of Administration, and the Chief Financial Officer. The CIO is limited to a policy, guidance, and planning role with no direct control over the resources for system development, operations and maintenance, and security. This diffusion of authority and accountability has not provided the necessary focus and attention for information management that the Department so greatly needs. Several components of the HUD 2020 Plan are reliant upon the successful development and implementation of new automated systems. However, developing systems that perform as intended, within schedule and at cost, remains a challenge for HUD.

Our audits continue to report instances where inadequate controls over information technology operations and investments have put the information in HUD systems data at risk. Since 1991, the OIG has reported as a material weakness slow progress towards improving financial management systems, control weaknesses over critical system applications, inadequate tracking of system development costs, and poor contracting practices.

There is a lack of effective management in system development and operations at HUD. The ability of the Department to control information technology costs is limited because for many years the Department lacked an adequate project cost accounting system. Another issue is constant scope and strategy changes. For instance, the Financial System Integration (FSI) project, the most ambitious and costly HUD information technology project, has suffered from frequent project scope, strategy, and management changes. This project was an ambitious effort that started in 1991 to integrate approximately 100 HUD financial and program systems into 9 consolidated systems. The lack of an integrated financial system in compli

ance with federal financial system requirements has been reported as a material weakness in OIG Financial Statement Audits since 1991. The FSI program in 1991 had projected a total cost of \$103 million to develop and deploy the 9 consolidated systems. In a benefit/cost study, Arthur Anderson indicated that the ongoing FSI program costs through FY 1999 totaled \$206 million.

Further, this year HUD's flawed implementation of a standard general ledger for the Department — a cornerstone of FSI — led to a disclaimer of opinion on the Department's Fiscal Year 1999 Financial Statements. As a result, the Department is considering yet another approach without completing the planned solution decided upon in 1997. This repeated shift in approach will further delay correction of long-standing deficiencies, such as insufficient information regarding individual multi-family loans, inability to support adequate funds controls for FHA, duplications of accounting entries due to a lack of integration between program and accounting systems, inability to timely identify excess funds remaining on expired project-based Section 8 contracts, and problems in reconciling cash balances with Treasury records.

The solution adopted in 1997 was made without a complete and thorough analysis of alternatives, despite OIG objections at the time. As a result of a hasty decision, the Department encountered unanticipated difficulties that led to schedule delays and cost overruns. However, a number of technical difficulties with the system interfaces between key transactions systems are now resolved. The Department must conduct a thorough analysis to determine whether the current solution is no longer viable before moving to another approach. This analysis should follow HUD's process for information technology investment decisions which includes feasibility studies and cost benefit evaluations. Without strong controls over information technology resource decisions, HUD systems may not meet business needs, resulting in inaccurate and unreliable data, system failures, and excessive costs.

Despite all of these problems, in August 2000, HUD's 2020 Progress Review and Accomplishment Report noted "HUD's once vulnerable financial management system is now reliable, accurate and timely."

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HUD has been under continuous change since the 2020 Reforms were announced 3 years ago. Since the changes were not built on a solid infrastructure, completing the reforms has been time consuming and complicated, and we are still waiting to see the promised performance improvements.

There is also the question of whether the next HUD Secretary will want to maintain the new, centralized organizational units. In organizing HUD by function, program offices have lost control of many activities. For example, the REAC gives direction to the Assistant Secretary for Public and Indian Housing and the FHA Commissioner as to where they must focus their monitoring activities. Community Builder staff may be in the public eye discussing Assistant Secretaries' programs, but reporting to the Deputy Secretary. The Enforcement Center may take a project from the control of the FHA Commissioner because of failing inspection scores.

In the context of diminishing HUD resources, we should be looking for ways to build incentives into programs that work to prevent fraud, waste, and mismanagement, thus requiring less onerous and unappreciated monitoring by the Federal Government. We should be thinking about whether Government Corporations would

be a better way to gain efficiencies in profitable operations such as Ginnie Mae and FHA. HUD needs to know what resources are needed and that staff have the appropriate skills. If insufficient resources exist to carry out programs, HUD and the Congress need to make the tough choices in deciding what should and should not be done.

Lastly, the OIG believes that the Congress and HUD should be looking for every opportunity to consolidate, terminate, and streamline programs. We believe that HUD's future should not be in an expanding number of programs, but in better pursuit of its core mission, providing housing for those in need.

# 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 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.

In our last Semiannual Report to the Congress, we reported that we were starting to see the first substantive results from HFI initiatives. During this reporting period, our collaborative work has resulted several major indictments and convictions of those perpetrating fraud in HUD programs. Fraud in single family loan origination continues to be the most pervasive problem uncovered by HFI investigations.

The following are examples of HFI results this reporting period.

## ***Central District of California***

Karen Christensen, a former Single Family Housing Specialist at the HUD **Santa Ana** Homeownership Center, was sentenced to 2 years incarceration and 3 years supervised release, and ordered to pay \$1.4 million in restitution to HUD, with an immediate payment of \$2,500, and a \$300 special assessment. Christensen was also ordered to stop working in any capacity which would involve HUD business after it was revealed that, since her termination from HUD, she has been working as a mortgage consultant doing quality control work on FHA loans for lenders. Christensen previously pled guilty to one count of accepting a bribe and two counts of tax evasion. A joint investigation by the FBI, OIG, and the IRS Criminal Investigation Division disclosed that from 1996 to 1998, Christensen sold 82 HUD properties to various individuals that were valued by HUD at approximately \$9.1 million. She sold the properties for a total of \$2 million, resulting in a loss to HUD of over \$7 million. Christensen sold 20 of these homes to Hadi Kailani, a real estate agent, for approximately \$700,000. These properties were appraised at \$2.1 million. 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. Forty-six of the 82 properties have also been seized.

A joint FBI/OIG investigation in **Los Angeles** resulted in four guilty pleas and seven sentencing in a multi-million loan fraud scheme. Eddie Joe Gonzalez was sentenced to 5 years probation and 2,500 hours of community service, and was fined \$5,000 and ordered to pay a \$100 special assessment, while Elia Cardenas pled guilty to 1 count of mail fraud. Both Gonzalez and Cardenas recruited unqualified homebuyers, ordered false and fraudulent documents to support the loan

applications, and then submitted the applications containing the false documents to HUD in order to obtain FHA insured loans. Gonzalez's scheme involved FHA insured loans valued at over \$3,331,360, while Cardenas' scheme involved loans in excess of \$3,300,000.

Daniel Hernandez was sentenced on a mail fraud charge to 10 months in prison and 3 years supervised release, fined \$3,000, and ordered to pay \$110,000 in restitution and a \$100 assessment. Hernandez, along with his partner, operated Rengar Mortgage, packaging fraudulent loans throughout the Los Angeles area. Hernandez was responsible for over \$1,000,000 in fraudulent FHA insured loans between 1996 and 1999.

Javier Munoz was sentenced to 2 years probation and 100 hours of community service, fined \$3,000, and ordered to pay a \$100 special assessment. Munoz was a real estate agent at Century 21 Opportunity from 1997 to 1999. As a real estate agent, he located unsophisticated buyers for residential properties, and then contacted a forger to create loan support documents that would allow these otherwise unqualified buyers to purchase properties with FHA insured mortgages. Munoz then caused the FHA loan binders, containing the false documents, to be submitted to HUD. Munoz was responsible not only for over \$120,000 in fraudulent FHA loans, but also 4 fraudulent conventional loans.

Rene Moya was sentenced to 5 years probation, fined \$20,000, and ordered to pay a \$100 special assessment fee. She previously pled guilty to one count of mail fraud. Moya, currently the owner of Fred Sands Real Estate Company, used a forger to obtain false documents for borrowers who were unable to qualify for FHA insured mortgages. She then caused those false documents to be included in the mortgage applications.

Eliot Texiera was sentenced to 3 years probation and ordered to pay \$5,302 in restitution and a \$100 special assessment fee. Texiera pled guilty in March 2000 to mail fraud. He had been a loan officer at Global Mortgage, Pacific Cities Mortgage, and Pacific Coast Mortgage. Beginning in January 1995 and continuing until September 1998, Texiera used documents created by a forger to assist homebuyers in obtaining FHA insured mortgages. Typically, Texiera requested forged loan support documents such as W-2s, pay stubs, IRS Forms 1099, and letters of credit reference. He then caused the unqualified borrowers' loan applications to be submitted to HUD. Texiera was responsible for \$4,930,407 in fraudulent home mortgage loans.

Ivar Pugliese was sentenced to 15 months incarceration and 3 years supervised release, and was ordered to pay \$400,000 in restitution, a \$10,000 fine, and a \$100 special assessment fee. Pugliese pled guilty in March 2000 to two counts of mail fraud. Pugliese was a real estate investor working from his mother's real estate office, Pugliese Reality. He had also worked as a loan processor at City Mortgage Bank Corporation and Great American Reality. Pugliese's scheme involved the submission of false and fraudulent loan support documents, such as W-2's and pay stubs, so that unqualified individuals were able to purchase homes with FHA insured loans. Pugliese hired a forger to create the false loan support documents. Pugliese was responsible for over \$16,000,000 in fraudulent loans.

Ana Lopez was sentenced to 3 years probation, fined \$1,000, and ordered to pay a \$100 special assessment fee. In June, Lopez pled guilty to one count of mail fraud. From May 1998 to November 1999, Lopez was a loan processor at Great American Realty, where she participated in a scheme to defraud various commercial lending institutions and HUD. Lopez's scheme involved the submission of false

and fraudulent loan support documents so that unqualified individuals were able to purchase homes with FHA insured loans. The fraudulent loans were valued at over \$1,200,000.

Joseph F. Diestel pled guilty to one count of mail fraud. From June 1997 to November 1999, Diestel was a loan officer at Manhattan Mortgage Corporation in Artesia, CA. Diestel's scheme involved the submission of false and fraudulent loan support documents, such as W-2s and pay stubs, so that unqualified individuals were able to purchase homes with FHA insured loans. Diestel hired a forger to create the false loan support documents. Diestel was responsible for over \$5,600,000 in fraudulent loans.

Lucy Aquije pled guilty to mail fraud. Beginning in 1993, Aquije worked as a loan officer at the following companies: Sun West Mortgage, National Pacific Mortgage, Citifed Diversified, Milestone Mortgage, Capital Funding Group, and New World Mortgage. From 1993 to at least April 1999, Aquije submitted false and fraudulent proof of employment, income tax forms, pay stubs, bank deposit slips, and bank cashiers' checks to commercial lenders and to HUD. Aquije employed a forger to create the false documents for unqualified home loan applicants, and then inserted the false documents in FHA loan applications. She then knowingly submitted those loan applications to commercial lenders and to HUD so that she would be paid a substantial commission for each transaction. Aquije was responsible for a stipulated loss to HUD of \$798,845.

Andres Ocampo, a forger who was instrumental in several indictments issued in December 1999, pled guilty to charges of conspiracy and mail fraud. About \$1 million in losses to HUD were attributed to Ocampo.

Following an investigation by the FBI and OIG, Raul Miranda, a co-owner of West Coast Investment Group, Inc. in **Los Angeles**, pled guilty to 20 counts of conspiracy, wire fraud, false statements, and money laundering. Miranda and co-conspirator Andres Martinez, who pled guilty to 31 counts of conspiracy, wire fraud, false statements, money laundering, and aiding and abetting, purchased properties valued between \$80,000 and \$100,000 and then arranged for fictitious sales of these properties to strawbuyers at inflated prices of up to \$300,000. Both Miranda and Martinez paid for forged loan documents and submitted them in support of the FHA insured mortgages. Miranda caused these loans, totaling \$4.5 million, to go into default. HUD's loss is between \$2.5 and \$5 million. Additionally, West Coast Investment Group, through Miranda and others, continued to collect money on the properties from renters, after putting the properties in the names of strawbuyers. Martinez also solicited notaries to notarize the fraudulent loan documents on behalf of the strawbuyers.

Donaldo Nunez also pled guilty to conspiracy and mail fraud against HUD. Nunez, who owned and operated a tax preparation and accounting business, fraudulently created 1099 tax forms, W-2 statements, pay stubs, cashier's checks, bank records, and credit letters, and then used the false documents to fraudulently originate more than \$3 million of FHA insured mortgages. Nunez assisted his two co-conspirators, Miranda and Martinez. Another co-conspirator, mortgage broker Matthew Dunne, was sentenced to 2 years in prison and 3 years supervised release, and was ordered to pay \$957,000 in restitution to 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 and certifications."



In **Riverside County**, Ray Tomlinson and Penny Lubanko were charged with five counts of bankruptcy fraud, single family equity skimming, conspiracy, false representation of a Social Security number, and false statements in a bankruptcy; both entered plea agreements with the U.S. Attorney's Office. An investigation by the FBI and the HUD and Department of Veterans Affairs OIGs disclosed that Tomlinson and Lubanko contacted homeowners whose mortgages were in default and stated that the homeowners could avoid foreclosure by deeding their properties over to them. They told the homeowners to sign deeds that transferred the properties to individuals or entities that had filed bankruptcy. This caused foreclosure proceedings to stop. This case involved approximately 200 single family dwellings on which the loans were in default at the time of purchase, or within 1 year following the purchase. These properties were then rented out. Although rents totaling approximately \$3 million were collected, no mortgage payments were made. As a result of this scheme, mortgage lenders were unable to carry out any debt collection proceedings against their borrowers, and the bankruptcy court was defrauded by having to administer fraudulently filed bankruptcies.

Ramon Osuna Moran pled guilty to 10 counts of mail fraud. From June 1996 to August 1998, Moran worked as a loan officer at Progressive Loan Funding in **Seal Beach**. From August 1998 to December 1998, he worked as a loan officer at Sunstate Home Loan in **Downey**. At each company, Moran assisted investors, real estate agents, and homebuyers in obtaining funding for the purchase of properties with FHA insured mortgage loans. Moran participated in a scheme to defraud HUD by submitting false and fraudulent loan documents in support of the FHA loan applications. He conspired with a forger to create false documents such as pay stubs, W-2s, and credit letters, and then included the false documents in the loan applications that he processed and submitted to HUD. The fraudulent loans were valued at \$11,569,412. This investigation was conducted by the FBI and OIG.

In **Los Angeles**, Maria Olmos, David Sazegar, and Bart Trow each pled guilty to two counts of wire fraud. The three participated in a scheme to defraud commercial lending institutions and HUD by submitting false and fraudulent loan support documents, such as W-2's and pay stubs, so that unqualified individuals were able to purchase homes with FHA insured loans. The scheme also involved the submission of false gift letters showing that someone other than the borrowers made the down payments.

In the same case, brothers Pascual and Jorge Gomez, along with friend Frank Gomez, each pled guilty to six counts of structuring transactions to evade reporting requirements. From 1996 to 1997, the Gomez's were real estate agents at ReMax-Southeast Properties, and then later at ReMax/Specialist. The Gomez's participated in a scheme that involved cashing First State Bank cashiers' checks in amounts just below the reporting level of \$10,000, but with an aggregate totaling more than \$10,000.

Olmos, Sazegar, Trow, and the Gomez's were responsible for over \$75,000,000 in fraudulent loans involving over 500 properties. This investigation was conducted jointly by the FBI, IRS Criminal Investigation Division, and OIG.

In another particularly significant case in **Los Angeles**, eight individuals were indicted on charges of conspiracy, wire fraud, mail fraud, bank fraud, monetary

transactions in criminally derived property, identity fraud, and aiding and abetting causing an act to be done. The individuals allegedly engaged in various schemes to defraud HUD and commercial lending institutions by purchasing property using false information, such as names, Social Security numbers, bank account information, and appraisals. The properties were then occupied by people who were not qualified to purchase the properties, or were sold at inflated prices to third parties. There were hundreds of properties that were affected by these transactions, which totaled over \$10,000,000.

In the same case, Andrew Allen Bills pled guilty to one count of conspiracy to commit offense or to defraud the United States and two counts of mail fraud. Bills created and sold false documents for use in qualifying borrowers to purchase homes both with and without FHA mortgage insurance. He also set up a shell business called Home Financial Consolidated Credit Union (HFCC) which purported to be a financial institution. He used HFCC documents to produce fraudulent financial statements for inclusion in loan packages. Bills also created false documentation for the purchase of his FHA insured personal residence. In total, Bills participated in the purchase of \$2 million worth of properties.

Real estate agent Marilyn Yvonne Skipper also pled guilty to one count of conspiracy and two counts of wire fraud. Skipper assisted co-conspirator Donald Carroll by acting as his real estate agent and signing Carroll's alias, Donald Allen, to loan documents. Using the fraudulent documents, she helped Carroll in purchasing \$1,010,000 worth of FHA insured property. OIG and the FBI conducted this investigation.

A real estate mortgage investor in **Los Angeles** was indicted for mail fraud and aiding and abetting. Following the indictment, OIG Agents arrested the investor. This indictment superseded a previous indictment against a mortgage broker, who was a co-conspirator with the investor. An OIG/FBI investigation disclosed that the two carried out a flipping scheme to defraud HUD. They allegedly recruited strawbuyers, typically individuals renting apartments in properties owned by them, and then used the strawbuyers to act as purchasers of more than \$1 million in FHA insured properties. The investor and broker fraudulently provided the necessary down payments on behalf of the strawbuyers, and caused fraudulent mortgage applications to be completed which contained false identification, employment, income, and tax information.

Bernard Gross, also known as Paris Love, a real estate speculator doing business in **Los Angeles** and **San Bernardino** Counties, was sentenced to 6 months home detention followed by 3 years probation. Gross had already served 4 months of incarceration while awaiting trial. He was convicted of bankruptcy fraud in March 2000 in conjunction with a scheme he used to obtain control of numerous single family properties in Southern California. Gross convinced homeowners facing foreclosure to deed their properties to him at little or no cost. He then collected rents from the property occupants, failed to make the mortgage payments, and encumbered the properties through bankruptcy proceedings in order to prolong the scheme. The properties involved had FHA, Department of Veterans Affairs (VA) and conventional mortgages. The loss to HUD and the VA exceeded \$1 million. This was a joint investigation by the FBI and OIG.

Real estate agents Elizabeth Salcedo and Alba Pena were sentenced for their involvement, along with a previously sentenced mortgage lender, in a single family loan origination fraud scheme in **Los Angeles**. Salcedo and Pena were responsible for providing various false documents, including gift letters, verifications of employment, and false W-2's. They originated approximately \$325,000 in fraudulent FHA insured mortgages using these documents. Pena was sentenced to 5 months incarceration and 3 years supervised probation. Salcedo was sentenced to 1 month in prison, 4 months home detention, and 3 years supervised probation, and was ordered to pay \$41,000 in restitution to HUD. This was an OIG investigation.

Following an FBI/OIG investigation, an individual was charged with two counts of mail fraud and aiding and abetting. Beginning in 1986, the individual worked as a loan officer in the **Los Angeles** Office of Sun State Mortgage. From January 1993 to at least January 1998, the individual is accused of being involved in a scheme to defraud commercial lending institutions and HUD by submitting false and fraudulent proofs of employment, income tax forms, pay stubs, credit letters, and bank cashier's checks. The individual allegedly obtained the false and fraudulent documents from a forger whom she paid a fee ranging from \$25 to \$150 per forged document. She then allegedly inserted the forged documents in FHA loan applications to create the appearance that the borrowers were qualified for the loans when in fact they did not meet minimum FHA income standards. The individual is also accused of knowingly submitting those fraudulent loan applications to commercial lenders and to HUD in order to receive a commission for each transaction. Losses to the government are estimated at more than \$2,000,000.

In **Los Angeles**, Darryl A. Woods pled guilty to three counts of mail fraud. An investigation by the FBI and OIG found that Woods participated in a \$10 million loan origination fraud scheme involving Title I, Title II, and conventional loans, as well as property flips. Woods is specifically responsible for about \$350,000 in losses to the government.

Olivia Hurtado was sentenced to 2 years probation, fined \$500, and ordered to pay a \$100 special assessment. In March 2000, Hurtado pled guilty to one count of fraud involving a program insured by HUD. Hurtado worked as a loan processor for Ideal Financial in **Rancho Cucamonga**. She ordered false and fraudulent pay stubs, W-2's, letters of credit reference, and income tax forms from several forgers, and then caused those false documents to be included in loan applications for FHA insured home mortgages. Hurtado was responsible for over \$1,940,000 in fraudulent loans. This investigation was conducted by the OIG and FBI.

Following an FBI/OIG investigation, an individual was charged with one count of wire fraud. From 1996 to 2000, the individual was the owner of Manhattan Mortgage and Prudential American Realty and Escrow in **Los Angeles**. During that time, he bought and sold over 35 investment properties. As the seller, he allegedly provided the down payments for the borrowers on FHA insured home loans, and created false gift letters to cover the true source of the funds. The individual also allegedly ordered false and fraudulent documents from a forger for the buyers on his properties. Those documents included W-2s, pay stubs, Social Security cards, and bank statements. The buyers would not have qualified for the FHA loans without the forged documents. Losses to HUD are estimated at more than \$1,200,000.

Jose Luis Arreola was sentenced in **Los Angeles** to 3 years imprisonment and 5 years probation and ordered to pay \$153,546 in restitution to HUD. Sindy Barrios was sentenced to 5 years probation and ordered to pay \$400,000 in restitution to HUD. An investigation by the FBI and OIG disclosed that Arreola and Barrios used strawbuyers to act as purchasers of properties that were insured by FHA for over \$1,000,000. They caused fraudulent mortgage applications to be completed which contained false identification, employment, income, and tax information. They also fraudulently provided the necessary down payments for the mortgages and falsely verified that the source of the down payments was either the borrowers' personal funds or a gift. In addition, Arreola and Barrios enlisted co-conspirators to fraudulently notarize signatures of the strawbuyers on loan files, and fraudulently created and provided credit references. One of these co-conspirators, Francisco Vasquez, was sentenced to 6 months imprisonment. Vasquez used his company, Fiesta Parties Supplies, as a front to falsely verify employment for the strawbuyers. In addition, real estate agent German Barrios, also sentenced to 6 months imprisonment, fraudulently notarized the loan documents that were used in the scheme.

William Mel Ivy, Jr., co-owner of American Properties International, was sentenced to 1 year imprisonment and 3 years probation, and ordered to pay restitution of \$130,661. Ivy pled guilty to diverting over \$130,000 from various homeowner associations and HUD. He deposited funds earmarked for property maintenance into personal bank accounts and admitted to using the money for personal expenditures. This investigation was conducted by the **Tustin** Police Department and the OIG.

Sebouh Caloosian was sentenced in **Los Angeles** to 2 years probation and was ordered to pay a \$100 special assessment after being charged with 1 count of HUD fraud. Rodney Joe Tyson, also known as Erwin Johnson, was also charged with HUD fraud. Tyson has agreed to enter a guilty plea at his arraignment. Caloosian and Tyson conspired with others to obtain Title I home improvement loans using false identities. Caloosian charged \$1,500 for his assistance in producing the false loan documentation, and falsely notarized loan documents and provided false California driver's licenses and Social Security cards as verification of identity. Tyson recruited other borrowers by offering \$3,000 to co-conspirators if they would pretend they were married and lived at the properties when they applied for the loans. Agents assigned to the Los Angeles Housing Fraud Initiative intercepted a \$40,000 check during a controlled delivery to Caloosian; Tyson was also arrested during a controlled delivery of Title I loan proceeds.

In the same case, Geraldine Thomas, a notary public, was sentenced to 1 year probation and ordered to pay a \$100 special assessment after pleading guilty to 1 count of conspiring to fraudulently obtain a Title I loan. As part of Thomas' term of probation, she must complete 25 hours of community service and cannot be employed or re-certified as a notary public.

The estimated loss to the government as a result of the scheme participated in by these individuals is approximately \$350,000. The FBI and OIG conducted this investigation.

As part of OIG HFI efforts in the Central District of California, the Chief of the FBI Headquarters Government Fraud Unit, Financial Crimes Section, visited the

HFI staff in Los Angeles. HFI staff briefed him on the overall operation of the Housing Fraud Initiative in this Judicial District. The briefings included the HFI from its inception to the present. In addition to the briefings, the Chief was given a tour of the office space and was able to visit with many of the OIG Agents and Auditors on hand.

### ***District of Columbia***

Terrie L. Sims was sentenced to 3 years supervised probation with the first 6 months under electronically monitored house arrest, and was ordered to pay \$35,000 in restitution to HUD and a \$100 court assessment fee. She was also ordered to take part in mental health and financial counseling, and is barred from applying for or obtaining any loans or credit cards during her 3-year probationary period. Sims fraudulently obtained an FHA insured home loan which she then allowed to go into default and foreclosure. As part of the scheme, Sims purchased a Social Security number belonging to someone else and created fraudulent income and credit documentation to obtain the FHA loan. This investigation was conducted by the OIG.

The owners of a 122-unit HUD subsidized apartment complex, known as R Street Apartments, settled a civil lawsuit filed in March 2000 by the U.S. Attorney's Office, Civil Division, under federal asset forfeiture laws and local drug related nuisance laws. The lawsuit sought relief from the owners for failing to provide decent, safe, and sanitary housing. Under the settlement agreement, the owners will install fencing, lighting, security cameras, video monitors, and alarms, and hire 2 security officers to patrol the property 56 hours per week. The District of Columbia Housing Fraud Initiative provided financial analysis of the owner's project accounts.

As a result of an OIG investigation, Lawrence D. Walker, a vice detective with the Metropolitan Police Department, pled guilty to making a false statement to HUD in regard to the Officer Next Door Program. Walker purchased a property under the program in 1997 with a \$25,000 law enforcement discount, with no intention of ever occupying the property. Instead, he refinanced it as an investment property and rented it out for \$755 a month. Walker has resigned from his position with the Police Department. A sentencing date has not been set.

### ***Northern District of Illinois***

In **Chicago**, 20 individuals were charged in a 16-count indictment relating to a \$10 million, 80 property flipping scheme. Those named in the indictment included an attorney, two paralegals, two mortgage brokers, two real estate appraisers, two real estate agents, mortgagor recruiters, investors, and mortgagors. Approximately \$3 million of the \$10 million included FHA insured mortgages with losses exceeding \$750,000. Additional claims are pending. The alleged scheme, which included mail fraud, wire fraud, and false statements to HUD, involved the individuals buying and selling properties on the same day, wherein the inflated second sale would actually fund the first purchase with cash. This amounted to the buyer's closing on a property that the seller had not yet purchased. The defendants purportedly reaped the benefits of the fraudulent appraisals on the second sales and split the proceeds through a variety of pay-offs. In virtually every instance, the second sale would require a variety of fraudulent loan documents, including fictitious identities, occupancy affidavits, W-2s, verifications of deposit and employment, pay stubs, and gift letters. This investigation was conducted by the FBI and OIG.

Three individuals were sentenced in **Chicago** on various fraud charges. David Mandel was sentenced to 12 months and 1 day in prison and 36 months supervised release, and fined \$50,000. John Carcerano was sentenced to 36 months probation and ordered to undergo a psychological evaluation. Belinda Lopez was sentenced to 60 months probation. The three defendants were also ordered to pay a total of \$243,350 in restitution. All three individuals previously pled guilty to mail fraud and making false statements on loan applications. They had been indicted for their part in a loan origination fraud scheme during which they caused the creation and submission to lending institutions of false and fraudulent documents purporting to establish the eligibility of prospective purchasers for FHA insured mortgages. The documents included false gift letters and false existence of earnest money on deposit. The OIG and FBI conducted this investigation.

In **Chicago**, Kevin Holliday was sentenced to 4 months home confinement and 5 years probation, and ordered to pay \$50,000 in restitution to HUD. Holliday earlier pled guilty to one count of submitting false statements to HUD and one count of bankruptcy fraud in a scheme to defraud HUD, the Social Security Administration, and the U.S. Bankruptcy Court in the purchase of his FHA insured home. He later testified at trial against his co-defendant, Hermilyn Strong, also known as Shirley Taylor. Strong's sentencing is scheduled for December 2000. This was a joint investigation by the FBI and the HUD and Social Security Administration OIGs.

Herman Williams was sentenced in federal court in **Chicago** after previously pleading guilty to his role in a scheme to defraud conventional lenders, homeowners, and HUD. He received 5 months incarceration, 5 months house arrest, and 24 months supervised release, and was ordered to pay \$84,604 in restitution. Janet Dockett, Charles Crawford, and Ida Reed each pled guilty to one count of mail fraud in the same case. The defendants were charged with participating in a scheme to falsify the conveyance of 13 vacant properties in the Chicago metropolitan area. These same 13 properties were used to collect rental income and as collateral for obtaining mortgages. Two of the properties were in HUD's real estate owned inventory at the time the illegal conveyances occurred. This investigation was conducted by the FBI, OIG, and Postal Inspection Service.

Brett O'Neil, the former finance director for the **Rockford** Housing Authority, who was already on probation from the State of Wisconsin on convictions for strong armed robbery and attempted rape, was indicted on 2 counts of official misconduct and 1 count of theft by deception for his alleged role in the embezzlement of \$10,800. The State of Wisconsin revoked the probation order and sentenced him to 5 years imprisonment with credit for time served. He will be transferred to Illinois after he completes his sentence. Proceedings on his indictment in Illinois are pending. The OIG conducted this investigation.

### ***District of Maryland***

OIG Agents and U.S. Postal Inspectors arrested two individuals on charges of bank fraud. The first individual was an official at a mortgage company in **Baltimore**. She allegedly assisted mortgagors in qualifying for FHA insured home loans by altering their verifications of employment, pay statements, wage and tax statements, and income tax returns. She also assisted mortgagors in obtaining the required down payments by providing them with gift funds and arranging illicit and

undisclosed loans through the second individual. The mortgage company official orchestrated \$3.6 million in FHA loans as part of this scheme.

A 21-count federal indictment was unsealed in **Baltimore** charging 4 individuals in a property flipping scheme that allegedly bilked lenders and buyers out of more than \$2 million. An investigation by the FBI and OIG found that two of the individuals charged, operating through a series of corporations, allegedly bought inexpensive houses for the purpose of fraudulently reselling them after making only cosmetic improvements. Investors were recruited to buy packages of houses at much higher prices, while the individuals promised to sell the properties for little or no down payment, and pay the buyers' settlement expenses. False information and fraudulent documents were submitted to make the prospective borrowers appear more financially secure. The other two individuals indicted were appraisers who allegedly inflated appraisals on the houses.

Following an investigation by the FBI and OIG, Edward A. Brockmeyer, Sr., a HUD approved property inspector, was sentenced in **Baltimore** to 6 months home confinement and 5 years probation. In March 1999, Brockmeyer pled guilty to count one of a superseding indictment charging him with conspiracy to defraud the United States. The indictment alleged that from March 1995 to March 1997, Brockmeyer conspired with others to defraud HUD in an effort to secure mortgages and funds under HUD's Section 203(k) Program. The 203(k) funds were obtained through the use of false and fraudulent inspection reports, which verified the completion of rehabilitation work which, in fact, had never been performed. The court ordered Brockmeyer to pay \$727,735 in restitution to HUD and \$611,100 in restitution to Atlantic First Mortgage Corporation. Two of Brockmeyer's co-conspirators are former loan originators with Atlantic First Mortgage Corporation.

A property speculator, two loan originators, and a settlement attorney pled guilty to one count of mail fraud, and another settlement attorney pled guilty to one count of wire fraud for their involvement in dozens of property flips made possible by fraudulent documents concerning FHA insured mortgages and misrepresentations to borrowers and lenders. The property flipper, Robert Beeman, the two mortgage originators, Scott Shinskie and Michael Fishman, and the settlement attorneys, Robert Ness and Robert Friedman, conspired to overstate the value of properties sold and the funds paid by homebuyers. Lenders then purchased the mortgages based on the false information. An appraiser is still scheduled for trial. The investigation revealed that the majority of over 100 settlement statements generated by Beeman's flipping business contained misrepresentations about the buyers' and seller's monetary contributions to the transactions. This scheme significantly increased the risk of default and financial loss to loan backers, while greatly destabilizing some of **Baltimore's** most troubled communities. The mortgages totaled over \$750,000. This was a joint investigation by the Postal Inspection Service and the OIG.

Following an FBI/OIG investigation, two individuals were indicted in **Greenbelt** on five counts of money laundering. The indictment alleges that they participated in a scheme to use HUD real estate owned (REO) properties in order to defraud mortgage lenders. These two individuals, along with a third person, were originally

indicted in April 2000 on charges of conspiracy, mail fraud, wire fraud, and aiding and abetting. An investigation disclosed that the three allegedly purchased HUD REO properties and then falsified documents related to the purchase of the properties. Appraisals and deeds were two of the more crucial documents falsified. The individuals then used the false documents to fraudulently secure \$700,000 in residential mortgage refinancing loans. Additional information obtained subsequent to the April indictment revealed that two of the individuals allegedly used the proceeds from several of the fraudulent mortgage refinancing loans to purchase five HUD REO properties. The June 2000 superseding indictment requests forfeiture of all funds and real property obtained as a result of money laundering.

In **Baltimore**, Richard M. Schlesinger, the former general partner of Riverdale Village Apartments, a HUD insured project, agreed to pay a settlement of \$500,000 in lieu of standing trial in U.S. District Court. Schlesinger was previously ordered to pay HUD an additional sum of \$185,000 as a result of a complaint filed by the U.S. Attorney's Office. Schlesinger has also been debarred from participation in all HUD programs. The complaint charged Schlesinger with breach of contract and unjust enrichment. The charges stem from his unauthorized use and unsupported expenditure of assets and income of Riverdale Village. Schlesinger used his identity-of-interest firms to manage and maintain the property. However, due to gross mismanagement and lack of proper maintenance, Riverdale Village fell into disrepair and was eventually deemed uninhabitable. Subsequently, Schlesinger defaulted on the mortgage. HUD acquired Riverdale Village through foreclosure and demolished the property in 1999. The OIG conducted this investigation.

A previously sealed federal indictment was released in **Baltimore** charging four individuals with nine counts of conspiracy and submitting false statements relating to HUD loans. On the same day, the FBI, OIG, and Postal Inspection Service executed six search warrants and took all four targets into custody. The main target was the owner and operator of Morningside Associates, Inc. and Kensington Associates, Inc. The individual purchased 14 FHA distressed properties which he then allegedly sold at inflated prices. He also allegedly provided the buyers with fictitious W-2's, wage and tax statements, verification of employment forms, and gift funds. The target also had one of his employees purchase one of his homes using false documentation. Potential losses in this case total \$1.2 million.

The owner and vice president of Adler Services Group, Inc. were charged in a scheme to defraud the Housing Authority of **Baltimore City** (HABC) by submitting false invoices to HABC containing billings for employee hours that were not worked and for parts that were not replaced. An investigation by the OIG and FBI disclosed that over a 5-year period, the defendants submitted approximately 3,500 inflated invoices for service and/or replacement of HABC owned gas-fired and oil-fired residential furnaces located throughout Baltimore City. In many cases, the labor charges on these invoices were inflated by more than 200 percent, parts were billed as replaced but were not replaced, and, on some invoices, parts were billed which were not compatible with the furnaces being serviced. Losses totaled approximately \$229,000.



In **Greenbelt**, Mohammad Sallah was sentenced to 90 months in prison to be followed by 5 years supervised release, and was ordered to pay \$77,145 in restitution. Sallah previously pled guilty to one count of conspiracy to distribute heroin, four counts of distribution of heroin, and three counts of bank fraud. The bank fraud involved Sallah's role in stealing at least \$119,000 from the escrow account maintained by Lawyers Advantage Title Group (LATG), HUD's closing agent for Maryland and Northern Virginia, and an additional \$129,000 from two other private companies. Sallah and another individual, who appear to have no connection to LATG, obtained specimen checks from the closing agent, which they counterfeited and negotiated. This investigation was conducted by the FBI and OIG.

A couple in **Greenbelt** was charged with conspiring to make false statements to obtain an FHA insured mortgage to purchase a townhouse for \$130,000. An investigation by the FBI, OIG, and the Postal Inspection Service disclosed that the defendants allegedly conspired to use their 13-year old son as the mortgagor. They created documents to represent their son as being the woman's 23-year old brother and working at a fictitious company. They also created fraudulent power of attorney documents to allow them to represent the "brother" at settlement.

### ***Eastern District of New York***

Following a joint investigation in **Far Rockaway** conducted by OIG and the Postal Inspection Service, an unlicensed real estate broker who was previously debarred by HUD was arrested for making false statements to HUD. The broker allegedly used strawbuyers to purchase properties which were insured by FHA for approximately \$15,000,000 under the 203(k) and 203(b) Programs. The broker allegedly assisted with the creation of fraudulent mortgage files containing false documents relating to personal identification, employment histories, annual income, and reportable tax information, and created the means necessary to supply the required down payments by providing fraudulent gift letters for the strawbuyers.

After the arrest, a search warrant was executed on the broker's place of business, resulting in the confiscation of additional evidence. Subsequent to the arrest and search warrant, seizure warrants were executed against 2 condominiums in **Garden City**, 3 luxury automobiles, and 15 bank accounts. OIG Agents from the New York and Miami Offices, along with New York City Postal Inspectors, also executed seizure warrants against two properties and four additional luxury automobiles in Boca Raton, FL. The seizure warrants have resulted in the freezing of approximately \$9,000,000 in real property assets.

Carlos Sanchez, a former mortgage broker in **Brooklyn**, was convicted on all 13 counts of a December 1999 indictment. The charges included 1 count of conspiracy to defraud 2 banks, Country Wide Home Loans, and HUD, 2 counts of bank fraud, and 10 counts of HUD fraud. The jury also ordered criminal forfeiture of his assets, amounting to \$700,000. Sanchez, along with others, engaged in a conspiracy to defraud the FHA by purchasing properties at distressed values, flipping the properties to paid strawbuyers at highly inflated prices, and then collecting the proceeds from the second sale. The majority of the flips happened on the same day the properties were initially purchased. Three other co-defendants in this investigation previously entered into cooperation agreements with the government. John Stolarenko, former president of Eastwood Mortgage Bankers, pled guilty in February 2000 to one count of bank fraud. Stolarenko has also agreed to forfeit his interest in four pieces of real property from which he benefited as a result of the

conspiracy. The estimated value of the forfeiture is \$1 million. Lennox Slinger, a real estate agent, pled guilty in December 1999 to one count of bank fraud, and has agreed to forfeit his interest in three pieces of real property from which he benefited as a result of the conspiracy. The estimated value of the forfeiture is \$700,000. Daniel Doran, a former closing attorney, pled guilty in February 2000 to one count of tax evasion and agreed to repay the IRS tax due and owing, plus interest and penalties. Doran failed to report to the IRS earnings he made as closing attorney for Eastwood Mortgage Bankers. Sanchez is scheduled to be sentenced in February 2001. No other sentencing dates have been scheduled.

Sanchez is responsible for the origination of 133 flipped properties whose fraudulent mortgages were insured by the FHA. Of those, only five mortgages are current and only seven have had their insurance terminated by HUD. To date, 2 loans are in default, 39 loans are in foreclosure, and 80 loans have already had claims paid by HUD totalling over \$14.6 million. Of the 80 properties conveyed to HUD after claims were paid, HUD has resold only 48 properties for a net loss of \$4,909,679. Based on these numbers, we project an estimated net loss on all properties (excluding active and terminated loans) of over \$12.3 million. The government will seek restitution of the \$12.3 million. This investigation was conducted by the OIG, FBI, and IRS.

Joseph Crennen, a real estate salesperson for a **Long Island** homebuilder, and Dean Graber, a senior loan officer at Executive Mortgage Bankers, Ltd., both pled guilty to submitting false statements to HUD. These are the fourth and fifth guilty pleas to result from an investigation of the homebuilder and several mortgage bankers. Twelve others have also been charged. The investigation, conducted by the FBI, OIG, Postal Inspection Service, Treasury Inspector General for Tax Administration, and the Department of Veterans Affairs OIG, disclosed that the homebuilder, with the knowledge and participation of his salespeople, in-house counsel, outside real estate closing attorneys, mortgage bankers and others, staged bogus gifts and/or arranged undisclosed side financing deals on behalf of homebuyers in order to pay off customers' debts, judgments, and down payments. HUD losses are expected to exceed \$6 million.

In **Queens**, three of the remaining five defendants in the Blackstone Realty management investigation were sentenced. Bella Schon was sentenced to 1 year probation, and Joseph Sochaczewsky was sentenced to 6 months house arrest and 2 years probation. Schon and Sochaczewsky previously submitted to the U.S. Treasury certified checks in the amount of \$20,000 and \$15,000, respectively, as settlements to the concurrent civil action against them and others. David Abrahamson was also sentenced to 4 months house arrest and 1 year probation, and was ordered to pay \$30,000 to settle the concurrent civil action against him. The two other defendants, Abraham Woldiger and Abraham Taub, principals of Blackstone Realty Management, were each sentenced to 10 months incarceration and ordered to pay a total of \$1.8 million in restitution. Blackstone Realty Management owned and operated Section 8 project-based housing developments in New York, New Jersey, Rhode Island, Pennsylvania, and Illinois. Blackstone used identity of interest companies to maintain all of the developments. A joint investigation by the OIG, FBI, and the Department of Labor disclosed that Blackstone Realty, through its identity of interest companies, charged HUD exorbitant costs for work that was either not done, poorly done, or completed but with costs inflated by at

least 100 percent for the market area. Woldiger and Taub paid themselves over \$1 million each in “profits” from the identity of interest companies when, in fact, they were merely skimming the equity from properties that did not meet housing quality standards.

The chief operating officer of a **Long Island** not-for-profit corporation was charged with making false statements to HUD. An investigation disclosed that the officer allegedly allowed his corporation to be used for 17 property flips in exchange for \$5,000 per flip. The officer, who is a real estate investor, also flipped numerous properties on his own, creating and submitting false and fraudulent documents on behalf of homebuyers, including bogus pay stubs, W-2s, verifications of employment, verifications of rent, certified checks, and gift affidavits. The officer has admitted making the false statements and receiving the cash payments, and is cooperating in the investigation being conducted by the Postal Inspection Service, FBI, Treasury Inspector General for Tax Administration, and the HUD and Department of Veterans Affairs OIGs. HUD losses could exceed \$3 million.

David McKay, a public safety officer for the Town of **Huntington**, pled guilty to multiple counts of conspiracy to defraud HUD, extortion, and income tax evasion, and was sentenced to 13 months in prison and 3 years supervised release, and ordered to pay \$30,000 in restitution to HUD. McKay caused the theft of over \$200,000 in HUD funds through multiple schemes over a 10-year period. In one scheme, he hid his ownership interest in a house, and used nominee landlords to collect rent on behalf of a Section 8 tenant who did not reside there. In addition, McKay obtained \$170,000 in Section 8 benefits for two of his friends who did not qualify for benefits. McKay also pled guilty to using his position as a union shop steward of a labor union to threaten violence and labor shutdowns in order to extort thousands of dollars from construction companies that were forced to pay him for “no show” jobs. The construction companies performed renovations of industrial chimneys and smokestacks in Long Island. McKay allegedly derived his power from his association with the Luchese organized crime family. Additionally, McKay pled guilty to income tax evasion for failing to report extortion payments and embezzled HUD funds to the IRS. This was a joint investigation by the FBI, IRS, and OIG.

In **Patchogue**, Matthew S. Reitzel, a Long Island Railroad engineer who was convicted on charges of defrauding the Section 203(k) Rehabilitation Mortgage Insurance Program, was issued a notice of debarment by the Departmental Enforcement Center, precluding him from participation in any federal programs or contracts through May 15, 2003. A joint investigation by OIG and the Postal Inspection Service found that Reitzel fraudulently obtained a HUD property by certifying that he was a first-time homebuyer, and that the property he was purchasing would serve as his primary residence. Shortly after purchasing the property, Reitzel rented it for \$1,300 a month to a HUD funded social service organization, and never utilized the property as his residence. Reitzel was arrested at his actual residence in June 1999. He later pled guilty to submitting false statements to HUD. He refinanced his Section 203(k) mortgage as part of the plea agreement, and was sentenced to 1 year probation, fined \$2,500, ordered to pay a \$25 special assessment, and was required to surrender his firearms to the U.S. Probation Office. A

separate referral by OIG to the Departmental Enforcement Center for civil action has initiated a Program Fraud Civil Remedies Act case against the defendant.

A **New York City** Housing Authority (NYCHA) borough supervisor pled guilty to bribery concerning federal programs. John Honohan accepted \$5,500 in payments between December 1998 and June 1999 from a contractor after Honohan assured him that environmental rules and New York City housing specifications would not have to be followed during preliminary construction. Honohan was sentenced to 5 months in prison, 5 months home detention, and 3 years supervised release, was fined \$3,000, and ordered to pay \$5,500 in restitution. Two other NYCHA supervisors, Christopher Bamberger and Emmanuel Lawrence, also pled guilty to bribery as a result of the 3-year undercover investigation into the NYCHA Contract Administration Department by the New York City Department of Investigations and NYCHA OIG, with assistance from the FBI and OIG. Bamberger received 4 months in prison, 4 months home detention, and 300 hours of community service. Lawrence received 6 months in prison and 3 years supervised release, and was fined \$20,000. All three were terminated from NYCHA.

The vice president of Ingersoll Tenants Association, Inc., a nonprofit organization established by the tenants of the Ingersoll housing development, was arrested and charged with arson. The arrest resulted from an investigation of real estate agents, mortgage lenders, and appraisers allegedly involved in a scheme to sell to the Ingersoll Tenants Association artificially appreciated FHA insured properties. Between November 1998 and April 1999, the Tenants Association purchased 34 single family homes in **Brooklyn** and **Queens**, all of which are currently in default. The vice president was charged with setting the fire that burned down one of the houses purchased through the Section 203(k) Program. This was a joint investigation by the FBI, OIG, ATF, New York City Fire Marshals, New York City Housing Authority OIG, and the Postal Inspection Service.

### ***Northern District of Texas***

In **Fort Worth**, Milton K. Raybould, a former closing attorney contracted by HUD, pled guilty to one count of theft of public funds. HUD contracted with Raybould to provide sales closing services for its single family properties in the Dallas/Fort Worth area. From 1995 through 1998, Raybould closed 2,113 properties totaling \$92,689,477. An investigation by the FBI and OIG revealed that Raybould did not remit the closing proceeds to HUD on 9 properties totaling \$427,044, but instead kept the funds for personal use. Raybould provided the same sales closing services for HUD in Houston, and admitted that he fraudulently kept fees for title policies paid to him by HUD or the buyer. He never researched the titles and/or never provided the policies. The investigation identified 48 title policies at a dollar loss of about \$47,000. As part of the plea agreement, Raybould has agreed to assist the government by supplying information on other HUD related crimes associated with his closing activities.

Tonya Raper, a former employee of Infinity Mortgage Company in **Dallas**, and a mortgagor, pled guilty to one count of false statements. In exchange for the plea, Raper agreed to provide information concerning other fraudulent loans originated by Infinity. An OIG investigation disclosed that while unemployed, Raper applied for an FHA insured mortgage and misrepresented her income and employment information in order to qualify for the loan. Subsequent to obtaining the mortgage,

which ultimately went into default and foreclosure, Raper was employed by Infinity and participated in the preparation of fraudulent loan documents for otherwise non-qualified homebuyers. Infinity originated over \$11 million in FHA insured mortgages.

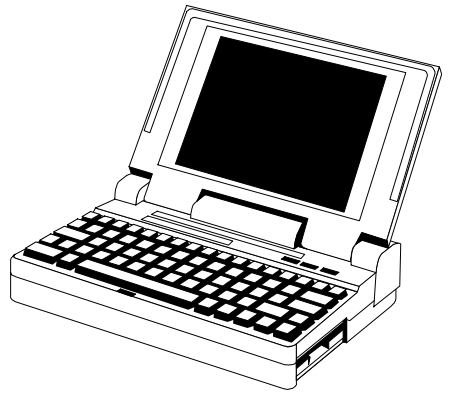
David R. Auther, a former Officer with the **Fort Worth** Police Department, was sentenced to 5 years supervised release and 180 days home confinement, and ordered to pay \$58,000 in restitution. The sentencing followed Arther's guilty plea to conspiracy. Arther and his spouse paid \$58,000, half of the value of their home, under HUD's Officer Next Door Program. The program provides homes to law enforcement Officers for one-half of the value of the home if the Officer agrees to live in the home as a primary residence for a period of 3 years from the date of purchase. The program is intended to help revitalize economically distressed communities. However, the Officer and his spouse continued to live in their old home and leased out the residence purchased under the Officer Next Door Program to another couple for \$1,325 per month for 2-1/2 years. The monthly lease was approximately three times the amount of the mortgage payment on the home. The FBI and OIG conducted this investigation.

Glenda Bryant Langdon, the former executive director of the **Pineland** Housing Authority, was sentenced to 10 months in prison and 2 years supervised release, and ordered to pay \$16,530 in restitution and a \$100 special assessment. Langdon previously pled guilty to theft of funds from a government program. An OIG investigation disclosed that Langdon failed to deposit any tenant rent receipts during her 10-month tenure as executive director. She collected cash payments and used the money to buy furnishings for a residence which was under construction. In addition, she used the Authority's charge card to purchase major appliances for personal use. A search warrant executed at Langdon's residence resulted in the seizure of a number of appliances.

A federal grand jury returned a 45-count indictment against the owner of the Park Creek Manor apartment complex, who is also a former director of housing management in the HUD **Dallas** Office. The owner was charged with 4 counts of mail fraud, 14 counts of theft of government funds, 14 counts of theft concerning a federal program, 11 counts of money laundering, and 2 counts of criminal forfeiture. The indictment resulted from an investigation by the FBI, OIG, and IRS Criminal Investigation Division which disclosed that the owner participated in a scheme to defraud HUD by unlawfully diverting over \$340,000 of project funds for personal use rather than for necessary expenses of the apartment complex.

# Chapter 3

## Audits



# Single Family Housing Programs

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 8 reports and 10 audit-related memoranda on internal HUD operations, and 23 reports and 20 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports and memoranda issued.) Collections amounted to \$6.84 million, with another \$22.9 million in management decisions on audits with questioned costs. Investigative recoveries (out of court settlements, court ordered fines, penalties, and restitution) totaled \$1.5 million.

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 concerning the Property Disposition Program, loan origination, closing agents, and the demolition of HUD owned properties.

## Property Disposition Program

As part of HUD's continuing reinvention efforts, FHA developed a 2020 Field Consolidation Plan for Single Family Housing. In accordance with its plan, FHA awarded 7 companies a total of 16 management and marketing (M&M) contracts to manage and market its Real Estate Owned (REO) properties nationwide. These contracts had an estimated 5-year value of \$927 million. The contractors were responsible for nearly all aspects of management and marketing REO properties. We audited 7 of the 16 contracts in effect as of May 31, 2000. The results of those individual audits are reported below. Our nationwide audit showed that FHA has realized some success from its M&M contracts.

We reported that sales volume had increased and the number of properties in inventory was down. Also, contractors implemented new marketing tools such as bidding through the Internet. Despite these positive strides, FHA did not accomplish other core elements of its program mission. It did not maximize the return to the mortgage insurance fund or maintain properties in a manner that strengthened neighborhoods and communities. FHA has had numerous other problems with the contractors including bankruptcy by one, inability to meet contract performance deadlines, countless complaints from homebuyers and real estate professionals, and billings for ineligible costs. Employees of two contractors were arrested for taking kickbacks. Nevertheless, in his May 16, 2000 testimony before the Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Transportation, Assistant Secretary/FHA Commissioner Apgar declared, "Since assuming responsibility for all property management and marketing activities approximately one year ago, FHA's M&M contractors have performed extremely well by any measure commonly used in the real estate industry to evaluate performance." Our audit results indicate such optimism is premature and misleading. We found problems with all seven contracts we reviewed.

Outsourcing resulted in reduced returns to the mortgage insurance fund of about \$188 million from June 1, 1999 to May 31, 2000. This occurred, in part, because

M&M contractors' sales produced lower returns than FHA staff historically obtained prior to outsourcing operations. The poor sales performance accounted for \$103 million of the loss. Outsourcing also resulted in substantially increased program costs compared to prior FHA performance, reducing returns another \$85 million. FHA's decision not to perform a cost benefit analysis in accordance with A-76 may prove to be a costly mistake. We attribute the losses to poor M&M contractor sales performance and substantially increased program costs.

FHA measures performance by sales volume, inventory levels, sales to owner/occupants, percent of appraised value realized upon property sale, and net recovery. These indicators provide information on FHA's success in meeting its mission. In its annual Government Performance and Results Report, HUD cited management improvements as the factor which resulted in FHA's reaching its new recovery performance goal for FY 1999. It boasted that the new recovery rate increased about 12 percent for FY 1999 resulting in savings to the insurance fund. Net recovery is the per property average sales prices less the per property average expenses. While average sales prices and net recovery have increased, this measure is not a valid assessment of performance or a reflection of success. In fact, although FHA claims success based on the indicators, it has not established performance benchmarks. Without benchmarks, it cannot fully measure performance.

In his Congressional testimony, the FHA Commissioner claimed the average sales price had increased by more than 13 percent, and the overall recovery as a percent of the mortgage insurance claim increased by nearly 10 percent. This is misleading as an indicator of property disposition operations. The analysis is based on an increase in sales price less the claim payment. Property disposition operations do not have a direct influence on claim amounts. Property disposition program operations should be evaluated based on the percent of appraised value returned on sales less program operating expenses.

Appraised values are determined by independent appraisers that are approved by FHA. Appraised values are driven by real estate market forces including comparable property sales, and thus they provide the best benchmark for evaluating program success and comparing performance between various periods.

Maintenance and operating (M&O) expenses have historically represented about one-third of the expenses associated with single family operations. M&O expenses include M&M contractor fees and monitoring contractor costs. Other expense categories include repairs, taxes, and selling expenses.

Our analysis showed that while other expense categories remained fairly stable (increasing only 5 percent), M&O expenses increased 51 percent. For over 2-1/2 years prior to outsourcing, M&O expenses increased a total of 21 percent, an annual increase of only 8.5 percent. Since other expenses remained fairly stable and M&O expenses increased only marginally over the prior 2-1/2 years, the recent increase is attributable largely to the cost of outsourcing, i.e., contractor costs.

M&O expenses averaged \$3,051 per property sold for the 12 months prior to outsourcing operations. For the 12 months ending May 31, 2000, the average M&O expense was \$4,615. If M&O expenses increased at the same 8.5 percent rate as in recent years, the expected M&O expenses should have been about \$3,310 per property sold if operations had not been outsourced. Thus, we attribute \$1,305 (\$4,615-\$3,310) of the increase to the costs of outsourcing. Given that FHA sold 77,772 properties for the period, the additional M&O expense resulted in about \$101 million (77,772 x \$1,305) of increased program costs. In addition, FHA was able to reduce



the number of full time equivalent program staff from 420 to 168. This resulted in a cost savings of about \$16 million for the period. In total, outsourcing resulted in increased program costs of \$85 million (\$101 million - \$16 million).

Our audit also confirmed what FHA has repeatedly found in its monthly performance assessment reports. None of the contractors we audited managed properties according to contract requirements. Contractors did not perform timely initial inspections, perform adequate inspections, correct hazardous conditions, make repairs, or perform routine maintenance to preserve and protect properties. Also, contractors failed to obtain timely property appraisals, approve disposition programs timely, or perform other essential contract requirements. Of the 189 properties we inspected across the country, 94 percent required some immediate attention. This occurred because the contractors did not have adequate controls to ensure requirements were met, and FHA did not have effective tools to compel them to implement appropriate controls. We also believe that because maintenance and repair costs must be borne by the contractors, contractors have elected not to comply since profits would be reduced. Consequently, the poor property conditions decreased marketability, increased FHA's holding costs, negatively affected surrounding communities, reflected poorly on the Department, and, in some cases, threatened the health and safety of the public. Although FHA has repeatedly reported the deficiencies in its monthly performance assessment reports, property conditions have not improved under private management.

The audit recommended that FHA: (1) establish performance benchmarks and critical success factors that show when the costs of outsourcing exceed the benefits; (2) not renew options for contractors who have proven unable or unwilling to comply with critical contract provisions; and (3) implement other controls to ensure efficient and effective operations. (Report No. 00-AT-123-0001)

In **Atlanta, GA**, the OIG Midwest District audited Golden Feather Realty Services, Inc., an M&M contractor. Golden Feather's management controls did not provide reasonable assurance that employees did not exceed or abuse their assigned authorities. Due, in part, to the lack of separation of duties and supervisory oversight, a Golden Feather employee was able to solicit a kickback from two appraisers in exchange for increased work assignments. In addition, Golden Feather did not notify the OIG of the solicitation, as prescribed by the Federal Acquisition Regulations.

Management controls necessary to help deter nonprofit organizations from abusing HUD's discount sales program were weak. Land use restrictions were not executed or recorded for properties sold to nonprofit organizations. Because the land use restrictions were not executed or recorded, several nonprofit organizations resold properties to trusts and investors that then resold the properties for amounts ranging between 177 percent and 597 percent greater than the HUD discounted sales amount. Some properties were resold on the same day the nonprofit organization purchased the property from HUD, and multiple properties were sold to the same buyer.

Weak management controls over property inspections and reported deficiencies resulted in poor inspections and deficiencies not being corrected. Golden Feather did not always identify serious health and safety deficiencies; correct reported hazardous conditions within the mandatory 24 hours; properly secure properties; and preserve, protect and maintain each property in a presentable condition at all times. Poor property conditions contribute to performance problems such as de-

creased marketability, increased costs, possible decreased value of surrounding homes, and possible conditions that threaten the health and safety of neighbors and potential buyers.

Golden Feather did not ensure that appraisers were HUD approved. Four appraisal companies appraised 213 properties using 7 unapproved appraisers. Because unapproved appraisers were used, HUD's risk in obtaining an inaccurate list and sales price has been increased.

Golden Feather's management controls did not always prevent untimely appraisals and disposition problems. Delays in obtaining property appraisals and approving disposition programs cause properties to remain in HUD's inventory longer than necessary, resulting in additional property holding costs and exposure to vandalism.

The audit recommended that HUD ensure Golden Feather: (1) establishes and implements procedures to provide supervision, segregates key duties of its employees, and complies with Anti-Kickback Act reporting requirements; (2) executes and records land use restrictions for sales to nonprofit organizations; (3) develops and implements oversight procedures for inspections; (4) reports and corrects hazards and other maintenance deficiencies identified by OIG and Golden Feather's inspectors; (5) uses HUD approved appraisers; and (6) makes sure the contractor develops and implements controls for processing appraisals and disposition programs timely. (Report No. 00-CH-211-1005)

In **Irvine, CA**, an OIG audit of Golden Feather Realty Services, Inc.'s disposition of HUD owned properties disclosed that Golden Feather, an M&M contractor, significantly reduced the number of properties in the Southern California inventory. However, the audit also found that Golden Feather needed to fully comply with certain requirements for its property disposition activities. Specifically, Golden Feather did not always adequately protect, preserve, and maintain HUD owned properties. On-site inspections of 30 selected properties within the Los Angeles and San Bernardino, California areas disclosed that Golden Feather did not always: correct health and safety hazards and remove defective paint surfaces; protect properties from the elements to prevent further deterioration; repair damages caused by routine vandalism; secure properties against unauthorized entry; and remove debris and maintain the lawns in order to maintain the physical appearance of the properties. As a result, these conditions reflected a negative image of HUD's REO Program, but more importantly, they hampered HUD's efforts to fully accomplish its mission of strengthening neighborhoods and communities. HUD was also less assured that sales of HUD owned properties provided the maximum return to the mortgage insurance fund.

Golden Feather also incurred delays in processing sales of HUD owned properties in 24 of 45 properties reviewed. These delays occurred during: (1) performing initial inspections; (2) obtaining appraisals; (3) approving disposition programs; and (4) reviewing sales contracts. The delays caused these properties to remain in HUD's REO property inventory longer than necessary. The delays could also increase property holding costs and exposure to deterioration or damage due to vandalism.

The audit recommended that HUD's Santa Ana Homeownership Center require Golden Feather to fully comply with its M&M contract to ensure that HUD owned properties are always adequately protected, preserved and maintained, as well as marketed and sold in a timely manner. (Report No. 00-SF-222-1002)

In **Denver, CO**, since the inception of HUD's M&M contract in March 1999, First Preston Management, Inc. has successfully reduced the single family property inventory level through increased property sales. First Preston has also improved its fixed fee and pass through costs vouchering procedures and its property sales closing operation, including the accounting for HUD's sales proceeds.

However, an OIG audit found that the average sales price per property and the amount of revenue recovered as a percent of the appraised value have continued to decrease over the past 12-month period ending May 31, 2000. Because of the significant decreases in selling prices, HUD has realized decreased average revenues per property. During the 12-month period ending May 2000, First Preston sold 4,435 properties for an approximate total of \$177 million. If First Preston had sold these properties for their "as is" appraised value, instead of the reduced sales amount, the FHA insurance fund would have received an additional \$17 million. Also, over the same period, the number of property sales to owner/occupants has decreased while sales to investors have steadily increased. In May 1998, 59 percent of the property sales were to owner/occupants, while in May 2000, only 45 percent of the property sales were to owner/occupants. During the same period, property sales to investors have increased from 37 percent to 52 percent.

The audit also found that HUD properties were not always being secured or maintained in a presentable condition, health and safety hazards were not always reported and repaired within 24 hours of discovery, and First Preston was not always marketing HUD properties in a timely manner.

The report recommended that First Preston provide additional training to subcontractors and its own employees on the proper procedures for performing and documenting property inspections, and the proper procedures for the protection and preservation of HUD properties. Additionally, First Preston should establish and implement a more detailed oversight review of HUD owned properties to ensure that inspections and repairs are timely and accurately performed. (Report No. 00-DE-222-1003)

In **Blue Bell, PA**, First Preston Foreclosure Specialists has demonstrated success in several key areas. It has instituted an electronic bidding system, reduced the number of properties in inventory, and increased the sales of properties. An OIG audit, however, found that despite these accomplishments, improvements are still needed.

Physical inspections performed by the OIG, and by subcontractors of First Preston, showed numerous deficiencies, evidencing inadequate maintenance and safeguarding of property assets. The unfavorable property conditions occurred because First Preston did not always repair, maintain, and properly secure properties in accordance with contract provisions. Consequently, efforts to effectively market assets for sale diminished, while health and safety hazards became more prevalent. In our opinion, this increased the risk of potential liabilities to HUD, and may have caused property values in surrounding neighborhoods to decline. Unless First Preston enacts adequate controls that ensure prompt and complete recognition of existing property deficiencies, and establishes procedures necessary to correct deficiencies identified, marketing efforts will be impeded, properties needing repair will remain in inventory as unsold, neighboring communities may be adversely affected, and shoddy property conditions will likely occur.

In the 8 months since executing the M&M contract, First Preston has reduced the overall inventory by 8 percent; however, the number of properties held in the

inventory longer than 12 months increased by 63 percent. In our opinion, this occurred because First Preston has not placed enough emphasis on the sale of properties that have been in the inventory for long periods of time. The failure to dispose of these properties results in higher holding costs. More importantly, such properties have a negative effect on the surrounding neighborhoods.

Furthermore, First Preston has not complied with all the requirements in its contract. Specifically, First Preston: (1) charged for ineligible costs; (2) did not perform tasks in a timely manner; (3) did not always include the required documentation in the appropriate files; and (4) did not report all problems to the Government Technical Representative. We believe these deficiencies occurred because First Preston did not implement the necessary controls to ensure that all contract provisions were met. As a result, First Preston's performance may have led to excessive costs and properties remaining in the HUD inventory for extended periods of time.

The audit recommended, among other things, that First Preston be required to establish procedures that ensure all significant property deficiencies are identified, monitor the accuracy of subcontractor property inspections, and provide assurance that needed repairs are completed promptly. In addition, HUD should work with First Preston to increase the emphasis on the sale of older properties and/or develop incentives to encourage the sale of older properties. (Report No. 00-NY-229-1006)

In **Norcross, GA**, an OIG audit of Southeast Alliance of Foreclosure Specialists, LLC, an M&M contractor, disclosed that the contractor reduced both the number of properties in inventory and the number of properties in inventory over 6 months, and reduced the average losses from property sales. Despite these accomplishments, improvements are still needed. Specifically, the contractor did not perform timely initial property inspections, did not always identify serious property defects, did not conduct routine inspections, as required, and did not correct hazardous conditions within the mandatory 24 hours.

The contractor also failed to comply with other contract requirements. For example, the contractor did not review settlement statements, did not obtain timely property appraisals, and billed FHA for unauthorized and ineligible expenses. Such noncompliance could significantly increase the risk of loss to the insurance fund.

The audit recommended that HUD require the contractor to ensure property inspectors are adequately trained, develop and implement procedures to perform timely initial and routine inspections, promptly correct hazardous conditions, and make necessary repairs to preserve and protect properties. HUD should also closely monitor the contractor's compliance with maintenance requirements, and take necessary actions to ensure requirements are met. (Report No. 00-AT-222-1009)

In **Hartford, CT**, an OIG audit of CitiWest New England, Inc., an M&M contractor, disclosed that CitiWest did not: (1) perform initial property inspections within 24 hours; (2) always identify imminent hazards through routine property inspections; (3) correct imminent hazards and other deficiencies when identified; and (4) properly secure its properties. CitiWest is also not complying with other contract requirements. For example, properties are held off market for unreasonable periods of time; case management processing is not timely; sales closing

responsibilities are not followed; and unallowable costs are charged to HUD. As a result, HUD's Property Disposition Program in New England may not be operating efficiently and economically.

The audit recommended that HUD instruct CitiWest to establish procedures to ensure timely initial property inspections; ensure that CitiWest monitors its property inspection subcontractors through quality control reviews and discontinues its use of poor performing subcontractors; and ensure that imminent hazards and other deficiencies are corrected and defective paint is properly identified and treated. The audit further recommended that HUD require CitiWest to process properties held off market in a reasonable time to reduce applicable holding costs and increased costs to HUD, accurately review settlement statements and submit weekly reports of closing agent noncompliance, and conduct thorough reviews of all monthly pass through vouchers to ensure late fees, interest, and penalties are not included. (Report No. 00-BO-222-1005)

In **Huntington Beach, CA**, an OIG audit of Michaelson, Connor & Boul (MCB), an M&M contractor, found that MCB's monthly property sales have steadily increased, and the number of properties in its inventory has steadily declined since MCB assumed M&M. However, we did identify a number of areas where improvements need to be made by the contractor. Specifically, MCB failed to repair and maintain assigned properties according to contract requirements. MCB did not: (1) perform timely initial inspections and property appraisals; (2) ensure property inspectors accurately reported property conditions; (3) make needed repairs or perform routine maintenance to preserve and protect properties; or (4) correct hazardous conditions. MCB relied exclusively on subcontractors and third party service providers to perform its inspection, appraisal, and property repair responsibilities, but did not adequately monitor their work to ensure it was completed according to contract provisions.

Contrary to contract requirements, MCB processed, invoiced, and received payment from HUD for voucher items which were not properly supported and/or approved. This occurred because MCB's oversight of its invoicing and voucher payment process did not ensure services were provided, complete and accurate files were maintained, and invoices included only eligible costs. As a result, MCB received over \$28,000 for duplicate and ineligible costs.

The audit recommended that MCB develop and implement a comprehensive monitoring plan over its subcontractors. At a minimum, the plan should include: key contract performance requirements and outputs; a methodology for conducting periodic and systematic reviews of subcontractor performance; and procedures for documenting review and follow-up results. We also recommended that MCB develop and implement procedures to ensure pass through vouchers are processed in accordance with contract specifications. (Report No. 00-PH-222-1005)

In **Washington, DC**, as a follow-up on issues relating to HUD's decision to award contracts to the In Town Management Group to perform services as an M&M contractor, the OIG reviewed HUD's contract award process with a focus on the two M&M contracts awarded to other firms in June 2000. Our review included a comparison of selected elements of the March 1999 and June 2000 award processes. We concluded that HUD's Contracting Office followed procedures prescribed in the Federal Acquisition Regulations as they relate to ensuring awards are made to

responsible contractors. However, greater emphasis is needed on verifying past performance and improvements should be made in supporting the evaluations of the bid proposals. Also, procedures are needed to ensure the required security provisions are added to all contracts where contractors have access to HUD's sensitive automated systems.

The review of the preaward files for the June 2000 contracts showed that the number of references contacted to verify prospective contractors' past performance was limited. The past performance of the successful contractors was verified only to the extent of the contractors' performance on existing M&M contracts. Moreover, there was no verification of references apart from soliciting the views of HUD personnel. A General Accounting Office report issued in May 2000 indicated that 11 of the 13 current M&M contractors were rated as high risk in at least 1 or more of the performance dimensions, such as property maintenance and security. The rating of high risk was an indication of the contractor's failure to adequately perform a required service under the contract.

A comparison of the technical evaluations for the proposals for the June 2000 contracts and March 1999 contracts showed that HUD had improved in documenting evaluations. However, our review of the technical evaluation reports for the new contracts found that the reports did not clearly distinguish the qualitative differences in the relative strengths and weaknesses between and among competing proposals. Also, the documentation of the individual evaluations did not always assess the evaluation factors and sub-factors by documenting the relative strengths, deficiencies, weaknesses, and risks for the three most significant evaluation factors.

Our report on our attempt to audit HUD's Fiscal Year 1999 financial statements identified that security checks should be completed for access to HUD's automated systems. Considering the recommendation for security checks, HUD revised the Acquisition Regulations by adding several new security provisions, which included background investigations of contractor and subcontractor personnel, security breach notification, nondisclosure of information, minimum security procedures, and termination of contractors/subcontractors for lack of compliance. As a follow-up, we checked the implementation of the recommendation and found that although the new contracts required employee information for security checks, the contracts did not include the contract clause for the new security provisions.

We recommended that HUD's Office of Procurement and Contracts: (1) develop procedures to ensure that sufficient meaningful information is provided on bidders' past performance from their references; (2) require technical evaluation panels, when evaluating competitive proposals, to provide a meaningful comparison and discrimination between and among competing proposals, and to document the relative strengths, deficiencies, significant weaknesses, and risks of the factors and sub-factors; and (3) develop procedures to ensure that required contract provisions are included in applicable contracts with regard to contractors' access to HUD's sensitive automated systems. (Report No. 00-FO-177-0802)

## **Loan Origination**

OIG reviewed the circumstances at HUD's Los Angeles Office that enabled Allstate Mortgage Company to generate \$97 million in fraudulent FHA insured loans between June 1996 and July 1997. We found that the Los Angeles Office did not perform required field and supervisory reviews of property appraisals rated as poor, evaluate or take corrective action for cases rated as poor due to faulty appraisals, or conduct critical supervisory reviews of faulty underwriting reviews. At the same time, we also reviewed the Santa Ana Homeownership Center's proce

dures after it assumed responsibility in March 1998 for the single family workload previously assigned to the Los Angeles Office. We found that the same practices that allowed Allstate to generate fraudulent loans continued to exist, but to a lesser extent. If adequate controls had been in place, Allstate's fraudulent loan origination scheme would have been detected earlier and the damage resulting from it could have been significantly reduced.

We believe the problems occurred due to changes resulting from the implementation of HUD's 2020 Management Reform Plan and a policy revision that was designed to achieve targeted staff reductions and streamline program operations. The policy revision was instituted to enable HUD field offices to operate their single family loan programs with fewer staff and less direct monitoring of direct endorsement lenders by doing away with individual "report cards." The "report cards" were previously sent to the underwriters informing them of the results of post-endorsement technical reviews. The Los Angeles Office's staff misinterpreted the policy revision to mean follow-up on poorly originated loans with direct endorsement lenders was no longer required. This misinterpretation and resulting inaction to follow-up thwarted the Office's ability to detect and act on the improperly, and, in the case of Allstate, fraudulently originated loans.

The audit recommended that the Acting Director, Santa Ana Homeownership Center, assess the Center's Production Division staffing and take necessary action to ensure staffing is appropriate to properly monitor contractors and direct endorsement lenders; establish and implement specific policies and procedures to monitor post endorsement review contractors' work products and take corrective action, including contract termination, if the contractor is not properly performing its duties under the contract; and establish and implement policies and procedures to monitor results of post endorsement technical reviews and take appropriate action when these reviews identify problems with a particular loan or lender, appraiser, underwriter, or other party. (Report No. 00-SF-121-0802)

## Closing Agents

We are conducting a nationwide audit of closing agents to determine whether internal controls are adequate to prevent fraud, waste and abuse in the program. During this semiannual report period, we issued the four reports discussed below. We have two more audits in process and then we will issue a nationwide report with appropriate recommendations for this program.

In **Austin, TX**, the OIG audited the law offices of Pope & Booth, P.C. (P&B), a closing agent for HUD. Overall, we found that P&B's controls were sufficient to ensure substantial compliance with its HUD contract. However, we also found that P&B split title insurance fees and overcharged HUD for wire transfer fees. Even though P&B performed no additional services beyond those required in the closing agent contract, it received a 40 percent split of title insurance premiums from 2 title insurance companies. The Real Estate Settlement Procedures Act (RESPA) prohibits fee splitting and receiving unearned fees for services not actually performed. From February 1998 to June 1999, P&B received unearned fees up to \$454,000.

P&B's contract required it to charge HUD the actual cost of wire transfer fees. For the 45 closing files we reviewed, P&B charged HUD \$25 for each wire transfer. However, P&B's bank only charged \$12. P&B may have overcharged HUD on every file that it closed, and thus may owe HUD almost \$29,000 for wire transfer fee overcharges on the remaining 2,199 closings reported.

The audit recommended that HUD pursue P&B and the two title insurance companies for RESPA violations, and recover amounts received from the two companies. In addition, the Denver Homeownership Center should require P&B to reimburse HUD for ineligible wire transfer fees. HUD should also determine the actual number of closings performed by P&B and recover the amount overcharged on those closings. (Report No. 00-FW-222-1003)

In **Boston, MA**, the OIG audited the law offices of Portnoy & Greene, P.C., a closing agent for HUD. Portnoy & Greene's overall performance as a closing agent was substandard. Portnoy & Greene did not: (1) deposit sales proceeds in a timely manner; (2) wire the proceeds to HUD in a timely manner; (3) accept only cash or certified funds; (4) properly itemize closing costs; (5) maintain sufficient documentation in their closing files; and (6) limit charges to only allowable expenses. Substandard performance occurred because Portnoy & Greene lacked or did not follow management controls to ensure contract compliance. Their inability to perform their duties negatively impacted HUD financially. In addition, HUD has no assurance that Portnoy & Greene properly conducted closings.

The audit also found that Portnoy & Greene improperly collected the full closing agent fee even though another entity conducted the closing. Portnoy & Greene's closing agent contract limited its fee for third-party closings to 50 percent of the full closing agent fee. Portnoy & Greene charged the full fee because, in their opinion, they were not conducting third-party closings. Third-party closing agents closed 98 percent of the 60 closing files reviewed. Thus, one-half of the fee Portnoy & Greene received on the 59 identified files, or nearly \$17,000, is ineligible. In addition, Portnoy & Greene may owe HUD an additional \$258,000 for 98 percent of the remaining 901 closings conducted under their current HUD contract, if the closings were performed by a third-party closing agent.

The audit recommended that HUD terminate its closing agent contract with Portnoy & Greene, recover from Portnoy & Greene any ineligible charges, require Portnoy & Greene to review all closings conducted under this contract to identify and repay any other improper charges, recover nearly \$17,000 in fees on the 59 files reviewed where third-party closings occurred, require Portnoy & Greene to review the other 901 closings conducted under this contract to disclose all other instances where a third-party closing occurred, and recover one-half of the fee paid to Portnoy & Greene for any other third-party closing. (Report No. 00-FW-222-1005)

An OIG audit of the law offices of Shapiro & Ingle, Inc., a closing agent for HUD in **Raleigh, NC**, found that overall, Shapiro & Ingle's controls were insufficient to ensure substantial compliance with its HUD contract. Specifically, Shapiro & Ingle did not always forward documents to HUD, deposit sales proceeds, wire sales proceeds, or record deeds timely; collect an extension fee; maintain sufficient documentation in its closing files; prepare a settlement statement with the correct sales price; calculate the tax proration correctly; exclude home warranty fees for investment properties; and keep within approved closing costs.

Shapiro & Ingle overcharged to perform title searches. HUD's closing agent contract stated that Shapiro & Ingle would clear any routine title problems and resolve any title problems prior to closing as part of a closing fee. Nonetheless, Shapiro & Ingle billed additionally for title searches and inappropriately collected up to \$139,000 for the period April 1998 through April 1999.



## Demolition of HUD Owned Properties

The audit recommended that the Director, Atlanta Single Family Homeownership Center, require Shapiro & Ingle to reimburse HUD for the home warranty fees, outside attorney fees that were not reasonable and customary for the area, and for any amounts that Shapiro & Ingle received in excess title search fees, which could potentially amount to \$136,000. Shapiro & Ingle should also reimburse HUD and/or the buyers for the title search overcharges. HUD should also determine the number of sales closed by Shapiro & Ingle as part of its closing agent contract with HUD. Further recommendations are moot because Shapiro & Ingle's contract expired on October 31, 1999. (Report No. 00-FW-222-1007)

In **Glendora, CA**, the OIG audited Fortune Escrow, Inc., a closing agent for HUD. Overall, Fortune substantially complied with its HUD contract. However, Fortune overcharged HUD for wire transfer fees. Fortune's contract with HUD included any wire transfer fees in the closing agent fee.

The audit recommended that the Santa Ana Homeownership Center Director require Fortune to determine the number of sales closed by Fortune during its closing agent contract with HUD and require that it reimburse HUD for any additional ineligible wire transfer fees, potentially \$39,000. (Report No. 00-FW-222-1006)

For the past 10 years, the City of **Chicago, IL**'s Buildings Department has been demolishing HUD owned single family properties. An OIG audit found that HUD has not effectively dealt with Chicago's overly aggressive demolition of vacant HUD properties. HUD also lacks accountability for properties demolished by the City. As a result, HUD's FHA mortgage insurance fund suffered estimated losses between \$446,000 and \$729,000 from the City's demolition of 30 HUD owned single family properties sold as vacant lots between June 1998 and February 2000. HUD will continue to lose an estimated \$883,000 to \$1,494,000 per year if it does not stop the City from demolishing its single family properties. Furthermore, the unwarranted demolition of HUD owned properties has reduced the stock of affordable housing available to meet HUD program objectives.

The City improperly used nearly \$95,000 of HUD Community Development Block Grant funds to demolish 15 HUD owned single family properties in 1998 and 1999. The City also received over \$100,000 from HUD FHA in payment of demolition liens it placed against the demolished properties.

The audit recommended that HUD prevent the City of Chicago's unwarranted demolition of HUD owned properties by implementing its Office of Regional Counsel's proposal to initiate a civil action against the City if the City refuses to make a written commitment to refrain from demolition proceedings. (Report No. 00-AT-123-0002)

## 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

## Office of Native American Programs

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 the validity of complaints concerning the Office of Native American Programs' staff training conference. We also performed reviews of some PHAs' administration of various public housing programs and grants including the Low-Income, Section 8, Low-Rent and Comprehensive Improvement Assistance Programs, besides reviewing the Tenant Rental Assistance Certification System (TRACS) and the general administrative and procurement activities of other PHAs.

In **Reno, NV**, the OIG received three complaints regarding a staff training conference conducted by the Office of Native American Programs (ONAP) in December 1999. One of the complaints alleging that insensitive or offensive material was presented during skits performed at the conference was provided to us through a Senate inquiry. The other two complaints alleged that an unauthorized individual attended the training conference at government expense, and that the conference was not an effective or efficient use of government resources.

We concluded that Alaska ONAP management personnel were involved in the development and presentation of a skit containing material that was, at a minimum, insensitive to Native Alaskans and derogatory toward their culture.

We also found that Headquarters ONAP officials did not hold those responsible for presenting offensive or insensitive material at the training conference accountable for their actions and have not been proactive in oversight and management of Alaska ONAP.

Our review also found that an unauthorized individual attended the training conference at government expense because ONAP management officials failed to consider all relevant criteria before allowing the person to attend. However, overall, we concluded that the training conference was an efficient and effective use of government resources.

We recommended that the Assistant Secretary for Public and Indian Housing: (1) have the Alaska ONAP Administrator issue a public apology; (2) require sensitivity training courses for Alaska ONAP management and staff; (3) consider if disciplinary action against responsible parties is appropriate; (4) ensure that there will be no tolerance for insensitive or offensive actions or behavior in the workplace; (5) ensure that work environment issues are made part of ONAP Office reviews and issue a policy on zero tolerance for material that is offensive or insensitive; and (6) ensure that adequate controls are in place over attendance at future organizational training events. (Report No. 00-SE-107-0002)

## Low-Income Public Housing and Section 8 Programs

An OIG audit of the Low-Income Public Housing and Section 8 Programs of the **Bridgeport, CT** Housing Authority found substantial deficiencies in the Authority's operations that had existed for a number of years. Specifically:

- The Authority received \$750,000 of excess operating subsidies and incurred \$300,000 of unnecessary utility expenses for units at Trumbull Gardens that have been vacant for 4 years. Management negligence resulted in many of these vacant units being severely damaged by vandalism, water, and avian infestation.
- Poor management of a duplex development project resulted in a \$2.5 million loss of federal low-income housing funds. The Authority used \$2.5 million of low-income public housing operating funds to complete a nonprofit development which was not financially sound. In addition, three duplexes were sold to families who did not qualify for housing assistance, as their incomes exceeded HUD income limits. The Authority has not verified that the families living in the rental unit of each duplex meet HUD low-income requirements in 12 of 21 cases.
- A consistently high vacancy rate exists for low-income public housing units. Despite a waiting list of 1,900 families, the vacancy rate averaged 11 percent for Fiscal Years 1997 through 1999. The vacancy rate at February 8, 2000, was 13 percent. The Authority's failure to reduce vacancies resulted in a loss of opportunity for low-income families to obtain affordable housing and reduced rental income to the Authority by \$1 million. In addition, HUD provided the Authority approximately \$2.5 million in operating subsidies for these vacant units during Fiscal Years 1997, 1998, and 1999.
- The Authority had ineffective procurement practices, including payment for services without a contract; selecting contractors without competition; awarding contracts with inadequate competition; unsupported sole source contracts; contracts with unclear terms; and awarding contracts to the high bidder without proper documentation.
- The Authority failed to meet the time schedule on a court ordered directive to replace 1,063 demolished Father Panik Village low-income housing units. The \$89 million replacement effort started in 1987 and was less than half completed at February 29, 2000. An outside developer hired in 1996 to speed up the replacement effort has produced only 20 units in 3 years at a cost of \$1.8 million and is now suing the Authority for \$1.3 million for additional services.
- The Authority has a consistently low utilization rate for Section 8 vouchers and certificates. The utilization rate averaged 89 percent for Fiscal Years 1997, 1998, and 1999. The utilization rate at February 29, 2000, was 88 percent despite a waiting list of 2,600 families. A utilization rate of under 95 percent is considered a failing indicator by HUD.
- Reconciliation of portable vouchers and certificates is not performed in a timely fashion. Therefore, the Authority does not know if the accounts receivable in excess of \$307,000 due from other housing authorities is accurate.

Authority officials were aware that significant weaknesses existed for a number of years, but lacked the capacity to implement effective corrective action. We attribute this condition to poor management practices and a lack of effective leadership, and are recommending that HUD take administrative sanctions against appropriate Authority officials. The Authority's board of commissioners is ultimately responsible for allowing the deficiencies to continue, and should be held

accountable for improving the Authority's operations. In addition, the audit provided specific recommendations to assist in correcting the reported deficiencies. Authority management must change its focus from increasing its operating reserves and obtaining additional business to providing needed services to its existing clients — the residents. Unit vacancies must be reduced and utilization of Section 8 vouchers and certificates must be improved. A realistic plan to complete replacement of Father Panik units must be developed and implemented, and its progress monitored. Finally, internal controls over procurement and accounting must be followed to assure that assets are protected. (Report No. 00-BO-204-1004)

An OIG audit of the Low-Income Public Housing and Section 8 Programs of the **New Britain, CT** Housing Authority found that since January 1995, the Authority has incurred approximately \$1.5 million dollars in legal expenses and related costs.

In one instance alone, the Authority expended over \$242,000 for legal expenses incurred in its defense against a lawsuit filed by a former executive director only to eventually settle the lawsuit for \$150,000. The Authority did not execute a Litigation Services Contract and did not aggressively seek reimbursement for legal expenses from its liability insurance carriers. As a result, the Authority unnecessarily incurred substantial legal expenses that may have otherwise been avoided.

- During inspections of the Authority's low-income and Section 8 units, recurring smoke detector violations were noted. In some instances, as much as 62 percent of a development's units inspected had smoke detector violations.
- The Authority did not demonstrate that its procedures for determining contract rent reasonableness were adequate. The Authority has not performed a current market survey of private unassisted rental units in the area to assure that assisted contract rents are comparable.
- The Authority reported Comprehensive Grant Program (CGP) expenditures to HUD which were not reflective of its financial records. The Authority's public accountant also noted discrepancies between the CGP funds advanced to the Authority and the CGP funds expended by the Authority.

The audit recommended that the Authority be advised in writing of the federal regulations regarding litigation, or potential litigation matters, seek reimbursement for legal expenses from its liability insurance carriers, and provide status reports indicating its progress. The Authority should also adhere to its new procedures regarding smoke detector violations, document that it has completed a market survey of private unassisted units in the area, and provide a detailed schedule of drawdowns and expenditures for closed grants under CGP. (Report No. 00-BO-202-1003)

### ***Low-Rent Housing Programs***

An OIG audit of the **Poughkeepsie, NY** Housing Authority's Low-Rent Housing Programs found that although the Authority is generally providing decent, safe, and sanitary housing to its residents, it is not always complying with program requirements and regulations. The noncompliances were generally caused by inadequate controls. Specifically: (1) an ineligible payment (finance charge) was made from the Authority's operating account for not paying prior year utility billings on time; (2) over \$268,000 in Comprehensive Grant Program (CGP) activity funding was not allocated to participating programs; (3) questionable incentive bonuses were paid to administrative employees; (4) nearly \$46,000 in payments were made for services provided under three contracts that were contrary to program requirements; (5)

controls over legal services and costs were inadequate, resulting in over \$39,000 in unsupported costs; (6) ineligible and unsupported travel costs were incurred; (7) discrepancies exist between the Authority's personnel and the employees' union agreements and leave records; and (8) various deficiencies involving administrative and accounting controls and procedures have weakened the Authority's system of internal controls.

The audit recommended, among other things, that the Authority be required to reimburse ineligible costs from non-federal funds; adopt controls to ensure that when an activity identified for CGP funding benefits programs other than public housing, the costs are properly allocated among all of the benefiting programs; adopt controls to ensure that the personnel policy is consistent with the provisions contained in the employee union agreements; document unsupported costs so that an eligibility determination can be made; and adopt necessary controls to ensure compliance with federal procurement regulations. (Report No. 00-NY-202-1005)

### ***Comprehensive Improvement Assistance Program***

In response to a complaint, the OIG reviewed the **Leesville, LA** Housing Authority's use of Comprehensive Improvement Assistance Program (CIAP) funds. The complainant alleged that the executive director improperly used Authority funds to roof his personal residence, and that the Authority prematurely replaced the roofs on its buildings and did not follow applicable procurement requirements in using CIAP funds. The executive director provided documentation to invalidate the complaint made against him. However, the Authority could not support the need to re-roof its buildings within 5 to 7 years, and therefore may have used over \$333,000 in CIAP funds ineffectively. Further, the Authority did not follow procurement requirements in the purchase of nearly \$500,000 in roofing materials and security screen doors and windows, and in securing the services of architectural and engineering firms.

The audit also found that the Authority failed to adequately determine and document the necessity of its CIAP projects. The Authority obtained the funds to complete the roof replacements by either canceling or substantially reducing other projects.

The audit recommended that the Authority either support its need to replace the roofs or repay the funds that it spent ineffectively, develop and implement a procurement policy that is consistent with HUD requirements and state law, ensure that it documents the need for its CIAP projects, and does not repeatedly request funding for projects that it cancels or reduces, and strengthen its internal controls relative to the order, receipt, and payment of goods. (Report No. 00-FW-202-1803)

An OIG audit of the **Wilmington, DE** Housing Authority (WHA) found that the WHA lacked fiscal responsibility over its operations. This occurred because the former executive director (ED) ignored federal regulations and WHA operating guidelines. Specifically, the former ED routinely allowed expenditures to be made and/or approved expenditures that were contrary to the WHA's approved operating budget. As a result, the WHA incurred over \$1.3 million of ineligible costs and over \$373,000 of unsupported costs. In addition, we identified another \$175,000 in expenditures which, although they were considered eligible to the program to which they were charged, should have been deferred due to the nature of the expenditures and the deteriorating financial position of the WHA.

## General Administrative Activities

Within a 2-year period, the actions of the former ED depleted the WHA's operating reserve by more than \$2.3 million while operating expenditures rose to a record high of \$12.4 million. The operating reserve decreased from over \$2.9 million in 1997 to only \$596,000 by the end of 1999. The former ED's financial mismanagement has placed the WHA in a difficult financial situation that will likely have long-term effects on its financial stability. The condition is further magnified by deficiencies in the WHA's procurement operations. We found that the WHA allowed various departments to make purchases contrary to policy; awarded contracts without competition; did not perform cost estimates of planned work; did not obtain the board of commissioner's required approval; did not ensure that work was performed in accordance with contract requirements; and did not obtain services properly. These conditions occurred because the former ED and WHA's staff ignored federal and WHA procurement requirements.

The State of Delaware, Office of Auditor of Accounts, performed an audit of the WHA and on September 29, 1999, issued an audit report with 21 findings. In addition, the WHA's independent auditor performed a Single Audit of WHA activities for the 2-year period ending March 31, 1999. That report, issued on January 11, 2000, contained 53 findings. The conditions in those reports also indicate a need to improve the financial management of the WHA's operations.

Because of the questions and problems raised during the OIG and State audits, local press coverage, and the concerns expressed about the WHA's operations, the Mayor of Wilmington removed four members of the nine-member board of commissioners and three others resigned. On March 23, 1999, the Mayor appointed seven new commissioners to the board. The new board immediately suspended the former ED and former deputy ED, and on June 11, 1999, terminated their employment with the WHA. A new ED was hired in March 2000. The WHA's new board and new management team have taken appropriate actions to improve WHA's operations.

Since a new board was appointed and the former ED and deputy ED were removed during the audit, no recommendation to replace the WHA's management was necessary. However, we did recommend that administrative action be taken against the former ED to prevent this situation from occurring at another housing authority in the future. We also recommended that the WHA: (1) update its procurement policy and improve its contract administration; (2) update its travel policy to improve the method of budgeting, authorizing, reporting, reimbursing, and accounting for official travel; (3) establish a policy for credit card purchases; and (4) reimburse HUD for all ineligible costs and unsupported costs which it cannot adequately support. (Report No. 00-PH-204-1004)

In **Rocky Boy Reservation, MT**, at HUD's request, we reviewed the Chippewa Cree Housing Authority's administration of its HUD housing programs. Our review identified basically the same conditions that have been presented in reports issued by both HUD and the Authority's independent public accountant. We found that the Authority's management control structure over its housing operations is deficient. Although various policies and procedures have purportedly been established by the Authority's board of commissioners, these policies and procedures have been insufficient to provide reasonable assurances that HUD program monies have been used for eligible and supported program activities and related costs.

Specifically, the Authority failed to implement and exercise adequate controls over its travel related activities and expenditures; has not adequately implemented

its occupancy and leasing policies and procedures; did not have an effective collection procedure, as evidenced by the fact that as of September 30, 1998, the amount due from tenants totaled \$695,000; failed to maintain preventive controls over its cash receipts; and was not depositing its monies intact and in a timely fashion.

The audit recommended that the Authority's board take action to ensure that all its intended policies and procedures have been properly adopted and that such actions are fully communicated to Authority staff. In addition, the Authority needs to establish and implement adequate administrative and management controls and procedures to fully implement the directives of the board. (Report No. 00-DE-207-1004)

In response to a Congressional complaint, the OIG reviewed the **Hoboken, NJ** Housing Authority to determine the validity of alleged improprieties. The OIG concluded that three of the ten complaints reviewed are valid and considered significant as discussed below:

- The complainant alleged that there are over 50 empty units, most of which have been empty for at least 4 months. The complainant stated that the renovation of a vacated apartment unit should only take 30 days. Our review disclosed that at January 31, 2000, the Authority had 58 vacant units, or 4.2 percent of the total units. Although 58 vacant units are within HUD standards, according to Public Housing Management Assessment Program criteria, the vacant unit turnaround rate needs improvement. We found that the number of days it took for a vacant unit to be renovated and made ready for lease is high. HUD's goal in turning around vacant units is 30 days. The Authority is turning vacant units around in 85 days.
- The complainant alleged that poor work by a contractor in renovating bathrooms in various units has compounded an insect and rodent problem. The complainant contended that contractors and Authority management have left the bathrooms in deplorable and unsanitary condition. The Authority has a \$1.6 million contract for bathroom renovation work at 3 Authority developments. Our review disclosed that the Authority had numerous documents revealing that the contractor was performing poorly. The contractor was supposed to ensure that any bathroom that had been dismantled during the day was fully restored at the end of the day. However, on one occasion, the contractor left 18 units unfinished at the end of a Friday. The Authority is now closely monitoring the renovation work and the contractor is adhering to contract specifications.
- The complainant alleged poor physical condition of resident buildings, i.e., doorways, elevators, and lighting. The complainant provided us with several photos of the poor physical condition of Authority buildings. This was further supported by the 1999 Inspection Survey Report prepared by the Authority's Office of Risk Management. The inspection results indicated that over 82 percent of the total 1,353 units failed housing quality standards (HQS) inspections. In addition, in September 1999, HUD conducted Section 8 inspections on a limited number of units which yielded similar results. The current Authority management is now aggressively trying to upgrade the physical condition of all project buildings.

The audit recommended that the Authority be required to develop procedures that will ensure that its vacant unit turnaround time continues to be reduced until it

meets HUD's standard of 30 days per unit; continue to implement the actions necessary to ensure timely and satisfactory completion of bathroom renovation work; and submit a workout plan showing the procedures it will take to ensure that Authority buildings meet HUD's minimum HQS. (Report No. 00-NY-209-1803)

The OIG District Inspector General for Audit in the Southwest District agreed with the HUD New Orleans Field Office's recommendation that the **Alexandria, LA** Housing Authority retain an Independent Public Accountant to perform an Agreed Upon Procedures audit of the Authority's administration/management and operations. The Authority retained a CPA to perform the agreed upon procedures audit. The CPA issued his final report on December 6, 1999, which addressed serious problems at the Authority. Furthermore, the New Orleans Field Office sent the Authority a memorandum, dated March 1, 2000, detailing the required actions needed to correct deficiencies noted in the report. The New Orleans Field Office has been in the process of clearing these findings.

The CPA report identified serious internal control weaknesses and mismanagement at the Authority, including potential leave abuse by the former executive director; not following procurement requirements; lack of controls over fixed assets and property disposition; lack of controls over inventory; dispute with the City over its payments in lieu of taxes; questionable payments made for the former executive director's annuity; and misallocation of costs among its various programs.

These conditions jeopardize the effective and efficient operation of the Authority and make the Authority susceptible to waste and abuse. As a result, the OIG has decided to control the recommendations listed below under the Departmental Automated Audits Management System. We have made recommendations that address the conditions cited in the CPA report. Furthermore, we have made the recommendation that HUD take administrative action against the former executive director. We base this recommendation on the appearance that the former executive director abused his leave, and may have directed staff to pay for his annuity benefits, which were substantially more than the benefits paid for other employees. These conditions demonstrate a lack of business integrity on the part of the former executive director. Also, we attribute many of the problems identified in the report to the executive director's management of the Authority. We believe his actions, or his failure to take appropriate actions, indicate a violation of HUD requirements so serious as to affect the integrity of the Authority's operations. (Report No. 00-FW-202-1802)

An audit of the **San Antonio, TX** Housing Authority's procurement activities disclosed that the Authority violated federal conflict-of-interest, procurement, and cost requirements and used HUD program funds to pay over \$865,000 in questionable costs. Authority managers entered into a noncompetitive arrangement with their affiliate, the San Antonio Housing Assistance Corporation (SAHAC), resulting in over \$822,000 of questionable costs paid from HUD program funds for the 3 fiscal years ending at June 30, 1999. HUD program funds paid for excessive disposal service operating costs of nearly \$337,000; SAHAC disposal service operating costs of over \$461,000 above the agreed fee; and almost \$25,000 for debris removal at non-HUD properties. Authority managers also permitted SAHAC to use Authority equipment and facilities without paying rental or utility costs.



## Procurement Activities

The Authority paid excessive fees to a former commissioner for child care services provided to residents of Springview Apartments, a HUD funded property. The former commissioner over-billed for the services by over \$31,000. Authority managers paid for the services from HUD funds and, although they were aware of the over-billings as early as 1997, they have not yet reimbursed HUD programs from non-federal funds.

Due to a conflict of interest, the Authority paid \$25,000 to a local nonprofit organization for furniture appraised at only \$12,000. The Authority's former board chairperson negotiated the purchase while occupying positions on both the nonprofit and Authority boards. The former President/CEO approved the payment, apparently knowing the appraised value of the furniture. Authority managers allocated costs of over \$11,000 in excess of the appraised value to the HUD Low-Rent, Drug Elimination, Comprehensive Grant, HOPE VI and Section 8 Programs.

The audit also found that the Authority's former Economic Development Program Director did not follow procurement guidelines or properly monitor a consultant, and opened unauthorized bank accounts. Authority management conducted a review and took appropriate actions. No outstanding issues existed at the completion of the audit.

The audit recommended the Authority repay ineligible costs of almost \$811,000 and provide support for or repay salaries and benefit expenses of nearly \$55,000. The audit also recommended that HUD consider taking administrative sanctions against those Authority officials and commissioners involved in the conflict-of-interest decisions. (Report No. 00-FW-201-1004)

Following a complaint received by HUD concerning alleged irregularities, the OIG audited the procurement practices of the **St. Petersburg, FL** Housing Authority. During the audit, we expanded the audit scope to include administration of the Section 8 Program, controls over and uses of funds received from a refinancing transaction, and use of a master fund.

The Authority's procurement methods and contract administration needed improvement. Management did not ensure that procurement was conducted in compliance with HUD and local requirements. As a result, contract solicitations and awards did not meet related guidelines; records lacked sufficient documentation of procurement histories; and procurements did not always promote fair and open competition. The Authority had no assurance that it received services under noncompetitive contracts at the most advantageous cost or from the most qualified source. Furthermore, the Authority did not always follow its contract administration procedures, and contract administrators did not always monitor contracts or approve payments based on contractor performance.

The audit also found that the Authority had not effectively administered its Section 8 Program for many years. It had not established financial and management controls to monitor its budget, cash reserves, or leasing rates. Consequently, the Authority's Section 8 bank accounts were in a deficit position and its operating reserves were depleted. Furthermore, in Fiscal Year 1999, the Authority lost an opportunity to house an additional 181 families and to earn additional income of over \$93,000. Instead, the Authority accumulated excess funds of nearly \$858,000 which it had to return to HUD. The Authority was already in debt to HUD for almost \$174,000 for its 1997 and 1998 Moderate Rehabilitation Program, and had over-spent its 1999 Moderate Rehabilitation Program by nearly \$132,000 and its 2000 Section 8 Program by almost \$189,000.

The Authority did not establish adequate controls over funds received from refinancing Rogall Congregate. As a result, the Authority did not fully document how it spent over \$558,000 received from the refinancing transaction, and lacked controls to ensure an additional \$400,000 to \$900,000 it will realize over the next several years will be spent as approved by its board. In addition, the Authority's master fund did not meet HUD requirements, did not provide a clear accounting for cash transactions, and allowed improper use of funds. The OIG identified misuse of the fund in a 1992 audit. HUD instructed the Authority to discontinue its use and the Authority agreed to do so. Despite such agreement, the fund was still in use and transfers of public housing funds had continued to be made for another 7 years with virtually no accountability. At September 30, 1999, the Authority had misused at least \$410,000 that we could identify.

The audit recommended that HUD take specific actions to ensure proper control of the Authority's operations. (Report No. 00-AT-202-1007)

## 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 Section 8 contract renewal process, HUD's use and disposition of residual receipts, the up-front grant process, the terms of a settlement agreement with a realty corporation, and a cooperative apartment complex formed by residents following foreclosure by HUD against the previous owners.

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.

In **Grand Rapids, MI**, an OIG review of Eenhoorn LLC, a management agent, disclosed that Eenhoorn misused about \$60,000 of funds from River Oaks Apartments for ineligible and unsupported payments. The payments, which were not made for either the operation or repair of the project, were made when the project was in a non-surplus cash position, needed over \$160,000 worth of repairs, and/or had not maintained sufficient funds in its reserve for replacement account.

During the audit, HUD executed a settlement agreement with Eenhoorn, LLC to deposit \$60,000 into the project's reserve for replacement account to replace funds

## Equity Skimming

depleted by “certain inappropriate expenditures and owner distributions” and to assist in making needed repairs; repair the items cited by HUD; pay HUD \$41,000 for OIG audit costs and for inspecting the project to determine whether the needed repairs were made; and pay the cost of the repairs from its own funds if the project’s reserve for replacement account falls below \$75,000. Eenhoorn sent a check to HUD for \$60,000 to be deposited into the project’s reserve for replacement account and paid HUD \$41,000 for audit costs and for inspecting the project. (Report No. 00-CH-211-1810)

As a result of an OIG audit, the general partner for Donaldson Court and two other HUD insured multifamily apartments in **St. Louis, MO**, signed an agreement to settle an equity skimming civil case for over \$96,000. Prior to signing the settlement agreement, the wife of the general partner had repaid \$40,000 to settle her part of the equity skimming action. In addition, the general partner, Dean Burns, will serve a voluntary debarment from all HUD programs for 6 years.

Burns, as managing general partner for the 3 projects, diverted in excess of \$1 million from the projects over a 3-year period for non-project related uses, but eventually reimbursed the projects for all but \$162,000. Some of the funds diverted by Burns went through a joint bank account, thus making his wife liable for repayment of some of the diverted funds.

Prior to signing the civil settlement agreement, Burns paid nearly \$30,000 in restitution as part of a plea agreement of a criminal case brought against him for diverting the security deposits from the same 3 HUD insured projects.

The U.S. Magistrate Judge for the Eastern District of Missouri ruled against the owners of Crosswinds Apartments in **St. Louis, MO**, for improper distribution of project funds. In October 1992, the general partners received a distribution of about \$300,000 in excess bond proceeds and related interest after bonds supporting the project mortgage were called. Instead of returning the money to the project, the partners divided the money and kept it for personal use. At the time, the project was in default on its HUD insured mortgage and had no surplus cash. In his ruling, the Judge stated “...the excess bond proceeds constituted a windfall to the partners, and HUD was left holding the bag.” The partners were ordered to pay \$480,000 to HUD.

## **Section 8 Contract Renewal Process**

In **Wilmington, NC**, the U.S. Attorney for the Eastern District of North Carolina filed a civil complaint against the owners of Dove Meadows Apartments. The complaint seeks to recover double damages for nearly \$608,000 of improper distributions of project funds. The improper distributions were disclosed during a HUD OIG review. Debarment actions are also pending against the four owners.

The OIG evaluated the appropriateness, economy, and efficiency of Section 8 contract renewals and Departmental efforts to encourage owners not to opt out of affordable housing programs. The United States is experiencing a very strong economy. In 1999, rents rose faster than inflation for the third consecutive year. Under this strong economy, many owners of HUD subsidized properties are finding it more attractive to opt out of their Section 8 contracts. HUD needed to take steps to reduce the number of opt outs within the Section 8 Program. In Spring 1999, HUD created Mark Up to Market (MUTM) to offer owners a financial alternative to opting out of their Section 8 contracts.

We found that MUTM retains affordable housing at an increased cost; however, MUTM properties are not being renewed on a timely basis. Owners are continuing

to opt out despite MUTM because they find the conventional marketplace offers increased financial rewards with fewer restrictions. Owners also cite frustrations with changes to the Section 8 Program regulations, and the uncertainty of the federal budget funding appropriations as motivators to opt out. In our discussions with owners of 68 properties in 14 states who elected the MUTM option, we learned that owners of 61 percent of the properties would have opted out if MUTM had not been available. MUTM helped HUD to retain 4,164 units of project-based affordable housing at these properties. Only 48 of the 68 properties had completed processing and executed contracts at the new, higher rents.

MUTM properties are not being renewed on a timely basis—on average, 180 days after the prior Section 8 contract expires. Under ideal circumstances, owners submit their requests to participate in MUTM and rent comparability studies 120 days in advance of the expiration date of their contract. HUD then utilizes the 120 days to determine if the property is eligible for MUTM; have a contractor conduct a second rent comparability study to determine market rents for HUD; compare its study to the owners' study; calculate the new rental level; calculate the anticipated monetary need of the contract and obligate funds for the contract; and execute the contract for 1 year with 4 1-year renewals. For the contracts in the 14 states we examined:

- Owners submitted documentation 10 days, on average, after the Section 8 contract expired (or 130 days late).
- HUD's determination of the property's eligibility is delayed due to the owners changing their minds about the type of renewal being requested and the need to evaluate owners' waiver requests.
- HUD's rent comparability studies are obtained and returned 116 days, on average, after the previous Section 8 contract(s) expire.
- Funding for the MUTM Section 8 contract(s) is being completed 159 days, on average, after the previous Section 8 contract(s) expire.

Owners are continuing to opt out because they find opting out more attractive than continuing in the Section 8 Program. Streamlining the MUTM process could result in fewer opt outs.

The audit recommended that HUD: (1) analyze the Section 8 renewal process to develop the means to complete MUTM processing before the expiration of Section 8 contracts; (2) complete the development and issuance of the Section 8 User Guide to provide details and instructions as to what is needed to expeditiously process waiver requests and authorize Field Offices to deny retroactive contract increases in contract rents to owners who fail to submit appropriate renewal data in a timely manner and who refuse to enter into short-term contract renewals; and (3) ensure that the Section 8 User Guide is implemented. (Report No. 00-BO-111-0802)

Based on information obtained during the financial statement audit for Fiscal Year 2000, the OIG initiated an audit of the use and disposition of multifamily properties' residual receipts. We found that HUD does not use residual receipts as a source of funds when renewing expiring Section 8 Housing Assistance Payments (HAP) contracts for insured multifamily properties. As a result, HUD is committing additional funds for Section 8 HAP to properties that have millions of dollars in residual receipts accounts under HUD's direct control. Using residual receipts as a

## **Use and Disposition of Residual Receipts**

supplemental source of funding gives HUD additional funds to assist more of its customers. We also found that HUD does not have adequate controls to ensure residual receipts are properly safeguarded. In one case, due to inadequate HUD controls, a former property owner prepaid an insured property's mortgage and withdrew over \$64,000 in residual receipts. The funds should have stayed with the property and been remitted to HUD upon termination of the HAP contract. In the absence of adequate controls, there may be other instances where a similar situation occurred or will occur.

The audit also found that the Loan Management Set-Aside Program (LMSA) should be subject to the same residual receipts rules as other Section 8 Programs. Unlike other major Section 8 contracts for multifamily properties, current regulations for properties in the LMSA Program do not allow HUD to recover residual receipts at contract termination. As a result, property owners may realize windfall profits when the mortgage is paid off. HUD could use recovered residual receipts to assist other properties. According to property financial information in the Real Estate Assessment Center's database, there are 645 LMSA assisted properties that have balances in their residual receipts accounts totaling over \$81 million. It appears HUD did not revise Section 8 rules for LMSA properties because these were financially troubled properties and HUD did not expect these properties to accumulate residual receipts.

Additionally, the audit found that HUD does not monitor residual receipts for uninsured, assisted properties administered by State Housing Agencies. As a result, HUD is not aware of or monitoring millions of dollars accumulating in uninsured properties' residual receipts accounts that will be remitted to HUD when Section 8 HAP contracts terminate. This occurred because HUD does not require State Housing Agencies to provide financial information, specifically on residual receipts, for uninsured, assisted properties.

The audit recommended that HUD, and those responsible for contract renewals, be required to consider using residual receipts as a source of funds when renewing expiring Section 8 HAP contracts. Moreover, HUD should: recover the \$64,000, and determine if there have been any other mortgage prepayments where residual receipts that should have stayed with the property, and if so, take appropriate action to recover those funds; strengthen controls and issue guidance to safeguard residual receipts; and revise the Section 8 regulations for LMSA assisted properties that would affect new contracts to require a property's residual receipts be returned to HUD upon termination of the HAP contract. In addition, the audit recommended that HUD require State Housing Agencies to provide HUD with financial information on residual receipts balances for uninsured, assisted multifamily properties, and determine if HUD has authority to use the residual receipts accumulating in uninsured, assisted property accounts prior to termination of the HAP contracts. (Report No. 00-SE-119-0003)

## **Up-Front Grant Process**

HUD is not following many of its key program guidelines for awarding Up-Front Grants and is not adequately monitoring grantees that have received Up-Front Grants. Under the Up-Front Grant Program, HUD may provide grants and loans for rehabilitation, demolition, rebuilding, and other related development costs as part of the disposition of a multifamily housing project that is HUD owned, upon making a determination that such a grant or loan would be more cost effective than project-based rental assistance and economically viable on a long-term basis, and would preserve affordable rental housing in a tight rental market. An OIG audit disclosed

that the Department does not perform financial feasibility or economic viability studies to determine whether projects it considers and awards Up-Front Grants will be cost effective and self-sufficient after rehabilitation. In addition, the Department is not determining whether the selected projects are located in tight rental markets to ensure there is a need to develop the affordable housing. HUD officials have indicated program regulations allow the Department to exercise its discretion in awarding grants. However, the Department has not documented its decisions when applying this flexibility. It is therefore questionable whether grants awarded under the Up-Front Grant Program, as currently administered, meet the eligibility requirements and will be viable on a long-term basis. In the long run, this may jeopardize the program's mission of preserving affordable rental housing, and has resulted in the use of general insurance funds for projects that are not cost effective.

HUD is not adequately monitoring Up-Front Grant awards during the project rehabilitation process, nor has HUD implemented any post rehabilitation monitoring. Due to staff limitations, HUD's Atlanta and Fort Worth Multifamily Property Disposition Centers rely on contracts with architectural firms and one HUD engineer to monitor grants during project rehabilitation. However, the architects and engineers only assess grantee progress during rehabilitation, not a grantee's financial administration and compliance with the grant agreements. Because of these monitoring deficiencies, HUD has approved and paid significant funds to a number of grantees that are not complying with grant requirements, and HUD is now in the position of dealing with grantee performance problems. In addition, since HUD has not implemented any post rehabilitation monitoring, it has no assurance that completed projects meet the program mission of preserving affordable rental housing.

We recommended that HUD ensure Up-Front Grant award determinations are made according to program requirements, and award determinations and decisions are clearly documented in the program files. We also recommended that HUD strengthen its monitoring process during the rehabilitation period and implement a system to monitor grant awards after rehabilitation is completed in order to ensure grantees are complying with the terms and conditions of grant agreements. (Report No. 00-PH-119-0001)

## **Terms of Settlement Agreement Not Properly Executed**

The OIG reviewed HUD's settlement agreement with Associated Estates Realty Corporation in **Richmond Heights, OH**. The agreement affected the Rainbow Terrace Apartments, Longwood Apartments, Park Village Apartments, and Vanguard Apartments. The settlement agreement was entered into because of HUD's desire to settle a rent increase lawsuit filed by Associated Estates. HUD also wanted to remove Associated Estates from the four projects to protect residents from unhealthy and unsafe living conditions. The settlement agreement required HUD to pay Associated Estates \$1.78 million for requested rent increases, and Associated Estates to find new owners for Rainbow Terrace and Park Village Apartments, or transfer the projects to HUD. HUD agreed not to take administrative actions against Associated Estates and released Associated from any and all claims except tax or criminal fraud.

Because of apparently extremely poor communication between the various HUD Offices affected by the settlement agreement, HUD staff who negotiated the agreement were not aware that the U.S. Attorney's Office for the Northern District of

Ohio had previously accepted a civil false claims and double damages case against Associated Estates. They were also not aware of a previous cost savings agreement that required Associated Estates to share with HUD the savings from refinancing the mortgage on Rainbow Terrace Apartments. The negotiators also violated federal laws and HUD's own requirements by settling the civil suit and waiving civil action without approval from the Department of Justice. HUD lacked documentation to justify \$1.67 million of the \$1.78 million paid directly to Associated Estates under the settlement agreement and did not pursue funds owed by Associated under the previously negotiated cost savings agreement.

While HUD enforced the terms of the settlement agreement, it did not take possession of Rainbow Terrace and Park Village Apartments as permitted, but not mandated, by the agreement. HUD's Director of Asset Management said HUD did not want to take possession of the projects because of the costs associated with repairing them. By not taking possession of Rainbow Terrace and Park Village Apartments, HUD contradicted one of its stated reasons for negotiating the settlement agreement and failed to protect the projects' residents from unhealthy and unsafe living conditions. We also found it incongruous that HUD could find \$1.78 million to pay a large real estate management company but was unwilling to find the funds needed to protect the residents.

We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner assure that HUD's Office of Multifamily Housing: (1) establishes protocols, procedures, and controls to ensure that when future settlement agreements are negotiated, all applicable HUD Headquarters and Field Offices are contacted and requested to provide input about outstanding agreements and actions, any pending matters, and any other concerns that may impact, or be impacted by, the agreements; (2) establishes controls which will assure that HUD Departmental officials consult with the Department of Justice on any future proposed actions which could affect pending cases at the Justice Department, and Justice Department approval is obtained before proceeding with those actions; (3) takes immediate action to ensure that the residents of Rainbow Terrace, Longwood, and Park Village Apartments are residing in decent, safe, and sanitary conditions; and (4) issues formal apologies to the U.S. Attorney's Offices for the District of Columbia and the Northern District of Ohio for failing to obtain their approval on the settlement agreement and/or for compromising cases they had accepted and were pursuing. (Report No. 00-CH-119-0801)

## Rents Not Collected at Cooperative

At the request of the Director, Multifamily Hub, Illinois State Office, the OIG audited Neighborhood Commons Cooperative, a HUD insured multifamily property in **Chicago, IL**. HUD performed a management review of the Cooperative in January 1999 that resulted in a number of concerns, including excessive tenant accounts receivable and inadequate collection efforts by the management agent; ineligible expenses charged to the project; actions by the former board of directors that exceeded its authority; and the granting of rent free units without HUD approval. Our audit found that unpaid rents of current tenants exceeded \$270,000 as of May 1999. The unpaid balance would have been significantly higher if the Cooperative had not received excess subsidies from the Chicago Housing Authority. The former property management agent did not adequately collect monthly rent payments because it did not adhere to the HUD approved rent schedule. The agent claimed that delinquencies were high because records of unpaid balances received from the

previous management agent were confusing, and that subsidy payments from the Chicago Housing Authority were not received for a 9-month period.

The former board of directors abused its authority and mismanaged the Cooperative by undermining the management agent and taking control of the daily operations of the property. The former board president hired a close personal associate to serve as on-site manager, who took instructions from the board president rather than the management agent. In addition, the on-site manager was provided with a rent free unit, an action that HUD did not approve, and therefore, violated the Regulatory Agreement. The audit also found that the former board president, a Section 8 rental assistance recipient, was hired by the management agent and paid from non-project funds for a 3-month period to reconcile the tenant accounts receivable, and that she was employed at a temporary employment service but failed to report her income from both sources to HUD. As a result, she received excess rent subsidies to which she was not entitled.

The audit recommended that the Director, Chicago Multifamily Hub, ensure that the new management agent collects all outstanding rent payments, initiates reasonable payment plans, or evicts tenants as appropriate; ensure that all Section 8 subsidies received by the Cooperative are based on the correct rent schedule; assess the former management agent's maintenance of tenant records when conducting management reviews of other projects managed by the agent; initiate proceedings to debar the former board president from participation in all federal programs; initiate proceedings to debar the former board president's personal associate from participation in all federal programs; provide technical assistance to the current board stressing how much authority it has and the rules it must adhere to while the Cooperative's mortgage is insured by HUD; perform a follow-up management review at the Cooperative; sanction members of the current board if they interfere with the daily operations of the property and violate applicable agreements; and declare a technical default of the Regulatory Agreement and initiate foreclosure proceedings if such interference does occur. (Report No. 00-CH-212-1004)

## 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 a state's Community Housing Improvement Program, a grantee's administration of the HOME Program, a Mortgage Loan Subsidy Program funded by the Community Development Block Grant (CDBG) Program, and the Continuum of Care Programs.

Grantees participating in the Community Housing Improvement Program, established to provide housing rehabilitation assistance to low- and moderate-income individuals, receive funding from both the HOME and CDBG Programs. 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. The CDBG Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The Continuum of Care Program is designed to fight against homelessness by linking key housing services and expediting movement toward housing for the homeless.

## Community Housing Improvement Program

The OIG audited the **State of Ohio's** Community Housing Improvement Program and found that the State did not have adequate controls over the program. The State's subrecipients we reviewed inappropriately used nearly \$464,000 of HUD funds to provide housing rehabilitation assistance that was not in accordance with HUD regulations, the State's requirements, and/or the subrecipients' policies and guidelines for the program. The inappropriate disbursements included paying for housing rehabilitation work that was improperly performed or not provided; for rehabilitation work that exceeded our estimates of reasonable costs; and to correct items that did not meet the State's residential rehabilitation standards after HUD funds were used to pay for the deficient housing rehabilitation work.

The audit also disclosed that the State's subrecipients: incorrectly certified that the housing rehabilitation services provided to 42 houses met the State's residential rehabilitation standards when they did not; did not take action to repair items identified by the State that did not meet the State's standards; failed to follow HUD's regulations or the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services; and did not ensure its contracting policies met HUD requirements for the award of fixed price or cost reimbursement contracts.

The audit recommended that the Director of CPD, Ohio State Office, assure that the State of Ohio implements controls to correct the weaknesses cited in the audit; ensure the housing rehabilitation work that was improperly performed or that was not provided is completed correctly; and reimburse its Community Housing Improvement Program from non-federal funds for rehabilitation work that exceeded our estimates of reasonable costs and for the inappropriate use of HUD funds to correct items that did not meet the State's residential rehabilitation standards. (Report No. 00-CH-255-1003)

## HOME Program

In response to several complaints received from program recipients (homeowners), the OIG reviewed the **Maine State** Housing Authority's (MSHA) FIX ME Program. The FIX ME Program is part of MSHA's HOME Program, and represents a commitment to address a major State housing need by repairing the homes of low- and very low-income homeowners. The complainants alleged shoddy workmanship, violations of local codes, incomplete and illegal electrical work, coercion to pay contractors for unsatisfactory work, and lack of adequate inspections. We determined that, although most of the homeowners were satisfied with the program, there were problems that needed to be corrected. We reported that: contractors did not obtain the required local building permits and local building inspections; work write-ups/cost estimates were not prepared by Community Action Program (CAP) agencies; and MSHA's monitoring reviews of CAP agencies, which administer the day-to-day operations of the program, were limited in scope and did not disclose the types of problems identified by the complainants. We believe the overall design and

structure of the FIX ME Program allowed these problems to occur because of a lack of adequate controls.

In March 1999, the HUD Massachusetts State Office of Community Planning and Development issued a monitoring review report on the FIX ME Program which addressed deficiencies including lack of sufficient oversight of CAP agencies by MSHA; inadequate program complaint resolution procedures; improper charging of management fees to homeowners; use of HOME funds for ineligible activities; contractors not adhering to local building codes and obtaining permits; and lack of detailed work specifications, cost estimates, and cost reasonableness determinations for repair projects. At the time of our review, all of the findings and recommendations remained outstanding except two monetary findings, which were resolved prior to issuance of the audit.

The audit recommended that HUD: (1) resolve all outstanding findings included in the March 1999 monitoring review report; (2) review and concur, as appropriate, with MSHA's implementation of a new HOME Program which should address all noted deficiencies; and (3) review and concur with MSHA's plans to determine which prior completed projects required follow-up actions. (Report No. 00-BO-255-1803)

## CDBG Program

Following a citizen complaint, the OIG reviewed the Broadway Street Mortgage Loan Subsidy Program, which is funded by the City of **South Bend, IN's** CDBG Program. The complainant alleged that CDBG funds were misappropriated and that houses purchased under the Mortgage Loan Subsidy Program were substandard. We found that the City did not follow the Housing and Community Development Act of 1974 in ensuring that houses assisted through the Loan Subsidy Program met the City's building code. The City assisted 20 participants in purchasing houses under the program. We inspected 7 of the 20 houses and concluded that at each of the 7, construction work was either not provided or was improperly performed. The housing inspector for the housing assistance office, with which the City contracted to administer the program, incorrectly certified that six of the seven houses met the City's building code when they did not. We determined that these problems occurred because the housing assistance office did not have proper procedures and controls to ensure that the houses met the building code before the participants received assistance. The City also failed to monitor the housing assistance office to ensure it administered the program as required. As a result, CDBG funds were not used efficiently and effectively.

The audit recommended that HUD assure that the City determines that construction work paid for with CDBG funds has actually been completed, and if it has not, require the City to reimburse its CDBG Program from non-federal funds; establishes procedures and controls to ensure assisted houses meet the City's building code before participants receive housing assistance; and establishes procedures and controls to monitor the contractor who administers the Mortgage Loan Subsidy Program. (Report No. 00-CH-249-1811)

## Continuum of Care

The OIG is conducting a nationwide review of HUD's Continuum of Care. The Continuum of Care approach is a community based process of identifying the needs of the homeless and building a comprehensive and coordinated housing and service delivery system to address those needs. The Continuum is an organization of local governments, not-for-profit, and for-profit organizations that assist in the compila

tion of a consolidated application for grant funds. The Continuum of Care includes three programs that are competitively funded: the Supportive Housing Program, the Shelter Plus Care Program, and the Section 8 Moderate Rehabilitation Program. We will select a sampling of grantees to review in order to evaluate the Continuum of Care, and will report the results to HUD. In addition, we will perform work at HUD Offices and Continuum of Care entities to accomplish our audit objectives. The results of two of our audits are reported below. Our work is continuing, and additional reports will be issued during the next reporting period, along with a national report on the overall operation of HUD's Continuum of Care.

An audit of the 1996 Supportive Housing Program grant awarded to the **Houston, TX** Regional HIV/AIDS Resource Group, Inc. concluded that the Resource Group generally implemented its activities consistent with its application, provided technical assistance to its subgrantees, and reviewed its subgrantees' single audit reports, monthly expense reports, and quarterly and annual progress reports. However, the Resource Group paid for ineligible participants and did not document homelessness, as required by HUD, and did not maintain sufficient documentation to determine whether it met the purpose of its grant. Two subgrantees did not maintain sufficient documentation to support the eligibility of their participants, and one subgrantee, Trinity Life, inappropriately charged its grants over \$73,000 in ineligible costs and over \$109,000 in unsupported costs. The Resource Group performed reviews of Trinity Life and noted several problems. On August 1, 1999, the Resource Group terminated its grant with Trinity Life.

The audit recommended the Resource Group: (1) ensure that its grantees obtain and verify the necessary information to determine participant eligibility and track goals achieved; (2) analyze its current operations and create measurable criteria to accurately report grant results; (3) revise its monitoring policies and procedures for programmatic and financial site visits to include all grants; (4) improve monitoring of subgrantees; (5) reimburse its grant for ineligible costs and provide supporting documentation or reimburse its grant for improperly supported costs; and (6) revise its monitoring procedures to require that subgrantees submit all documentation for operating costs. (Report No. 00-FW-251-1806)

The City of **Boston, MA**, has taken positive steps in administering its Supportive Housing and Shelter Plus Care Programs. The City's Department of Neighborhood and Development (DND) is ensuring that the City is administering its homeless programs effectively and efficiently. To supplement the HUD application, the City's DND requires that each Supportive Housing Program applicant organization complete a "City Application" calling for specifics about program budgets and detailed instructions and charts for the providers to detail their anticipated spending and the source of their match funds. In addition, the DND requires Shelter Plus Care Program applicants to complete a "City Application" which DND staff created from the information outlined in the HUD Shelter Plus Care application. Each Shelter Plus Care applicant is required to provide specific information regarding project sponsor direct service match. Rental assistance provided through the Shelter Plus Care Program must be matched in the total, on a dollar for dollar basis, with supportive services.

The audit also found that the City of Boston has four basic ways in which to monitor the performance of those who received Supportive Housing and Shelter

Plus Care grants: Annual Site Visit, Annual Progress Report, McKinney Scoring, and Billing. The audit made no recommendations. (Report No. 00-BO-251-1802)

## Other Significant Audits

### Information Technology

#### *Integrated Disbursement and Information System*

The OIG audited HUD's ongoing development efforts for improving the Department's Integrated Disbursement and Information System and concluded that, although improvements are being made to the system, additional programming errors are being introduced because of inadequate testing of the program code (software) changes. The Quality Assurance staff was not testing all system changes and lacked an automated testing tool to ensure that adequate baseline testing was performed. Reliance on supplemental testing by grantee users and others of the pre-releases of new software versions is not justified because few of these parties are using the pre-production facility.

Due to various data problems, such as those caused by a lack of system functionality and input edit features, the Office of Community Planning and Development had to allow its contractor staff to make data corrections directly to the system database files bypassing normal online entry edits. In the process, the audit trail identifying entry sources and entry times was destroyed. Our review of draw-downs of grant funds found that 60 percent were requested and approved by the same grantee users. Our contact with a sample of grantees found that they have adequate staff available to permit better segregation of duties for reducing the risk of fraud, waste, and abuse.

The audit made several recommendations to improve the effectiveness and efficiency of the ongoing development processes and system security. Many of the testing inadequacies can be corrected by forcing the testing of all system revisions and by purchasing and using an automated testing tool. Adequate data security and integrity can be established by enforcing the principle of segregation of duties for all data entries. This segregation includes discontinuing data entries by HUD contractors, and ensuring that grantee entries for requesting and approving grant funds are performed by different individuals. (Report No. 00-DP-166-0003)

### COTS Financial Management System

The OIG provided an audit memorandum to HUD's Deputy Secretary to alert him to the OIG's concerns over the September 1, 2000 purchase of a Commercial Off-the-Shelf (COTS) software package for the Department's and FHA's core financial management systems. We believe the Department may be repeating a past mistake of a hasty decision without adequate studies and analyses. In an OIG memorandum dated January 28, 1998, we outlined several risks associated with the Department's decision to implement the existing COTS integrated financial system. These risks included an incomplete evaluation of viable solutions, user requirements, costs, and data conversion. Since that decision, the Department has encountered delays and cost overruns, resulting in the OIG's inability to render an opinion on the FY 1999 financial statements.

Contrary to Departmental requirements, we were not notified that a new financial management system was being purchased, thus we could not express our concerns prior to the Department spending \$1.45 million for the new procurement.

Our primary concern about the September 1, 2000 COTS purchase was the lack of analysis of both the solution and software alternatives and the apparent haste of the software decision. Although we agree that FHA system improvements are necessary, the rush to purchase a software system in such a short time frame was not warranted. We are also concerned that this software selection may be used as the Departmentwide system prior to completion of the required Departmentwide feasibility and cost/benefit studies. In order to minimize the risk of another failure, we recommended that before any development work starts for this new initiative, adequate feasibility and cost/benefit analyses be completed and user requirements be defined. (Report No. 00-DP-166-0804)

## **Fair Housing and Equal Opportunity Programs**

The Office of Fair Housing and Equal Opportunity (FHEO) enforces the Fair Housing Act and other civil rights laws to ensure the right of equal housing opportunity and free and fair housing choice without discrimination based on race, color, national origin, religion, sex, disability or family composition. Among the goals of the Office of FHEO are promoting geographic mobility for low-income and minority households; integrating fair housing plans into HUD's consolidated plans; furthering fair housing in other relevant programs of the Federal Government; and promoting substantial equivalency among state, local, and community organizations involved in providing housing.

### ***Fair Housing Initiatives Program***

In response to an anonymous complaint, the OIG reviewed the Fair Housing Initiatives Program (FHIP) grant award process. FHIP funds grants, contracts, or cooperative agreements with state and local government agencies, public or private nonprofit organizations, or other entities that conduct programs to prevent or eliminate discriminatory housing practices. The complainant alleged that the Secretary of HUD used FHIP funds inappropriately. According to the complainant, the Secretary had awarded or was about to award FHIP funds to a public housing authority illegally; used FHIP Program National Education Component funds for ineligible activities; and allocated \$200,000 of FY 1998 FHIP funds for Fair Housing Month activities which were never conducted in 1999.

We found that two of the three allegations were credible. Specifically, HUD violated the FHIP authorizing statute by granting the Boston Housing Authority (BHA) a \$297,000 conditional award for clearly prohibited purposes. The BHA FHIP award was to fund activities specified in a July 1999 settlement agreement and court order. The FHIP law specifically prohibits use of FHIP funds for activities which are part of a legal settlement. In addition, HUD allocated \$200,000 to another grantee for national fair housing activities which were never conducted in 1999. We determined that the \$200,000 allocation for Fair Housing Month activities was included in the \$2 million grant HUD awarded to Consumer Action of San Francisco on January 17, 1999. However, the Fair Housing and Equal Opportunity (FHEO) Grant Officer did not sign the grant award document until July 22, 1999, 3 months after National Fair Housing Month. Therefore, the grant was signed and executed too late for Consumer Action to sponsor Fair Housing Month activities in 1999. According to FHEO, Consumer Action planned to use the \$200,000 to support April 2000 Fair Housing Month activities. Although this portion of the complainant's allegation was factually accurate, HUD had no legal obligation to use funds for Fair Housing Month activities. We found that the allegation concerning misuse of National Education Component funds lacked merit.

In reviewing the specific allegations, we identified other deficiencies relating to funding diversity and audit trails for scoring applications. Until these weaknesses are addressed satisfactorily, HUD's Office of FHEO, which is responsible for administering the FHIP, cannot assure the Congress and taxpayers that FHIP funds are awarded as intended and that the program is operating efficiently and effectively. (Report No. 00-AO-174-0801)

## **Resource Estimation and Allocation Process**

The OIG audited the Department's progress in developing and implementing a Resource Estimation and Allocation Process (REAP) and found that on October 18, 1999, HUD conveyed to the Congress the realization that it needed a resource management system and that it planned to implement such a system within 18 months. HUD, in conjunction with the National Academy of Public Administration (NAPA), then developed a methodology for resource estimation and allocation. Further, NAPA briefed each Assistant Secretary on the REAP methodology and the impact it would have on their programs. HUD also selected a contractor to implement the methodology and do the measurement studies at various program offices throughout the Department to determine resource estimate requirements.

Despite these positive actions, the Department's implementation of REAP has not proceeded with the urgency we expected for a priority project having the admitted support of the Offices of the Secretary and Deputy Secretary. From the outset, REAP has experienced and continues to experience schedule slippages. On October 18, 1999, the HUD Secretary advised the Chairman on the Senate Committee on Governmental Affairs that the Department would develop and institute a REAP phased in over an 18-month period. However, the project has moved much more slowly.

The REAP contract is to be implemented in three phases. At the time of our audit, which was conducted in July and August 2000, only Phase 1 had been funded. Though HUD and the contractor estimated \$1.5 million for Phase 1, because of salaries and expenses funding constraints, the Department was able to commit only \$1 million for Phase 1. However, in responding to our preliminary draft memorandum, the Deputy Secretary reported that the Department had fully funded the REAP project at the required amount of \$3.165 million, that the Department's top level management was in complete support of REAP, and that the REAP project was on target. We welcome these affirmations from the Deputy Secretary. Though we believe the Department should have moved with greater energy to fund and contract for the REAP project, recent events show a reinforcement of HUD's commitment to REAP. We look forward to reviewing the project results. The Department's full funding for the REAP project satisfied the recommendation we made in our draft memorandum. (Report No. 00-PH-169-0802)

## **Tenant Rental Assistance Certification System**

A nationwide audit of the Office of Housing's controls over housing subsidy payments found that HUD did not fully implement its Tenant Rental Assistance Certification System (TRACS) as planned and needed to improve controls over Section 8 special claims payments. The Department abandoned its TRACS development in favor of the HUD 2020 Reform Plan objectives. As result, TRACS provides no assurances about controls over assistance payments or data accuracy. HUD acknowledges there are data inaccuracies within the TRACS database, but does not recognize the negative impact on and lack of positive contribution in other areas

using the owner generated database. New plans for TRACS extend its use to contract administrators in much the same manner as the Department currently uses it.

HUD needs to improve internal controls over Section 8 special claims payments to ensure that inappropriate payments are not made to project owners/agents. Section 8 special claims are not uniformly reviewed and approved by HUD field offices. Individual field offices use their own rules and procedures for processing Section 8 special claims because HUD lacks an overall special claims processing policy or regulation. As a result, HUD lacks assurance over the accuracy of claims, project owners/agents may not be equitably treated, and the potential exists for project owners/agents to submit and be paid for fraudulent, undocumented, ineligible, and duplicate claims.

In addition to these findings, previous OIG audits reported that the management controls relevant to verification of applicant and tenant income did not adequately prevent or detect cases of unreported income. HUD has reported this control as a material weakness in its annual Federal Managers' Financial Integrity Act report since fiscal year 1996. HUD needs to continue reporting this control as a material weakness.

The audit recommended that the Office of Housing either implement TRACS as originally planned and with effective controls over data accuracy, or discard the system. Further, the Office of Housing should reevaluate its special claims program, weighing the options of implementing uniform policies and procedures that will be effective versus eliminating the program as a form of payment. (Report No. 00-KC-103-0002)

# Chapter 4

## Investigations





In addition to Housing Fraud Initiative responsibilities, the Office of Investigation investigates all types of potential wrongdoing in HUD's programs and activities. This Chapter presents results from: (1) white collar investigations relating to HUD's Multifamily, Single Family, Public and Indian Housing, and Community Planning and Development Programs; (2) other significant white collar investigations; and (3) investigations relating to violent crime and drug trafficking in HUD's Public and Assisted Housing Programs.

## 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 conspiracy, embezzlement, extortion, and false statements in connection with Multifamily Housing Program operations.

### Equity Skimming

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 1 partnership pled guilty to criminal equity skimming and obstruction of investigations and audits in their efforts to defraud HUD of over \$1.16 million. The schemes resulted in the diversion of funds from 17 HUD insured multifamily properties, 13 of which were located in the Middle District of Florida. The properties were owned by separate Florida and New Jersey partnerships. The property owners and their agents, the property management owners and their agents, the certified public accountant contracted to perform property financial audits, and a roofing contractor doing business with the properties all entered guilty pleas and were each sentenced to probation ranging from 3 to 5 years, home detention ranging from 2 to 4 months, a total of \$31,000 in fines, and \$949,641 in restitution. This investigation, conducted by the FBI and the OIG Offices of Audit and Investigation, resulted in the first ever prosecution of property management fee splitting and accounting fee splitting under the equity skimming statute.

Ernest Trice, the former manager of two HUD subsidized apartment complexes in **Hot Springs, AR**, was sentenced to 13 months in prison and 3 years supervised release, and was ordered to pay \$37,579 in restitution and a \$50 special assessment.

Trice previously pled guilty to submitting false statements. He misappropriated approximately \$110,000 in funds belonging to the complexes over a period of about 4 years. Trice allowed the utilities of one complex, which housed the severely disabled, to be shut off for non-payment of water and electric bills, while he utilized the funds for personal expenditures. Only intervention by the HUD Little Rock Office resulted in the restoration of utility service to the project. The investigation was conducted by the FBI and OIG.

The management agent for Villa San Carlos Garden Apartments, a HUD insured multifamily complex in **San Jose, CA**, was charged with improperly diverting project money. The agent allegedly converted approximately \$60,000 in project funds to his own use and/or to the use of family or friends. This was a joint investigation by the OIG Offices of Audit and Investigation.

Streuby L. Drumm, Jr., a multifamily property owner, pled guilty to three counts of multifamily equity skimming and three counts of mail fraud. Drumm, as the owner of Sharlo Apartments in **Baton Rouge, LA**, diverted \$468,956 during the period of June 1992 through September 1995 while the mortgage was in default and the property had no surplus cash. Drumm also caused false and misleading financial statements to be submitted to HUD and the property's limited partners during the same period. Prior to Drumm's indictment, Standard Enterprise (the management company) entered into a settlement agreement to make an \$84,000 payment for allowing the diversion of funds to occur. This investigation was a joint endeavor with OIG Offices of Audit and Investigation, the Louisiana State Police, and the U.S. Attorney's Office.

Donald Ray Heyen, the former accounting manager for Calhoun Property Management in **Shreveport, LA**, pled guilty to one count of theft from programs receiving federal funds. A joint investigation by the HUD and Department of Agriculture (USDA) OIGs disclosed that Heyen diverted about \$719,000 in federal funds from the accounts of HUD insured and USDA funded multifamily projects in Louisiana and Texas.

In **Philadelphia, PA**, Michael Rivera, former general contractor for a HUD funded multifamily project, was sentenced to 5 years supervised release and fined \$30,000. Rivera pled guilty in October 1999 to one count of conspiracy and three counts of bribery. He engaged in a bid rigging scheme which guaranteed that his company would be the successful bidder for a \$200,000 laundry room renovation contract. Rivera received an \$80,053 advance payment which was later shared with his co-conspirators. None of the federal funds received were ever used to purchase laundry room supplies or make laundry room renovations, but instead were used to purchase motorcycles, a truck, computer equipment, and a large screen television. Both the contractor and the former management agent have been sentenced. The third defendant, plumbing contractor Joseph Paige, was also sentenced during this reporting period to 66 months imprisonment and 6 years supervised release, and was fined \$6,000. No restitution was ordered for Paige because the management agent for the project previously repaid the \$80,053 project loss. The sentencing stems from Paige's October 1999 guilty plea to embezzlement of funds from the project and his April 2000 failure to appear for sentencing. Paige admitted conspiring with the property manager in this scheme. Paige is the last of the defendants to

be sentenced for their roles in this fraud scheme. In addition to the embezzlement charge, Paige also pled guilty to one count of a felon in possession of a firearm. This plea is related to Paige's May 2000 arrest during which he assaulted and threatened arresting Officers with a weapon as they were taking him into custody for jumping bail. This investigation was conducted by the OIG Offices of Audit and Investigation.

Dr. Roberto Kutcher, former owner of **Hato Rey, PR** Community Hospital, was sentenced in Federal District Court for multifamily equity skimming. He received 10 months of house arrest and 2 years probation, and was fined \$10,000. An OIG audit and investigation disclosed that Kutcher authorized the use of over \$6 million of assets, proceeds, income, or other funds belonging to the hospital for personal benefit. He used hospital funds to provide interest-free loans to himself and other affiliated companies which he owned or controlled, endorsed checks payable to the hospital which were then cashed or deposited into his personal accounts, and charged personal expenditures to a credit card which was paid by the hospital. He also improperly disposed of hospital owned equipment and retained the sales proceeds, and leased several luxury automobiles paid for by the hospital. Kutcher and his wife, both of whom were indicted on equity skimming charges, also executed a settlement agreement in 1997 to settle the civil case in this matter and agreed to pay restitution to the U.S. of \$5.9 million.

## Other Significant Investigation

Burleigh Ashby Hobson, a real estate agent who served as a deacon under the Reverend Henry Lyons, former Director of the Southern Baptist Convention in **Tampa, FL**, was sentenced in federal court to 2 years probation and 100 hours of community service, and fined \$1,000. Hobson was previously indicted on 10 counts of conspiracy, wire fraud, and lying to federal investigators. Lyons has already been convicted and sentenced. The charges against Hobson stem from activities at Bethel Village, a failed project to build an assisted living retirement complex, which he and Lyons spearheaded between 1995 and 1997. Hobson, who served as secretary and treasurer of the Bethel Village project, was charged with conspiring with Lyons to dupe bank and federal housing officials. Hobson transmitted a National Baptist Convention (NBC) letter of credit for \$472,365 to a Syracuse, NY banking group, and sent federal officials an NBC letter guaranteeing \$750,000 in conventional funding to enable the project to obtain FHA mortgage insurance for a \$5.4 million loan. Both letters were transmitted electronically and contained the forged signature of the NBC's general secretary. Hobson also lied to federal Agents investigating Bethel Village financing. The investigation was conducted by the FBI, IRS, and OIG.

## 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 loans.

Other individuals and officers of MSR Development, a property speculation company in **Norfolk, VA**, were sentenced for conspiracy to commit wire fraud, bank fraud, and making false statements to HUD. MSR's officers routinely provided the buyers of their properties with phony gift funds, unreported cash for down payments, and unreported cash incentives of \$2,000 to \$5,000 for buying properties. The officers also created sham limited partnerships through which they provided their investors with down payments, disguising the down payments as capital contributions by the partnerships' limited partners. The defendants often falsely inflated their acquisition costs for properties, which they would then sell to investors in back-to-back closings. To accomplish this, they used bogus real estate commissions and consulting fees. Questionable activities by MSR Development were cited in a 1997 OIG audit of the Section 203(k) Program; this audit helped lead to the exclusion of investors from the program.

Jack Jacovides, former owner of Manjac Construction Company and Century 21 Manjac Realty, was sentenced to 5 years probation, 6 months home detention, and 100 hours of community service, and was ordered to pay \$250,000 in restitution to HUD and a mortgage company after pleading guilty to conspiring to make false statements to HUD. Jacovides falsified employment and income for two clients of MSR Development, and also accepted, then returned to MSR, a bogus \$1 million consulting fee which MSR used to falsely inflate its acquisition costs for properties later sold with FHA insured mortgages.

John Beaton, a former title company and closing attorney, was sentenced to 5 years probation, 4 months home detention, and 150 hours of community service, and was ordered to pay \$100,000 in restitution to HUD for his role in falsifying closing documents for MSR and its clients. Beaton falsely certified that buyers of MSR's properties made their own down payments when he knew these down payments were actually made by MSR. Beaton surrendered his law license prior to his sentencing.

Both defendants' sentences of probation were the result of a motion by the government for leniency in view of the defendants' cooperation in the prosecution of former MSR Development officers. Both defendants received administrative suspensions from HUD following their guilty pleas.

David Haplea and David John Roland were sentenced to probation and ordered to make restitution. Haplea, a former real estate broker, received 5 years probation, including 180 days home detention, and was ordered to pay \$75,000 to HUD. Haplea submitted false loan applications to obtain 203(k) loans to purchase investment properties and was paid unreported incentives by the sellers to purchase these properties. He also assisted a property speculation company in falsely inflating its acquisition cost for properties by accepting, then returning to the speculation company, false real estate commissions. Haplea's real estate license was revoked following his conviction. Roland, the husband of an officer of the property speculation company, was sentenced to 3 years probation, including 180 days home detention, and ordered to pay \$31,000 to a mortgage company. He falsely certified on several settlement statements that he had made his own down payments to purchase investment properties with 203(k) loans when in fact the payments had been made by the sellers.

Clinton Van Nocker and Jacques McEntee, former officers of MSR, were sentenced and ordered to pay restitution to HUD on charges of conspiracy and bank fraud. They received 50 and 56 months in prison, respectively, to be followed by 5 years supervised release. Additionally, each was ordered to pay \$350,000 in restitu

tion to HUD following their release from prison. Another MSRVA officer, Marie Elana Roland, also pled guilty to conspiracy to commit wire and bank fraud. Over 180 fraudulent HUD insured loans were identified, most of which eventually went into default. This was an OIG investigation.

The following actions are the result of a joint Task Force investigation in **Houston, TX**, by the FBI, OIG, and the IRS Criminal Investigation Division which has been designated "Operation Straw House." The overall fraud may involve 3 criminal organizations and an estimated \$74 million in fraudulent loans obtained by approximately 75 individuals in a scheme to defraud HUD and commercial lenders.

Matthew W. Kelly, a former office manager and salesperson for AA Quality Construction, a contractor specializing in Title I contracts, pled guilty to one count of making false statements concerning employment and income on a loan application. Kelly also made false statements on a construction completion certificate, which resulted in a Title I lender's providing him with a \$15,000 HUD insured loan. Kelly further admitted that no home improvement work was completed with the loan funds, and after the proceeds were split with the contractor, the remaining funds were used to pay his debts.

David Willis and Cheryl Willis pled guilty to making false statements. An investigation disclosed that the Willises secured two \$25,000 HUD insured home improvement loans by making false statements on the loan applications and on the construction completion certificates which were relied on by the HUD approved lenders. They both admitted to making false statements to secure the loans, that no home improvements were made, and that the loan proceeds, given to them in cash by the contractor, were used to pay off debt and make additional purchases.

Real estate investor Matthew Minchich pled guilty to one count of bank fraud and admitted obtaining 7 loans in excess of \$1.4 million by submitting false information on loan applications. Investor Juan Garcia pled guilty to one count of bank fraud. Garcia admitted submitting false information on loan applications, including sources of down payments and employment history.

Investor David Lasko pled guilty to one count of submitting false statements. Lasko admitted obtaining a \$25,000 HUD Title I home improvement loan based on false statements. Lasko received \$19,500 of the loan proceeds in cash from a contractor and used the money to pay personal debts. The contractor kept \$5,500 as a "cut" for arranging the loan. No work was ever performed with the loan proceeds.

William Kyle Triplett, the construction manager for American Eagle Construction, pled guilty to one count of bank fraud. Triplett participated in a scheme to defraud HUD and commercial lenders by obtaining Title I home improvement loans and single family mortgage loans, both conventional and HUD insured, via deceptive means. Triplett admitted fraudulently obtaining 2 home improvement loans totaling \$50,000 and 5 single family mortgage loans totaling in excess of \$1.2 million.

Homeowner Leslie Jones pled guilty to one count of submitting false statements. Jones was involved in a scheme to defraud HUD by obtaining a \$25,000 HUD insured Title I home improvement loan using false statements. Jones certified that construction had been completed when in fact no work was ever performed on his property. He received about \$20,000 of the loan proceeds in cash, while the contractor kept the remaining \$5,000 as the "cut" for arranging the loan. Jones used the loan proceeds to pay off personal debts. Michael Waggett pled guilty to one count of bank fraud in connection with a scheme to defraud HUD and commercial lenders.

Waggett admitted to submitting false information to a Federal Deposit Insurance Corporation (FDIC) bank on a \$300,000 loan.

Leonard W. Dennis, III, a commercial loan officer with a major Title I home improvement lender, was charged with one count of bank fraud. The charge was filed as part of a plea agreement in which Dennis admitted obtaining a \$292,000 loan from an FDIC insured bank as part of the scheme.

Christine Nagy, a co-owner of Lone Star Remodeling Company, a home improvement contractor, pled guilty to one count of bank fraud. Nagy admitted making false statements on loan applications to obtain loans from insured banks.

The U.S. Attorney's Office filed a superseding criminal information charging Reginald Guinn with false statements. Guinn pled guilty and was sentenced to 4 years probation and ordered to pay \$22,500 in restitution and a \$100 special assessment. Guinn admitted to falsely stating that he received no money from BCM Builders, a contractor, when in fact, he received \$20,000 in cash from BCM and used the money to purchase a residence. BCM kept \$5,000 of the loan proceeds as a "cut" for arranging the HUD insured home improvement loan.

In **Ft. Lauderdale, FL**, investors Lynda Roseman and James Lowe were sentenced on charges of conspiracy to commit bank fraud, making false statements on FHA insured mortgage applications, mail fraud, and wire fraud. Roseman was sentenced to time served and 3 years supervised release, and was ordered to pay \$37,700 in restitution. Lowe was sentenced to 57 months in prison and 3 years supervised release.

Leo Brovilette and Miriam "Mimi" Lawrence pled guilty to conspiracy to commit bank fraud, making false statements on FHA insured mortgage applications, mail fraud, and wire fraud. Lawrence, a real estate broker and tax preparer, also pled guilty to her participation in a mortgage fraud scheme. Elizabeth Velazquez and Stanley Lerner pled guilty to making false statements on mortgage applications for their part in a mortgage fraud scheme. Marcus Gordien and John Kudron pled guilty to bank fraud, making false statements on FHA insured mortgage applications, mail fraud, and wire fraud.

From 1993 to 1996, these individuals conspired to fraudulently purchase HUD owned properties by paying strawbuyers to pose as owner/occupants. The properties were then refinanced with FHA and conventional mortgages and sold to unqualified buyers at inflated prices, using fraudulent employment and income information. The loans totaled over \$15 million. This investigation was conducted jointly by the OIG, IRS and FBI.

In a different investigation in **Ft. Lauderdale, FL**, Kenneth Duquette, Cristie Gallucci, Lee Garber, Marie LaFargue, and Annette Gonzalez pled guilty to making false statements on FHA mortgage applications and Social Security fraud. Eric Silverman and Jean DuFralessi pled guilty to conspiracy to commit bank fraud and making false statements on FHA mortgage applications.

From 1996 to 1999, the individuals conspired to fraudulently originate over 120 FHA insured loans, through 7 banks and 9 mortgage companies, by creating false gift letters and income information for individuals who could not otherwise qualify for the loans. The loans totaled over \$11 million. In addition, the loan amounts were inflated as a result of flip sales from the original sellers to the defendants, who then sold the properties at inflated prices to the unqualified buyers on the same day, financing the purchases with the FHA loans. The properties were inflated an

average of over \$15,000 each. Eight of the loans have been foreclosed and resold by HUD at a loss of over \$230,000. The average loss on the properties is over \$30,000 and the total loss to HUD is expected to be over \$3.6 million. The individuals involved held positions as closing attorneys, real estate brokers, investment company owner, mortgage brokers, loan officers, loan processors, title company employees, and the owner of a printing company who created the false documentation. The investigation was conducted jointly by the FBI and the OIG Offices of Investigation and Audit.

In another investigation in **Ft. Lauderdale, FL**, a closing attorney, who was also an investor, was charged with one count of making false statements to obtain FHA insured mortgages. The closing attorney allegedly participated in a scheme with the mortgagee to originate fraudulent Section 203(k) mortgages by not making the required down payments. The scheme involved over 80 properties with mortgages totaling over \$3.2 million. The investigation was conducted by the OIG Offices of Audit, Investigation, and Counsel.

Barbara Polaski, also known as Barbara Jemison or Barbara Polasici, was sentenced to 10 months confinement, 3 years supervised release and ordered to pay \$230,558 in restitution. Polaski was also ordered to relinquish ownership of the FHA insured property she obtained fraudulently. She had earlier pled guilty to one count each of bankruptcy fraud, making false statements to the government, credit card fraud, and unlawful possession of a Social Security number.

While employed at the Housing Authority of the City of **Pittsburgh, PA**, Polaski stole the identities of two public housing tenants and later used their biographical data to conceal her fraudulent actions. She ultimately damaged their credit ratings by engaging in credit card and loan fraud. Polaski purchased 4 FHA insured properties, 3 of which were purchased using the stolen identities and which resulted in defaults and a HUD loss of almost \$140,700. She also defaulted on the fourth property which she purchased using her own identity. This was a joint investigation by the FBI, Postal Inspection Service, and the OIG.

Roland Square, owner of Square One Realty in **St. Louis, MO**, was sentenced following his guilty plea to one count of money laundering and one count of bank fraud. Square received 12 months and 1 day in prison and was ordered to pay \$94,146 in restitution. Square used drug proceeds to purchase several FHA insured single family and multi-unit properties, and used false Social Security numbers in an effort to secure credit. Michael Square, owner of Square Accounting Service, was indicted and pled guilty to making false statements to HUD for providing false tax returns to mortgagors during their loan origination process. Five others were indicted and three were sentenced in connection with this case. This was an FBI and OIG investigation.

Rodney McWilliams, a City of **New Orleans, LA** Police Department Officer, was sentenced in federal court to 1 year and 1 day in a halfway house, fined \$3,000, and ordered to pay \$19,074 in restitution for submitting false statements and conspiracy. His wife, Linell McWilliams, received a pre-trial diversion. The sentencing was the result of an OIG investigation which disclosed that the Officer and his wife falsified documents in an effort to influence HUD 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 50 percent below market value with the requirement that the Officer occupy the property as a primary residence for 3 years. The investigation found that the Officer failed to occupy the property as the primary residence, and instead rented the residence to a fellow Police Officer for several months, resulting in a \$19,074 loss to the government.

In **Kansas City, MO**, Jamil Thompson, son of resigned Missouri State Representative Vernon J. Thompson, was sentenced to 10 months in prison for a misdemeanor conviction on 1 count of falsely certifying to the IRS on his federal tax form. The false tax return furthered a conspiracy on the part of Vernon Thompson and others to commit mail fraud and money laundering which ultimately resulted in the embezzlement of over \$250,000 from HUD insured and/or subsidized developments. The conspiracy scheme involved creating ghost employees of the multifamily complexes so funds could be laundered through various bank accounts. Kevin Sallard, a ghost employee and aid to Vernon Thompson, who received a pre-trial agreement in February 2000 in connection with the embezzlement, was sentenced in connection with a separate investigation of the State Representative and a now defunct community housing entity receiving HUD Community Planning and Development funds. Sallard was sentenced to 90 days already served, 3 years probation, and restitution of \$9,100 in connection with a Department of Justice youth anti-crime grant. Vernon Thompson previously pled guilty to one count of mail fraud. Tuscon Redd, Omega Realty owner, and Robert Wilp, Omega accountant, both pled guilty to charges of conspiracy to commit mail fraud and money laundering. Redd was sentenced earlier to 1 year and 1 day in prison and ordered to pay \$260,840 in restitution. This investigation, conducted by the FBI, OIG Offices of Audit and Investigation, and the Kansas City Police Department, resulted from a hotline complaint.

In **Richmond, VA**, Joseph Allen Johnson was sentenced to 5 years in prison for uttering a false loan application, with all but 1 year suspended, and was given a 5-year suspended sentence for forging the same loan application. He is scheduled for a show cause hearing stemming from his previous criminal history. Should the Judge deem appropriate, the full sentence received for both of these FHA fraud offenses may be imposed. In 1998, Johnson applied for an FHA loan, but was denied due to poor credit. Johnson later assumed the identity of Wesley McMeans, a mentally challenged man under the supervision of Johnson's mother, and obtained a \$136,650 FHA insured mortgage. The mortgage was approved based on Johnson's presentation of McMeans' identification documents. Johnson and his mother occupied the FHA insured property, but McMeans was left to reside in a rooming house. An OIG investigation led to a referral to the Philadelphia Homeownership Center (HOC); the HOC has asked the originating lender to indemnify the mortgage because of numerous loan originating deficiencies.

Following an OIG investigation in **St. Louis, MO**, Aliscia Payne was sentenced to 1 year probation and fined \$250. Payne was previously charged with bank fraud, and a warrant was issued for her arrest. Payne used false information and documents to obtain an FHA insured home loan. In April 2000, Payne pled guilty to a separate charge of false statements and using false information to obtain an FHA loan. The most recent charge of bank fraud resulted from a review of records



recently received that revealed that the same mortgagee processed a second loan for Payne using information that differed from the first loan processed. This investigation was conducted by the OIG, DEA, and Postal Inspection Service.

William and Charles King pled guilty in U.S. District Court to submitting false statements. They also agreed to each pay \$269,822 in restitution for their involvement in a single family housing fraud scheme. The Kings purchased several homes in **Buffalo, NY**, between 1996 and 1997 for a minimal amount of money. Most of the homes were either occupied by elderly people who wanted to move out of the City, or were purchased at foreclosure estate sales. The Kings then made superficial repairs to the properties, such as painting and installation of inferior carpeting, and solicited unsophisticated first-time homebuyers to purchase the homes for inflated prices, even though the homebuyers lacked the financial resources to purchase the homes. The Kings arranged everything for the buyers, including a mortgage company that would provide FHA financing, an insurance company, and a closing attorney. They then provided the homebuyers with the necessary down payments, which came in the form of gift donor funds. The Kings also instructed the homebuyers to have a relative or friend fraudulently sign the gift donor letters provided to the bank stating that they provided the homebuyers with the funds. At the time of the plea agreement, the majority of the FHA insured loans solicited by the Kings for the unqualified buyers were either in default or foreclosure, causing significant financial losses to HUD. This was an OIG investigation.

Individuals in **Atlanta, GA**, involved in fraudulently originating 46 mortgages totaling over \$7.5 million pled guilty to conspiracy to commit money laundering, mail fraud, using false Social Security numbers, and witness tampering. Freddie H. Allen, a bank manager, prepared false verification of deposit forms and Social Security numbers to qualify individuals for mortgages.

Miriam Elizabeth Rebecca Heflin, a loan processor, prepared false verification of deposit and income forms and used fictitious Social Security numbers to qualify individuals for HUD insured mortgages. The loans were originated in Atlanta, GA, and Chicago, IL.

Ryan Steven Pendergraft pled guilty to preparing false verification of deposit and employment forms and creating fictitious Social Security numbers to qualify individuals for mortgages. A mortgage broker was arrested and charged with bank fraud, wire fraud, money laundering, mail fraud, witness tampering, using false Social Security numbers, and filing false reports to his Probation Officer. The mortgage broker allegedly conspired with others to originate fraudulent mortgages. The broker was previously convicted of mortgage fraud and, as a condition of his probation, was prohibited from employment in the mortgage business. This investigation was conducted by the HUD and Social Security Administration OIGs, the FBI, and the IRS.

Yasha Ayers, a former civilian employee of the U.S. Naval Service in **New Orleans, LA**, and Elva Ayers, his daughter, were sentenced. Yasha Ayers was convicted of 4 counts of conspiracy and submitting false statements, and was sentenced to 3 years supervised release. His daughter, also convicted of 4 counts of conspiracy and submitting false statements, was sentenced to 7 months in prison. The sentencing were the result of a joint investigation by the FBI, OIG, and the Naval Criminal Investigative Service which disclosed that Yasha Ayers falsified

U.S. Navy documents, personal documents, W-2 forms, and HUD forms to assist his daughter in seeking approval for an FHA insured loan to purchase a home. The daughter has never worked for the Navy and did not have the necessary income to be approved for the loan. There was no loss to the government due to the fact that a member of the subjects' family made several payments to the mortgage company, thus preventing the loan from going into default. The loan amount was about \$70,000.

Ayisha Abney, a former HUD employee, was arrested by OIG Agents in **Philadelphia, PA**, pursuant to a criminal complaint charging her with embezzlement and false statements. The arrest stems from Abney's involvement in a fraudulent real estate owned transaction which resulted in a \$12,300 loss to HUD. Abney was also charged with theft of \$150 in federal funds. Following her arrest, she pled guilty to 1 count of embezzlement of government funds and was sentenced to 1 year supervised release and ordered to pay \$150 in restitution to HUD.

In **St. Louis, MO**, Kelly Klamen, part owner of K&K Investments, was sentenced to 2 years probation, fined \$15,652, and ordered to pay \$53,241 in restitution to HUD regarding false statements made to HUD. K&K sold between 40 and 50 properties and had their buyers obtain loans through a specific loan officer at a mortgage company. Many of these buyers had state and federal aid as their only source of income but they were able to obtain financing through the use of false information after the Klamen's instructions. One mortgagor's employer's address was a vacant house. In another mortgagor's file, this same "employer" was listed as the landlord and credit reference. The majority of the buyers also used gift letters from family members in order to qualify for the loans. These loans totaled in excess of \$1 million. Two of the loans where Kelly Klamen provided false information defaulted, resulting in the \$53,241 loss to HUD. Harold Klamen also signed an agreement and admitted to submitting false statements to HUD. Klamen has agreed to pay restitution of \$33,064. Klamen is part owner of Klamen and Associates, BRICS, Inc., DRM Partnership, Harold M. Klamen Real Estate Group, Inc., Klamen Investment Co., and K&K Investments, Inc. This was an FBI/OIG investigation.

In **Phoenix, AZ**, a real estate agent was arrested and indicted on charges of misuse of a Social Security number and submitting false statements to HUD. He allegedly used the Social Security number and other fraudulent documents to obtain an FHA insured loan for his residence. Documents seized during the execution of search warrants in September 1999 at the agent's real estate office and home disclosed that employees of the real estate firm created numerous false documents, including pay stubs, W-2 forms, Social Security cards, and credit letters. These documents were used by the broker and his employees in a loan origination fraud scheme involving over 200 FHA insured loans. This investigation was conducted by the FBI and the OIG Offices of Audit and Investigation.

Following an OIG investigation, Michael Fernsted, the real estate asset manager for First Preston Management Company in **Buffalo, NY**, pled guilty to one count of extortion. Fernsted oversaw approximately 1,500 HUD foreclosed properties in the Western New York area. He forced inspectors and contractors hired by First Preston to kick back a percentage of their monthly earnings. Fernsted in

structed the inspectors and contractors to submit bogus billings or inflate the monthly billings in order to make more money.

## 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, under Operation Safe Home, the OIG discovered instances of fraud, false statements, conspiracy, theft, and illegal gambling involving Public and Indian Housing Programs.

### Fraud in Public Housing Administration

In **Newark, NJ**, Meir Hertz, executive director of the Lakewood Housing Authority and the Lakewood Tenants Rental Assistance Program, and owner of the Brick Towers multifamily housing development, pled guilty to a felony charge of preparing a false tax return. The charge pertained to funds Hertz diverted from Brick Towers. BTA Properties, Inc. also pled guilty to false statement charges and was ordered to pay over \$300,000 in restitution and fines. In addition, the company was ordered to be dissolved. Hertz entered into a separate civil settlement agreement by which he paid \$1 million to HUD. He was also debarred for 5 years, relinquished his position as executive director of the Housing Authority, deeded Brick Towers over to HUD, was sentenced to 3 years probation and 2 months confinement, and was fined \$5,000. This investigation was conducted by the FBI, OIG, and IRS.

Jean R. Faires, a former administrative assistant and interim executive director of the **Drumright, OK** Housing Authority, was sentenced to 6 months electronic monitoring and 5 years supervised release, and ordered to pay \$38,955 in restitution and a \$100 special assessment. The sentencing resulted from an OIG investigation which found that Faires embezzled about \$21,000 from cash tenant rent payments from the Authority from 1990 to 1996 and covered the thefts with funds from other Authority accounts.

In **San Juan, PR**, the president of Ingenieros y Proyectistas, a contractor doing business with a private management agent hired by the Puerto Rico Housing Authority to manage its public housing developments, pled guilty to two counts of bribery. The president, Fernando Vigil, Jr., paid kickbacks in the amount of \$36,000 to officials at the Central Housing Corporation and \$40,000 to officials at the Inter Island Rental Corporation. Both corporations are management agents contracted by the Authority to manage housing developments. Additionally, the president of Servicios de Plomeria del Este, Inc., another contractor doing business with a

private management agent hired by the Authority to manage its public housing developments, was sentenced to 2 years probation and ordered to pay \$27,500 in restitution. The president, Victor M. Lopez-Santos, had previously pled guilty to making kickbacks. Lopez paid kickbacks to Authority employees and/or employees of Inter Island. The investigation was conducted by the FBI and the OIG Offices of Audit and Investigation.

Patricia Wilson pled guilty to one count of making a false statement and report to HUD, and was sentenced to 3 years probation and 100 hours of community service, and ordered to pay \$14,515 in restitution to HUD. As a resident of Coventry Gardens Apartments, Wilson has received Section 8 benefits since 1988. In November 1995, Wilson was hired by the **Richmond, VA** Redevelopment and Housing Authority (RRHA) as a tenant selection interviewer in the Section 8 Department. On numerous HUD certifications, she failed to report any income from her employment at the RRHA, and thus received Section 8 benefits to which she was not entitled. This was an OIG investigation.

Claud Loyd Ferrington, a former City of **Ruston, LA** Housing Authority project manager, was sentenced for theft of money from federal programs. He was ordered to serve 6 months in a halfway house, placed on 5 years supervised release, fined \$3,000, and ordered to pay \$9,750 in restitution. The sentencing was the result of a joint FBI/OIG investigation which disclosed that Ferrington solicited and received more than \$10,000 in bribes from a contractor who had been awarded a roofing contract on several buildings owned by the Authority.

Charles Clay, former executive director of the **Mt. Gilead, NC** Housing Authority, was sentenced to 6 months home confinement and ordered to pay \$8,754 in restitution and perform 250 hours of community service. In February 2000, Clay pled guilty to one count of mail fraud. He 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. The investigation was conducted by the OIG Offices of Audit and Investigation and the Mt. Gilead Police Department.

Carolyn White, the former deputy executive director of the **Palatka, FL** Housing Authority, pled guilty to one count of embezzlement and was sentenced to 5 years probation and ordered to pay \$6,409 in restitution. White charged over \$6,000 worth of personal items on the Authority's credit card. The charges included jewelry, trips, meals, gifts, furniture, and hotels. The former executive director has already pled guilty and been sentenced. This investigation was conducted by the OIG, FBI, and the Florida Department of Law Enforcement.

Nury Pando, an assistant manager of the Casa Hermosa Apartments, was sentenced to 90 days detention and 12 years probation, and ordered to pay \$1,384 in restitution. The sentencing is the result of a joint investigation by OIG and the **Hobbs, NM** Police Department which disclosed that Pando, who is also a resident at Casa Hermosa, embezzled tenant rent proceeds.

Valeria Swafford Morales, an eligibility specialist with the Texas Department of Human Services in **Houston, TX**, was sentenced to 8 months in prison and 3 years supervised release, and ordered to pay \$630 in restitution and a \$100 special

assessment after pleading guilty to one count of false statements. An OIG investigation disclosed that Morales, a single parent with 4 children, received about \$30,000 in excess rental assistance over a 10-year period. At various times during the 10-year period, Morales falsely claimed that 3 of her children lived with her, and failed to disclose sources of income from Aid to Families with Dependent Children, child support, and a military dependent allotment. The fact that Morales is a state welfare eligibility specialist and former public housing authority clerk was especially pertinent in the 8-month sentencing.

Louis Lorenzo, a **New York City** Housing Authority (NYCHA) employee for over 20 years, along with his wife Elizabeth, a New York City Police Officer, defrauded HUD from 1994 through 1999 by providing falsified annual recertification forms and notarized affidavits of non-income, claiming that Elizabeth was unemployed in order to receive excess rental assistance payments. The Lorenzos fraudulently obtained about \$24,000 in rent subsidies from HUD and about \$19,000 from NYCHA by not declaring Elizabeth's income. Louis Lorenzo previously pled guilty and is awaiting sentencing. He was also suspended without pay by NYCHA. Elizabeth Lorenzo is scheduled to be sentenced in November 2000. She is being terminated from employment by the New York City Police Department (NYPD). Both have been suspended by HUD from participation in federal programs; debarment actions are pending. This investigation was conducted by OIG and NYPD.

Hazel Ann Mike, former executive director of the Moapa Indian Housing Authority in **Las Vegas, NV**, pled guilty to two counts of embezzlement. Mike embezzled \$37,268 from the Authority between May 1995 and March 1997 by processing additional payroll checks for herself. This investigation was conducted by OIG.

In **Moab, UT**, Sandra Sommer, a former Grand County Housing Authority employee, pled guilty to three felony counts of misuse of public monies. She was previously charged with embezzling Housing Authority funds. Sommer also pled guilty to embezzling over \$35,000 from a previous employer and is currently incarcerated in the Utah Women's Correctional Prison in Salt Lake County. This was a joint investigation by OIG and the Grand County Sheriff's Office.

Laverne Moore, manager of **Kennett, MO** Apartments, pled guilty to one count of submitting a false statement. Moore overcharged Section 8 residents on their monthly rent and security deposits. She then converted those funds to her own use. Moore also created false monthly rent subsidy billings by entering the incorrect rent amounts on the owner's certification and application for housing assistance payments. Her theft from residents amounted to about \$12,600. Moore also falsified documents to obtain a Section 8 unit for herself by using a false name and Social Security number. This was an OIG investigation.

A joint investigation by the FBI and the OIG Offices of Audit and Investigation discovered that individuals were involved in the solicitation and acceptance of bribes by **San Francisco, CA** Housing Authority employees in exchange for placing ineligible individuals in the Section 8 Program or in conventional low-rent housing units.

A superseding indictment was handed down by a federal grand jury as a result of the investigation which charged the Authority relocation manager with eight counts of aiding and abetting bribery and three additional counts of making false statements to HUD.

Patricia Williams, manager of relocation and support services at the Authority, was convicted of 30 felony counts, including 1 count of conspiracy, 22 counts of making and causing false documents to be submitted to HUD, and 7 counts of aiding and abetting bribery.

Anthony Talley, a Section 8 housing applicant, was convicted of one count of making a false statement in connection with his application for relocation benefits under the HUD funded HOPE VI Relocation Program administered by the San Francisco Housing Authority.

William Bender, a public housing resident, pled guilty to making a false statement in connection with his application for benefits under the HOPE VI Relocation Program. Dontez Anderson, also a public housing resident, was sentenced for making a false statement on his application for benefits under the Program. He received 3 years probation, including 4 months in a community corrections center, and was ordered to vacate his public housing unit. Additionally, Tameka Cato was sentenced to 3 years probation, 120 hours of community service, and a \$100 special assessment. Sherrie Ross also pled guilty to making a false statement in connection with her application for relocation benefits.

Ena Coleman, a public housing resident, was indicted and pled guilty to one count of conspiring with the relocation manager; two counts of aiding and abetting the making and using of false documents submitted to HUD; and one count of aiding and abetting.

A 2-year investigation of the Housing Authority of the City of **Tampa, FL**, resulted in the announcement of a superseding federal indictment by the U.S. Attorney's Office, charging the former executive director and two contractors doing business with the Authority with 126 counts of conspiracy, bribery, wire fraud, and money laundering. The indictment alleges that the contractors received over \$25 million in contracts from the Authority by providing cash and gifts to the former executive director. The indictment contained a forfeiture count that included real estate, vehicles, construction equipment, and over \$1 million in cash.

The former executive director of the Authority was indicted for wire fraud, conspiracy, bribery, receiving gratuities, bribery concerning programs receiving federal funds, money laundering, and making false statements to a federal agency. A physician practicing in the State of Florida and a third individual, who were an officer and a principal, respectively, in a corporation that received Authority work and payments for such work, were charged with wire fraud, conspiracy, bribery, giving gratuities, bribery concerning programs receiving federal funds, and money laundering.

A federal indictment was unsealed by the U.S. Attorney's Office charging the former deputy director of the Authority's Planning and Development Department with one count of misprision of a felony and one count of making false statements. The misprision charge was the result of the individual's failure to report fraudulent activity at the Authority. The false statement charge was the result of a letter written by the former deputy director to HUD which covered up the former executive director's involvement in awarding a fraudulent contract. Additionally, Bill Williams, Jr. pled guilty to bribery in connection with payments made to the former

executive director of the Tampa Housing Authority. This investigation was conducted by the FBI, Department of Justice, IRS Criminal Investigation Division, and the OIG Offices of Audit and Investigation.

The former executive director of the **Sanford, FL** Housing Authority was indicted on charges that she lied and provided bogus documents after selling an Authority vehicle to her son. The indictment states that the former executive director purchased a 1994 Ford Explorer for the Authority and a short time later sold the vehicle to her son for \$14,500, which was approximately \$4,500 less than the vehicle's estimated value. She then signed a contract on behalf of the Authority to purchase a 1995 Dodge Caravan with the \$14,500 and a personal check of \$806. During a yearly audit, the former executive director stated that the Explorer had been exchanged for the Caravan as an "even trade" and that the dealership did not give her any paperwork. She later provided a bogus invoice purportedly from a Daytona Beach dealership showing that the vehicles had been exchanged, and that each one was valued at \$16,806. A second bogus invoice showed that the son purchased the Explorer from a Daytona Beach dealership. In addition, she gave false statements and fraudulent invoices to the Authority's Auditor and to a HUD Special Agent investigating the case. The investigation was conducted by OIG.

A former resident initiative coordinator for the Housing Authority of **Fulton, MO**, was indicted on 1 count of stealing \$30,568 from the Authority and 1 count of making a false statement to conceal the thefts. From November 1998 through March 2000, the coordinator allegedly collected rent checks, did not record them, and took the money for herself. She also intercepted a check for \$10,300 in HUD funds, cashed it, and did not record it. A new computerized accounting system revealed the discrepancy that tipped off Authority officials. The former coordinator had not taken a vacation in a year in an effort to try to cover up her defalcations. The investigation was conducted by the OIG.

Five individuals, including two housing authority employees, were indicted on charges of theft from an Indian Tribal Organization, false statements, embezzlement, and theft of public money. A search warrant was served on the home of an Oglala Sioux Tribal Councilwoman who was suspected of housing fraud. These charges are the result of a collaborative investigation by OIG Offices of Audit and Investigation, VA OIG, the Bureau of Indian Affairs, and the Oglala Sioux Tribe Public Safety Office into irregularities at the Oglala Sioux Housing Authority, **Pine Ridge, SD** Indian Reservation.

The former executive director of the **Benson, NC** Housing Authority was issued a limited denial of participation for a period of 1 year. This action resulted from a recommendation in a March 2000 OIG audit report. The audit disclosed serious mismanagement by the former executive director, including violations of conflict of interest requirements, improper procurement of \$1.6 million of repair services and materials, inadequate controls over cash receipts and disbursements, inadequate maintenance of books and records, and improper determination of tenant rent amounts. In addition, the board did not provide adequate oversight of Authority activities or safeguard Authority assets.

## Other Investigations

Ronald G. Bersaglia, the former executive director of the **Hazard, KY** Housing Authority, and his wife, Lisa M. Campbell, who replaced her husband as the executive director, have been debarred from participation in federal programs until April 26, 2002. In 1999, the couple was convicted for falsely certifying that Hazard public housing developments met HUD's housing quality standards. The investigation was conducted by the FBI, Kentucky State Police and the OIG Offices of Investigation and Audit.

Rafael A. Monroig, president, 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 in Puerto Rico, was sentenced to 4 months home confinement and 25 months supervised release, and fined \$5,000. In addition, the HUD Enforcement Center negotiated a settlement agreement with Monroig, whereby Monroig agreed to pay \$100,000 to HUD in exchange for terminating his suspension from participating in HUD programs. Monroig previously pled guilty to one count of violation of the Anti-Kickback Statute. Monroig paid \$20,000 in kickbacks to Authority employees and employees of the Inter Island Rental Puerto Rico Corporation, a management agent that contracted with the Authority to manage Authority developments. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

In **Minneapolis, MN**, Joseph and Norma Amato, former Section 8 tenants, each pled guilty to one count of conversion of public money. The husband and wife were indicted by a federal grand jury on 5 counts of false statements and 1 count of conspiracy for allegedly receiving about \$100,000 in Section 8 and other welfare benefits by fraudulent means. By failing to report all of their income, the couple received benefits to which they were not entitled. The Amatos failed to make their first appearance in court and arrest warrants were issued for the couple. As part of the plea agreement, they agreed to make full restitution in the amount of \$98,609. This was a joint investigation by OIG and the Stearns County Police Department.

Jason and Chad Smeby, owners of North Country Lumber, Inc. in **Duluth, MN**, were sentenced following their guilty pleas to one count of making a false statement. Both received 4 months home confinement and 3 years probation. Additionally, Jason was fined \$100 fine; Chad was fined \$25. They were also ordered to jointly pay \$94,000 in restitution. North Country Lumber, Inc. billed the White Earth Housing Authority for building materials which it never received. The investigation was conducted by the OIG Offices of Audit and Investigation.

In **Philadelphia, PA**, Gary Lupo, president of a major heating and mechanical company doing business with the Chester Housing Authority, was sentenced to 37 months incarceration and 3 years supervised release, and ordered to pay \$62,252 to HUD and \$37,748 to other federal and local entities. Lupo was previously arrested by Agents from the HUD and Department of Labor OIGs, and was convicted of conspiracy to defraud HUD, conspiracy to make false statements, wire fraud, and embezzlement from a bankruptcy estate. Lupo was involved in a variety of fraudulent schemes between 1994 and 1995 while he performed contract work at the Authority. During that time, he fraudulently billed the Authority for approximately \$1.5 million in construction change orders.



Additionally, Edward Kravitz, the former controller of a major plumbing and heating contractor doing business with the Chester Housing Authority, was convicted for his role in a conspiracy to defraud an insurance company (company). The company was retained to provide performance and payment bonds on mechanical work awarded to the contractor. The scheme involved the conversion of bonding company funds and was masterminded by the plumbing contractor president. The company, through its authorized representative, attempted to monitor the contractor's payroll and related expenditures by establishing a joint trust account. The contractor payment submissions, as well as the company's capital, were placed into this account in order to payroll the costs of the company funded work. Kravitz conspired with the plumbing contractor president to falsely inflate the contractor's payroll reports, causing the company to release more money than that to which the contractor was entitled. Between December 1994 and November 1995, Kravitz diverted approximately \$85,000. This was a joint investigation by the OIG Offices of Investigation and Audit and the Department of Labor OIG.

Former Section 8 recipient Penelope A. Kinsman was sentenced to 6 months confinement in a halfway house and 2 years probation, and was ordered to pay \$37,709 in restitution to HUD and a \$100 special assessment fee. Kinsman, also known as Penny Gallimore and Penny Clark Bennett, previously pled guilty to theft of public funds. An investigation by the **Lexington, MA** Police Department and OIG found that Kinsman failed to report her true income to the local housing authority in order to receive housing assistance benefits to which she was not entitled.

In **Kansas City, MO**, Edward E. Davis was sentenced to 3 months detention, 3 months in a halfway house, and 3 years probation, and was ordered to pay \$20,668 in restitution for making a false statement on an annual Tenant Eligibility certification form. Davis failed to report that his spouse, Betty Jean Davis, worked for the Internal Revenue Service. Betty Davis was also sentenced to 6 months home detention and 3 years probation and ordered, along with her spouse, to pay restitution. Besides pleading guilty to providing a false statement, Betty Davis also pled guilty to one charge related to workmen's compensation fraud. This investigation was conducted by OIG, IRS and the Department of Labor.

Dona Lee Rawlings-Varner, a former Section 8 resident, was sentenced to 3 years incarceration and 5 years supervised probation for her role in defrauding the Baltimore County Department of Public Services Housing Office of \$19,548. Varner began working for the **Baltimore, MD** Mass Transit Administration (MTA) in 1995 and had an annual salary of over \$30,000. She used her maiden name with the MTA and never reported her MTA employment to the Department of Public Services when recertifying for Section 8 assistance. She has been terminated from the Section 8 Program and ordered to pay \$19,000 in restitution. This was an OIG investigation.

Barbara Alston-Johns, a former Department of Veterans Affairs (DVA) employee in **Montrose, NY**, who was indicted on 1 count of submitting false statements to the government to obtain Section 8 rental assistance, was sentenced to 5 years probation and ordered to pay \$10,152 in restitution to HUD. Alston-Johns had falsely underreported her income on HUD recertification forms since 1995 by submitting false verifications of employment to the management agent, claiming she

made only half of what she actually earned. She also forged the signature of the human resources director at the DVA hospital on the suspect verification of employment forms. This investigation was initiated after a complaint was filed with the DVA OIG. OIG assistance was requested in conducting the investigation.

In **Pittsburgh, PA**, Joyce Emerick, a former Section 8 recipient, and her ex-husband, Robert Emerick, pled guilty to mail fraud and wire fraud. From 1986 to March 2000, Joyce Emerick received a total of \$76,000 in HUD rental assistance and Social Security benefits to which she was not entitled. During this period, the Emericks failed to disclose both Robert's income and their joint assets, i.e., a Florida vacation home and eight automobiles. This was a joint investigation by the HUD and Social Security Administration OIGs.

In **Uniondale, NY**, Betty J. Suggs, also known as Betty Heeraman, a Postal Service employee, pled guilty to one count of submitting false statements to HUD. She concealed her employment in order to fraudulently obtain federal rent subsidies. Suggs, along with previously convicted co-defendants Aldemar Quintero, Amparo Quintero-Baron, Angel Heeraman, and Paula Vasquez-Flores, was arrested in August 1996 by Task Force Special Agents of the HUD and Social Security Administration OIGs, FBI, Secret Service, and Postal Inspection Service at the Ocean View I multifamily assisted housing development. These defendants, along with 21 residents of Ocean View II, were found to have defrauded the HUD Section 8 Program out of more than \$350,000 in federal rent subsidy payments which they were ineligible to receive. The majority of the defendants were aliens residing in the United States illegally, and who used fraudulent birth certificates, Social Security cards, W-2s, and verifications of income in order to qualify for Section 8 Program assistance. The ringleader of the fraud conspiracy and his wife were also arrested and convicted; both cooperated in the investigation and helped to identify residents who were part of the fraud in both buildings.

Kalia Durham, former Housing Our Family (HOF) financial manager, pled guilty to two counts of theft from programs receiving federal funds. HOF receives funding not only from HUD, but from state and local governments, as well as low-interest loans from the **Portland, OR** Development Commission, to provide low-income housing. Durham embezzled over \$20,281 of commingled funds by giving herself pay advances and salary increases. Durham also retained HOF equipment for personal use. The investigation was conducted by the FBI and OIG.

Gloria Taveras, a teacher's assistant of the **New York City** Board of Education, pled guilty to fraudulently obtaining nearly \$14,000 in HUD Section 8 rent subsidy payments and was sentenced to 12 months conditional release. A joint investigation by OIG and the New York City Police Department's Internal Affairs Bureau disclosed that Taveras' boyfriend, a New York City Board of Education school safety officer, resided with her at her subsidized apartment, a fact that Taveras concealed. Their combined incomes exceeded the threshold levels for participation in the HUD Section 8 Program.

In **Houston, TX**, Andronic Lu-Shaun Harding, an accountant with El Paso Energy Corporation, was sentenced to 3 years supervised release for submitting false statements. The sentencing followed an OIG investigation which disclosed that

Harding reported child support as her sole source of income in order to receive Section 8 rental assistance, while she was in fact earning wages as a full-time accountant. In a plea arrangement, Harding paid full restitution of \$6,300.

In **Kansas City, MO**, following an investigation by the FBI, OIG, and the Missouri Department of Social Services, Section 8 resident Julienne Blair pled guilty to one felony count for theft by deceit. Blair provided false statements/information to qualify for Aid to Families with Dependent Children benefits and Section 8 subsidies between 1994 and 1996. Blair failed to report that he purchased properties, rehabbed them, and then resold the properties. Blair reported he had no income, as any profit was used to buy other properties.

A federal grand jury in **Salt Lake City, UT**, returned a 28-count indictment charging a former Section 8 recipient and a former landlord with conspiracy to defraud the United States, theft of government property, and false statements. Both individuals allegedly provided false information to the Housing Authority of the County of Salt Lake in order to receive rental assistance. The charges are the result of a joint investigation by the HUD, Social Security Administration, and Department of Agriculture OIGs. The overall fraud involves several different federally funded programs and is estimated to be over \$100,000.

The Ventura County District Attorney's Office filed a three-count felony complaint against two individuals for theft and conspiracy to obtain Section 8 subsidies and welfare assistance. One of the counts alleges that the individuals conspired to commit grand theft of \$11,075 in Section 8 subsidies from the Housing Authority of the City of **Oxnard, CA**. Pursuant to the complaint, both of the individuals voluntarily surrendered to authorities and are awaiting further court proceedings. This felony complaint resulted from an investigation by OIG and the District Attorney's Office for the County of Ventura.

In **Newark, NJ**, a federal grand jury indicted two individuals as a result of an investigation by the West African Task Force (WATF) into a conspiracy to obtain HUD subsidies based on fraudulent documentation. The WATF is a multi-agency group made up of the OIG, U.S. Attorney's Office, Postal Inspection Service, Secret Service, FBI, IRS Criminal Investigation Division, and the INS, tasked by the Department of the Treasury to investigate instances of widespread fraud. These indictments supersede similar indictments obtained by the WATF in November 1999. Specifically, each defendant was charged with 10 counts of mail fraud, 4 counts of wire fraud, 2 counts of producing false identity documents, and 1 count of conspiracy to commit mail/wire fraud and produce false identity documents.

An individual was arrested following an investigation by INS and OIG Agents. The individual had been living in public housing with his common-law wife for about 2 years, and allegedly qualified for public housing with counterfeit documents. He had also been deported on two prior occasions, and was in this country illegally for a third time. The individual was charged with making a false statement to the **Oklahoma City, OK** Housing Authority and reentering the United States after prior deportation. He also had an outstanding felony arrest warrant which was served at the time of his arrest. Eviction proceedings have begun.

In **St. Louis, MO**, an individual was charged with 2 counts of stealing by deceit (\$750 or more), burglary in the second degree, and failure to return rental property. The individual allegedly sublet her Section 8 apartment, then burglarized the apartment after her scheme was discovered by the Housing Authority. A state warrant has been issued for her arrest. This was an OIG investigation.

A former Section 8 tenant was indicted by the **Middlesex, MA** District Attorney's Office on 2 counts of larceny over \$250 and 2 counts of larceny by false pretenses. The tenant allegedly failed to report income to the Metropolitan Boston Housing Partnership, a Section 8 contract administrator, in order to receive housing assistance benefits to which she was not entitled. This was an OIG investigation.

A former Senator for the Commonwealth of **Puerto Rico** was arrested after being indicted for soliciting and receiving more than \$96,000 in kickbacks from contractors in exchange for the Senator's promise to use his political influence to resolve difficulties which had arisen in contracts with the Office of the Liquidation of Assets of Puerto Rico Urban Renewal (OLAPRUR) and the Puerto Rico Ports Authority (PRPA). The 44-count indictment charged the Senator with soliciting over \$20,000 in exchange for his promise to resolve difficulties with the contractors' efforts to purchase the Extension Los Robles property for the OLAPRUR. The indictment also charged the Senator with soliciting over \$75,000 in exchange for his promise to resolve difficulties with the contractors' efforts to purchase the Tropical Acres project to remodel and sell as low-income housing units.

This public corruption investigation of the Puerto Rico Housing Authority has resulted in 10 indictments, 2 criminal informations, and 9 guilty pleas. The investigation is being conducted by the FBI, the OIG Offices of Audit and Investigation, and the Puerto Rico Comptroller's Office.

The owner of Acadian Manor Apartments in **Lafayette, LA**, doing business as Housing Network, Inc., was charged with one count of conspiracy. A joint investigation by the FBI and OIG revealed that the property owner had devised a scheme to inflate the monthly applications for Section 8 housing assistance. The falsified applications resulted in the owner's receiving in excess of \$200,000 over a 3-1/2 year period.

Walter J. Turnbull, president of the Boys Choir of Harlem in **New York, NY**, provided the Department with a check for \$3,000 as an initial restitution payment. This action resulted from a joint investigation by the IRS Criminal Investigation Division and OIG which disclosed that Turnbull concealed his true income from the IRS from 1984 through 1994, falsified his tax returns, and submitted false certifications to the management agent at Manhattan Plaza, a HUD subsidized housing development, in order to obtain \$21,840 in Section 8 rent subsidies to which he was not entitled. Turnbull was previously sentenced to 1 year probation, ordered to make full restitution to HUD and the IRS, and ordered to pay a \$50 special assessment. Turnbull has been suspended from participation in HUD programs; debarment action is pending.

Following his conviction on one count of wire fraud and two counts of false statements, Victor Abdullah was indefinitely debarred from participation in HUD and other federal programs. A joint investigation by the FBI and OIG disclosed that

Abdullah, on behalf of a bonding company, issued a counterfeit performance bond in the amount of \$2.2 million in connection with a HUD public housing modernization project under the jurisdiction of the **Michigan City, IN** Housing Authority. The counterfeit bond was detected when the construction contract had to be terminated by the Authority due to the inability of the contractor to meet construction deadlines. The investigation found that Abdullah had no authority to issue the bond on behalf of the bonding company. He previously pled guilty and was sentenced to 21 months imprisonment and 3 years probation, and ordered to pay \$1.4 million in restitution.

## 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 criminal conspiracy, false statements, misuse of funds, and theft.

The former deputy director, **Philadelphia, PA** Housing Development Corporation (PHDC), was indicted on 30 felony counts, including criminal conspiracy, bid rigging, and theft of services. An investigation disclosed that over a 3-year period, the former deputy director used his position for personal gain. He allegedly engaged in a conspiracy with a major PHDC contractor to ensure that the contractor was the successful bidder for all PHDC contracts involving HUD funded rehabilitation work. In return for this arrangement, the contractor paid money to the deputy director and performed and provided construction services and materials for the deputy director's personal residence. The indictment follows a 2-year investigation conducted by the HUD and City of Philadelphia OIGs. The investigation focused on allegations of a kickback scheme to award \$1.3 million in City contracts for rehabilitation at 4 HUD insured multifamily dwellings to 1 construction contractor.

In **Schenectady, NY**, John Gundrum pled guilty to 1 count of making a false claim to the United States and was sentenced to 6 months home detention and 3 years probation, and ordered to pay \$55,039 in restitution to HUD. This resulted from an OIG audit of the City's Community Development Block Grant (CDBG) Program and a subsequent investigation by the FBI and OIG. Gundrum submitted fraudulent invoices, receipts, and copies of checks that were never executed for rehabilitation work purported to have been performed with CDBG funds.

Derek Salley, former lead account assistant for Northwest Housing Alternatives, Inc. (NWHAI) in **Portland, OR**, was sentenced to 3 years supervised probation and 6 months home detention with a monitoring device, and ordered to pay \$52,137 in restitution, a \$100 special assessment, and any other fees associated with the monitoring equipment. Salley previously pled guilty to theft from programs receiving federal funds. NWHAI received commingled funds from the HUD CDBG

Program and the City of Portland. Salley embezzled over \$51,000 in commingled funds by altering vendor checks and issuing unauthorized checks to himself, and paid personal expenses with company checks. This was an OIG investigation.

Following an investigation by OIG and the Minnesota Department of Economic Security, Orson Matlock was charged with 2 counts of theft by swindle of over \$500, a felony, and theft by swindle of less than \$250, a misdemeanor, and pled guilty to 1 count. Matlock was employed by "Project Off-Streets," a HUD funded nonprofit agency in **Minneapolis, MN**, that helps homeless teenagers. He was ordered to pay \$1,484 to "Project Off-Streets" and received 60 months probation and 90 days at a work house. He was also ordered to remain alcohol and drug free.

## Other Significant White Collar Investigations

During this reporting period, other significant white collar OIG investigations resulted in one sentencing, one indictment, and one pre-trial diversion agreement.

In **San Juan, PR**, Alejandro Diaz-Giral was sentenced to 18 months in prison and 4 years supervised release, and was ordered to pay \$83,000 in restitution. Diaz-Giral previously pled guilty to nine counts of mail fraud and one count of impersonating a federal employee. An investigation by the FBI, OIG, and the Puerto Rico Police disclosed that Diaz-Giral devised a scheme in which he claimed to be a representative of the U.S. Federal 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" at which he promised federal jobs with the "HUD Liaison Office" to those who attended. He required job applicants to pay \$237 to participate in training that was supposedly scheduled in the Dominican Republic. The investigation disclosed that over 250 individuals paid the training costs and expected federal employment.

A HUD Community Planning and Development Specialist in **Beaumont, TX**, was indicted on 14 counts of submitting false statements. The indictment resulted from an OIG investigation of official travel associated with the employee's position at HUD. The investigation disclosed that between September 1996 and February 2000, the employee allegedly submitted false statements and representations on documents, including the falsification of hotel receipts while the employee stayed with friends at their private residences, which were attached to numerous government travel forms and submitted for reimbursement. The employee was arrested in April, and is on suspension without pay. No judicial proceedings have been scheduled at this time.

In **Orlando, FL**, a former intern in the HUD Office of General Counsel signed a pre-trial diversion agreement and agreed to pay back \$14,215 to HUD for Lexis Nexus charges that he incurred after he left HUD and moved to Florida. The intern still had access to Lexis Nexus because his password had not been cancelled, and he used the Lexis Nexus information for personal use. This was an OIG investigation.

# 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. These investigations are part of an initiative known as Operation Safe Home. The 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.

The **South Jamaica, NY** Task Force, consisting of the New York City Police Department's Organized Crime Control Bureau, Southeast Queens Narcotics Division, and the Housing Bureau, OIG, and the Queens County District Attorney's Office Narcotics Investigation Bureau, was established in July 1998 to target drug trafficking, violent crime, and gang activity in and around the South Jamaica public housing development. During this reporting period, 3 individuals were sentenced to a total of over 18 years in prison. A fourth person was sentenced to life in prison. All four were members of the *Chomp Crew*, a violent gang that controlled a \$3 million per year drug trafficking enterprise in and around the South Jamaica development. Thirteen people were also arrested on drug charges during this reporting period. To date, operations by the Task Force have resulted in the arrest of over 100 drug dealers and their associates belonging to the *Chomp Crew*, the *Corley Crew*, and the *Forty's Freelancers* gangs. In addition, the Task Force has seized 288 glassines of heroin, 288 vials, 448 ziplock bags, and 11 ounces of crack, 5-1/2 ounces of heroin, 5-1/2 ounces of cocaine, 3-3/4 ounces of marijuana, \$66,423 in cash, 1 shotgun, 4 pistols, 1 revolver, 1 stun gun, 220 live rounds of ammunition, and 8 vehicles. Eighteen drug dealers have also been evicted from the development by the New York City Housing Authority. In addition, the Task Force has been responsible for dismantling the *Chomp Crew*, the *Corley Crew*, and the *Forty's Freelancers* gangs.

In **Topeka, KS**, several Safe Home Task Force operations yielded significant results during this reporting period. Investigations by the FBI Violent Crime Task Force, Kansas National Guard Counter Drug Operations Unit, OIG, DEA, USMS, Shawnee County Sheriff's Department, Kansas Bureau of Investigation, and the Topeka Police Department resulted in the sentencing of seven individuals and the indictment of three others. Four were sentenced to a total of nearly 30 years in prison and 16 years supervised release after selling over \$9,800 worth of drugs to undercover Agents in public housing developments; all 4 were ordered to attend a substance abuse program. Another person was sentenced to 22 months in prison and 2 years supervised release for possession with intent to sell or distribute nearly

10 grams of methamphetamine at a HUD subsidized housing complex. Two others were sentenced to a total of 10 years in prison and 8 years supervised release, and were ordered to attend a substance abuse program, after selling cocaine in public housing developments.

In another case, William Johnigan, Jr. was sentenced to 139 months in prison and 36 months supervised release, fined \$500, and ordered to pay \$13,941 in restitution. Johnigan previously pled guilty to two counts of bank robbery and three counts of robbery. Johnigan was also recently sentenced to 15 months in prison and 36 months supervised release in the Western District of Missouri, and ordered to pay \$22,802 in restitution and a \$100 fine. He had pled guilty to one count of conspiracy to commit bank fraud. Both sentences resulted from Johnigan's arrest during "Operation Clean-Up." To date, this Safe Home initiative has resulted in 37 arrests and involved undercover drug purchases in 4 Topeka public and assisted housing developments. The "Operation Clean-Up" Task Force consists of the OIG, Kansas Bureau of Investigation, and the Topeka Police Department.

Julius Black, Robert Hayes, Robert Calchado, Sherman Shirley, Marvin Hayes, Walter James Johnson, and Jay Hall were sentenced in **Louisville, KY**, to a total of over 52 years in prison, 31 years supervised release, \$1,900 in special assessments, and 1 year of home incarceration. The sentencing resulted from an Organized Crime Drug Enforcement Task Force investigation called "Operation Hardline." The individuals were responsible for importing marijuana and cocaine from Texas to Louisville, and ultimately into Louisville public housing developments. Over \$700,000 in cash and 500 pounds of marijuana were seized during the investigation. This Task Force is made up of the USCS, DEA, IRS, OIG, and the Louisville Police Department.

In **Omaha, NE**, Reginald Hawkins and Djuan Beverly pled guilty to three counts and one count of distribution of crack cocaine, respectively. Donald R. Pitre was convicted on 1 count of unlawful possession with intent to deliver a controlled substance (crack cocaine) and was sentenced to 1 year in prison. Pitre, a Section 8 resident, was previously arrested for possession of 38 grams of crack cocaine and 78 grams of marijuana. Lorenzo Moss was sentenced to 18 months in state prison for distributing crack cocaine in public housing. In addition, an individual was indicted for selling 2 ounces of crack cocaine with a street value of \$5,600. This individual allegedly was a supplier to various drug dealers who were selling in and around public/assisted housing. These actions followed Safe Home initiatives by the OIG, DEA, ATF, USPS, and the Omaha Police Department, some of which targeted the *Vietnam Gangster Bloods*, also known as the *Deuce Four Bloods*, a violent street gang dealing narcotics in public and assisted housing developments.

The **Greensboro, NC** Violent Crimes Task Force, which is made up of the FBI, DEA, ATF, OIG, USMS, U.S. Attorney's Office, Greensboro, Kernersville, Winston-Salem, and Burlington Police Departments, North Carolina State Bureau of Investigations, the North Carolina Probation Office, and the Guilford County Sheriff's Department, has been addressing violent crime in public and assisted housing for about 1 year. In total, Task Force operations have resulted in the indictment of more than 100 criminals on both state and federal narcotics and firearms violations. During this reporting period, 7 individuals were sentenced to a total of 148 years in prison, 34 years supervised release, and 820 hours of community



service. Another person pled guilty to possession of cocaine with intent to distribute in public housing, and another was indicted for distributing crack cocaine and conspiracy to distribute crack cocaine in public housing. In addition, 2-1/2 pounds of cocaine, over \$16,000 in cash, 5 weapons, and 6 vehicles were seized.

As part of their Safe Home effort, the Task Force conducted a “zero tolerance” operation in response to a rash of recent shootings in Greensboro public housing. Approximately 90 Officers were included in the operation, in part to show the community that the Police are there and are concerned for their safety, and in part to demonstrate that they are serious about prosecuting the persons involved in the recent shooting spree. The first day of the operation included the execution of search warrants and the arrest of six individuals for state narcotics violations. Consent searches were conducted at 21 other properties, and Officers were allowed to look for several wanted subjects. With community support, the second day turned up the main suspect in the shootings. The North Carolina Highway Patrol and North Carolina Division of Motor Vehicles also assisted in the operation by setting up drivers’ license checks within the immediate area.

As a result of a covert drug operation conducted by the OIG at Blue Hills Apartments, a Section 8 complex in **Kansas City, MO**, which has been plagued with drugs and violent crime, Michael J. Gant was sentenced to 92 months in prison and 36 months probation and fined \$100. In addition, Steven A. Gant was sentenced to 37 months in prison and 36 months probation and fined \$100. The Gants were convicted of selling crack cocaine to an undercover OIG Agent on several occasions. Kelvin Coleman was also found guilty of distribution of a controlled substance at Blue Hills Apartments. These initiatives were conducted by OIG and the Kansas City Police Department.

“Operation East Orange” continued to significantly impact drugs and violent crime in public and assisted housing in **East Orange, NJ**. During this reporting period, three individuals pled guilty and were sentenced on drug distribution and possession charges. The three were identified as major distributors of heroin and cocaine in the vicinity of the Arcadian Gardens public housing development. James Jones was sentenced to 4 years in state prison; Alexander Cross was sentenced to 5 years in state prison; and Bertrand Roe, also known as Berton Roe, received 364 days in county jail and 4 years probation. In addition to these sentencing, 116 people were arrested in or near Arcadian Gardens on charges including purchasing heroin and cocaine, possession of heroin, loitering with intent to buy and/or sell controlled and dangerous substances, distribution of narcotics, and distribution within 500 feet of public housing. In total, 239 packets of heroin, 115 vials of cocaine, 20 bags of marijuana, 1 weapon, \$2,668 in cash, and drug paraphernalia were confiscated. “Operation East Orange” is a multi-agency law enforcement effort comprised of the OIG, FBI, DEA, ATF, East Orange Police Department, and the Essex County Prosecutor’s Office Narcotics Unit.

Task Force efforts by OIG, the **Houston, TX** Police Department, and the Harris County Constable’s Office continued to produce significant results during this period. In one operation, conducted as part of the Greenspoint Anti-Drug Initiative, 96 individuals were arrested in the Arbor Courts Section 8 complex on charges including narcotics violations and outstanding fugitive warrants. Over 39 grams of marijuana and a small amount of cocaine were confiscated. Another operation

resulted in the arrest of 46 individuals in and around the Lincoln Park, Irvinton Village, Kelly Village, Kennedy Place, and Clayton Homes public housing developments. Charges included possession with intent to distribute, delivery of a controlled substance, felon in possession of a firearm, outstanding fugitive warrants, trespassing, assault, evading arrest, and unauthorized use of a motor vehicle. About 240 grams of codeine, 29 grams of marijuana, and 42 grams of cocaine were seized. Anti-Drug Initiative operations also led to a guilty plea by Phillip Dwight Smith for possession with intent to distribute a controlled substance. Smith distributed narcotics to residents, visitors, and dealers in and around Arbor Courts and the Townhomes Section 8 developments.

Larry Chalmers and Patrick Andrews pled guilty to distributing crack cocaine in **Memphis and Jackson, TN** public housing developments. They sold over 110 grams of cocaine to members of various street gangs at the Tulane Apartments, a HUD subsidized complex. They also attempted to purchase 1 kilogram of cocaine in a reverse sting operation in **McKenzie, TN**, when they were apprehended by the Tennessee Highway Patrol (THP) and Task Force Agents. The Task Force is comprised of OIG, THP, and the 24th Judicial District Drug Task Force.

**Hillsboro and Beaverton, OR** Safe Home initiatives resulted in the sentencing of Marcelo Olvera-Cornea to 22-1/2 years incarceration following his guilty plea to possessing a controlled substance with intent to distribute, felon in possession of a firearm, and eluding examination and inspection on 2 occasions. An investigation, conducted by the Hillsboro Street Crimes Unit, ATF, and OIG, identified Olvera-Cornea as the source for a street level narcotics dealer near HUD assisted housing and an elementary school. During the investigation, Officers and Agents served a state search warrant at the dealer's residence where they observed a suspect travel to Olvera-Cornea's residence. A subsequent search of Olvera-Cornea's residence netted 4 pounds of methamphetamine with a street value of \$35,000, 2 rifles, 1 handgun, \$812 in cash, and fictitious Social Security and resident alien cards.

Officers from the Beaverton Police Department (BPD) and Westside Inter-agency Narcotics Team (WIN) executed a state search warrant at a Washington County Section 8 apartment. OIG and WIN had been investigating allegations that the resident and accomplices were producing methamphetamine. BPD conducted a traffic stop on the resident and two other individuals, arrested the driver, and searched the vehicle. Approximately 4 grams of methamphetamine, packaged for distribution, were found in the vehicle. The resident and one associate were arrested for possession/distribution of a controlled substance. The resident then consented to a search of the Section 8 apartment, where a methamphetamine lab was discovered. In total, approximately 1 ounce of methamphetamine was recovered. The investigation reports were submitted to Washington County Housing Services officials for eviction consideration.

As a result of operations by the **Oklahoma City, OK** Safe Home Task Force, Cipriano Alvarez was sentenced to 36 months in prison followed by 5 years supervised release. Alvarez was a supplier to multiple level drug dealers who sold cocaine and methamphetamine to Section 8 residents in Oklahoma City and Chickasha. The sentencing is the result of a 6-month investigation by the Oklahoma City Safe Home Task Force targeting suppliers of narcotics to HUD funded housing.

In another Task Force operation, Agents and Officers executed 2 federal search warrants in a Section 8 complex and arrested an individual for selling over 23 grams of crack cocaine. The search warrant stemmed from multiple undercover buys and surveillance operations and resulted in the seizure of over 300 grams of marijuana, 30 grams of cocaine, 1 loaded pistol with laser sights, 2 digital scales, and 1 vehicle. The Task Force is made up of OIG and the Oklahoma City Police Department.

In pre-dawn raids, over 200 federal and state law enforcement officers dismantled the violent crime enterprise responsible for drug distribution and violent criminal activity at public housing developments in **Ponce and San Juan, PR**. Thirty-two members of the criminal organization were indicted by a federal grand jury for money laundering and distribution of cocaine and heroin. Since 1992, this organization has been responsible for over 35 drug related murders in furtherance of their criminal activities. The successful execution of 12 arrest warrants was coordinated by the HUD and Social Security Administration OIGs, FBI, ATF, DEA, INS, USMS, USCS, Puerto Rico National Guard, Puerto Rico Police Department, and the San Juan Municipal Police.

Another effort was undertaken by DEA, OIG, and the Puerto Rico Police Department to dismantle a violent crime enterprise responsible for drug distribution and violent crime, this time at Las Acasias, a HUD subsidized development. Search warrants netted 377 bags of marijuana, 27 bags of marijuana cigarettes, 243 bags of cocaine, and 1 firearm. This operation was initiated after an individual recently shot a firearm at two DEA Agents while they were gathering information at the development.

In **Cleveland, OH**, a total of 19 individuals were indicted for possession with intent to distribute crack cocaine and conspiracy to distribute crack cocaine. The indictments stemmed from a 10-month investigation at the Riverside Park Estates public housing development. The individuals were previously convicted felons who plagued the development with drug transactions and violence. Ten of the individuals have been arrested. In addition, 11 other individuals were arrested on state charges. Eight residents are being processed for eviction. During the investigation, 180 grams of cocaine, 1 revolver, 3 semi-automatic handguns, and \$82,000 in cash were seized. This investigation was conducted by the OIG, DEA, Cuyahoga Metropolitan Housing Authority Police, and the Cuyahoga County Sheriff's Office.

OIG and the **Worcester, MA** Police Department Vice Crimes Unit, at times assisted by the Massachusetts State Police, the Oxford, Webster, West Boylston, and Shrewsbury Police Departments, Worcester Police Department Detective Bureau, Massachusetts Department of Youth Services, DEA, and the Central Massachusetts High Intensity Drug Trafficking Area Task Force, continued to pursue violent crime, drugs, and gang activity in public and assisted housing developments. During this period, their efforts netted 37 arrests on charges of drug distribution and trafficking, conspiracy, and armed home invasion, and the seizure of \$38,895 in cash, about 1,790 grams of cocaine, 673 grams of heroin, 1 weapon, drug packaging materials, and ammunition. One public housing resident was ordered to vacate her apartment, another entered into an agreement with the Worcester Housing Authority to vacate her apartment and terminate her housing benefits rather than face eviction proceedings, and one Section 8 resident had his housing assistance payments terminated. Evictions proceedings were initiated against several public/

assisted housing residents. In addition, public housing residents Jimmy Saez and Luis Ortiz were convicted in connection with an August 1999 drive-by shooting in the Great Brook Valley public housing development. Both were convicted on charges of armed assault with intent to murder and assault and battery with a dangerous weapon, and were sentenced to prison for 15 to 20 years.

Sixteen individuals, who were arrested in December 1999 in predawn raids by OIG, DEA, and the **Key West, FL** Police Department for distributing heroin and crack cocaine in public housing developments, pled guilty. Seven were sentenced to a total of 12-1/2 years in prison and 18 years supervised release. Sentencing for the remaining nine individuals is pending.

Over the past 6 months, the Greater **Little Rock, AR** Safe Home Task Force has made significant inroads into drug activity in public and assisted housing developments. A total of 176 individuals were arrested on drug and weapons charges and 8,000 tablets of the designer drug ecstasy with an estimated street value of \$140,000, 680 grams of cocaine, 52,590 grams of marijuana, 4 grams of heroin, 25 weapons, ammunition, \$15,000 in cash, drug paraphernalia, substances used for illicit drug manufacturing, and 2 scales were confiscated. The drug ecstasy was the topic of a recent national news prime time program suggesting that the effects of the drug are arguably more insidious than even crack cocaine. Several deaths have been linked to its usage. This Task Force is made up of members of the Pulaski County Sheriff's Office, the Little Rock and North Little Rock Police Departments, and OIG.

The **Inglewood, CA** Task Force, comprised of the DEA Mobile Enforcement Team, ATF, OIG, USMS, and the Inglewood Police Department, is focused, through "Operation Sentinel," on apprehending violent fugitives, combatting narcotics and firearms trafficking, and decreasing gang activity, most notably *Tepas 13* and other street gangs, in public and assisted housing. During a recent investigation, several drug purchases were made near various housing developments, resulting in an aggregate of 88 felony arrests and 17 misdemeanor arrests. Of the 105 arrested, 39 were suspected members of the following gangs: *Inglewood 13*, *Tepas 13*, *Osage Legend Crips*, *Crenshaw Mafia Bloods*, and *Inglewood Family Bloods*. Thirty-seven individuals were on probation/parole at the time of their arrest. A total of 21 search warrants were executed during this operation, leading to an aggregate seizure of 2 pounds (910 grams) of cocaine, 5 pounds (2,571 grams) of heroin, 1 pound (474 grams) of methamphetamine, 2-1/2 pounds (1,168 grams) of marijuana, 4 ounces of PCP, 8 firearms, and \$6,300 in cash.

As a result of operations by the **Denver, CO** Safe Home Task Force, Wilfredo Tauler Gomes, a heroin trafficker, was sentenced to 27 months in prison after being convicted of 4 counts of distribution and 1 count of conspiracy to distribute a controlled and dangerous substance in public housing. In addition to this sentencing, 14 others were arrested during the reporting period, including 1 public housing resident who had an outstanding fugitive warrant for distribution of narcotics, 1 Section 8 resident who was a fugitive on a robbery warrant, 1 person who was wanted on out-of-state warrants for forgery, criminal threats, burglary, possession of a firearm, and parole violation and who attempted to sell a stolen car in public housing, and 1 federal fugitive who was wanted for conspiracy to distribute cocaine

in public housing. Task Force members also seized 23 grams of crack cocaine, 3 handguns, \$2,000 in cash, and 1 vehicle. The Task Force is made up of OIG and the Denver and Glendale Police Departments.

“Operation Riptide” is an Organized Crime Drug Enforcement Task Force investigation conducted by the FBI, OIG, and the **Newport, RI** Police Department targeting narcotics traffickers operating in the Tonomy Hill/Park Holm public housing developments. During this reporting period, Section 8 resident Wesley A. McClinton was sentenced to 46 months in prison and 36 months probation following his guilty plea to 3 counts of distribution of cocaine base. Another individual was indicted on four counts of distribution of cocaine base. Eight other individuals were arrested on charges ranging from narcotics violations, assault and battery on a Police Officer, and obstructing a Police Officer, to assault and murder charges following a shooting at Tonomy Hill. During one operation, Task Force members observed an exchange between two known narcotics dealers in front of a unit at the development. One of the individuals, who was driving a vehicle, fled the scene. His knapsack, which contained over 3 pounds of suspected marijuana, was seized and a search warrant was obtained for his vehicle; the warrant yielded 15 grams of crack cocaine. A search warrant executed on another individual’s Section 8 apartment netted approximately 3 pounds of suspected marijuana and drug paraphernalia.

Five individuals were indicted by a federal grand jury for selling heroin in HUD subsidized Section 8 developments in **Charleston, SC**. The charges were the result of a search warrant executed in a Section 8 unit during which 4 individuals were arrested, including the Section 8 resident, and 126 bags of heroin and about \$1,600 in cash were seized. Another search warrant was executed at the hotel room of the alleged suppliers of the arrestees. Eviction procedures against the Section 8 resident are underway. This investigation was conducted by the FBI, OIG, Charleston and Mount Pleasant Police Departments, and the Charleston Sheriff’s Department.

As a result of operations by the **Albuquerque, NM** Safe Home Task Force, an individual was indicted by a federal grand jury on three counts of distributing crack cocaine and one count of possession of a firearm in furtherance of a drug trafficking crime. The individual, who was a public housing resident, was arrested on July 14. After a detention hearing, the U.S. Magistrate ordered the individual to be detained because he was a danger to society. In another operation, the Task Force executed 1 search warrant and 2 arrest warrants at C&A Auto Salvage, where 2 individuals were arrested and a small amount of marijuana, 7 firearms, and \$21,896 in cash were confiscated. Over 1-1/2 kilos of cocaine were previously purchased from the arrestees throughout the course of this 4-month initiative. The arrestees had been identified as major distributors of cocaine to residents of Section 8 housing throughout the Albuquerque area, particularly in an area known as the “War Zone.” These arrestees would purchase the cocaine, convert it into crack cocaine, and distribute it throughout the “War Zone,” an area comprised primarily of assisted housing. Following the arrests, consensual searches were conducted of the arrestees’ residences, which consisted of personal residences as well as a rental property, and a safety deposit box. In addition, three illegal aliens who were working at C&A were turned over to the INS for deportation proceedings; C&A Auto Salvage may possibly be forfeited. This Task Force includes the OIG, DEA, FBI, and the Albuquerque Police Department.

Over 100 people were arrested in **New Orleans, LA** public housing developments and Section 8 neighborhoods during the past 6 months. Charges included drug violations, outstanding fugitive warrants, possession of firearms, possession of stolen property, vehicle theft, criminal damage to property, and burglary. The Task Force confiscated 4,228 grams of cocaine, 772 grams of marijuana, 108 grams of heroin, \$11,452 in cash, 11 weapons, 1 vehicle, ammunition, drug paraphernalia, and 1 walkie-talkie. This Task Force is made up of the ATF, OIG, and the New Orleans Police Department.

In **Washington, DC**, search warrants related to a 58-count Racketeering Influenced and Corrupt Organization/Corrupt Criminal Enterprise indictment, charging 30 individuals from Washington, DC, Maryland, and Northern Virginia with conspiracy to distribute and possession with intent to distribute heroin in public housing, were executed by Officers and Agents from the Metropolitan Police Department, FBI and OIG. This action produced one of the largest combined drug and cash seizures in Washington, DC history. Thirty individuals were arrested. To date, seizures include 6 kilos of pure heroin with a street value of \$20 million, 20 guns, \$950,000 in cash, and 15 vehicles.

More than 40 Agents and Officers from OIG, ATF, the Allegheny County Police, **Pittsburgh, PA** Housing Authority Police, and Pittsburgh Police Department attempted to serve arrest warrants for 57 individuals implicated in a 2-year undercover investigation which focused on drug and gang related criminal activity at the Bedford Dwellings and St. Clair Village public housing communities. About 130 undercover drug transactions took place during this operation, along with the purchase of 3 handguns. Twenty-four individuals were arrested on June 14, 9 more surrendered the following day, and several more are currently negotiating their surrender to law enforcement. The Pennsylvania State Police provided air support for this operation, and while assisting in Bedford Dwellings discovered two clandestine marijuana “grow” sites in a wooded area adjacent to the complex. OIG is coordinating with the Pittsburgh Housing Authority to ensure that eviction actions are initiated against those Authority residents who were arrested or who assisted any suspects.

This enforcement operation received extensive media coverage in Western Pennsylvania. The president of the Bedford Dwellings Tenant Council was quoted in the Pittsburgh Tribune-Review as saying: “All the residents have been complaining about the drug problem for a long time.... So, of course people are excited that the streets have been cleaned up. This has been a long time coming.”

The OIG, Manchester Police Department Special Investigations Unit, New Hampshire State Police Narcotics Unit, and the High Intensity Drug Trafficking Area Task Force, consisting of the FBI, DEA, USMS, IRS Criminal Investigation Division, and various state and local law enforcement agencies, carried out a number of Safe Home initiatives in and near **Manchester, NH** Section 8 and public housing developments. In one particularly significant case, Agents and Officers executed a controlled delivery and subsequent seizure of 250 grams of ketamine sent from China. The ketamine has an approximate street value of \$175,000. It was an unprecedented seizure in the Manchester area, where only several grams of ketamine have been seized previously. The person arrested was charged with violating state narcotics laws. The arrestee has been involved in

substance distribution for several years, including ecstasy and other narcotics. Eleven other individuals were arrested during this reporting period, and 3 pounds of marijuana worth about \$3,600, 100 ecstasy pills worth about \$1,300, over 1/2 kilogram of cocaine, \$800 in cash, and drug paraphernalia were confiscated following other operations by Task Force members.

Following the execution of a search warrant, the OIG discovered a methamphetamine drug lab located between two HUD subsidized multifamily complexes in **Salt Lake City, UT**. The lab was one of the most contaminated and hazardous sites ever found in Utah. The City's Hazardous Materials Group decontaminated approximately 20 people adjacent to the complexes and the City condemned the buildings in the area. A 20-day old child found at the scene tested positive for having methamphetamine in his body and being addicted to the drug. A booby trap was also found connected to the front door, which would electrocute anyone who touched the front door knob. Two individuals were arrested and charged federally with manufacturing drugs within 1,000 feet of a public housing property, possession of a clandestine drug lab, felon in possession of a firearm, illegal sale and manufacturing of a synthetic drug, and felony child abuse.

A few days later, the OIG executed another search warrant in a HUD funded multifamily development, found 30 grams of methamphetamine, and arrested 2 individuals on charges of possession of a controlled substance with intent to distribute. The 2 individuals were also charged with felony child abuse because narcotics were found under a 4-year old child's bed.

The following day, OIG Agents seized 4 grams of methamphetamine and materials consistent with those used in a drug lab after they executed a search warrant in a neighborhood of HUD funded developments. One individual was arrested and charged with possession of a controlled substance.

In **New Haven, CT**, Safe Home Task Force members, including OIG, the Connecticut State Police, and the New Haven Police Department, conducted numerous operations in Section 8 neighborhoods and public housing developments. A total of 43 individuals were arrested on various charges including possession of narcotics, possession of marijuana and heroin, possession within 1,500 feet of a school, operating a drug factory, possession of drug paraphernalia, violating probation, criminal possession of a firearm by a convicted felon, illegal possession of body armor, and interfering with a Police Officer. In addition, Section 8 assistance was terminated for two residents and one public housing resident was evicted. An aggregate of 35 bags of heroin, 88 bags of crack cocaine, over \$50,000 worth of marijuana, \$11,240 in cash, 1 vehicle, proof of residence, 2 stun guns, 1 revolver, 1 handgun, ammunition, 1 scale, 4 cell phones, 1 State of Connecticut identification card, 2 scanners, and gang photographs were confiscated.

OIG Agents and Baltimore City Police Detectives executed a search warrant and seized over \$13,700 worth of illegal narcotics, including 540 gelcaps of heroin, 300 ziplock bags of crack cocaine, and 115 ecstasy pills, at the O'Donnell Heights public housing development in **Baltimore, MD**. Cash totaling \$1,240 was also seized. Six occupants were arrested and charged with distribution of illegal narcotics. The O'Donnell Heights Task Force believes that this particular apartment is one of the main distribution points for illegal narcotics in the development. The Housing

Authority of Baltimore City has been advised to begin eviction proceedings against the resident of record.

In another O'Donnell Heights initiative, and as a deterrent to would-be drug purchasers in the development, OIG Agents and Baltimore City Police Detectives executed 2 reverse sting operations during which 31 individuals were arrested and charged with attempting to possess a controlled substance. Cash totaling \$1,843 and 12 vehicles were seized. Of those arrested, 13 were identified as residents of O'Donnell Heights. OIG has notified the local housing authority to begin eviction proceedings against violators of the "One Strike and You're Out" policy.

As a result of a sting operation conducted by "Operation Southside Crackdown" Task Force members, two people were arrested. The first arrestee is a member of the *16 Street Boyz* gang and a major heroin dealer in the Afton Avenue Apartments, a public housing community in **Richmond, VA**. He was arrested on federal charges of conspiracy and distribution of heroin. Subsequent to the arrest, a search warrant was executed at the individual's residence; he lives one block away from Afton Avenue Apartments. The individual is also a suspect in two homicides. The dealer's supplier was also arrested on federal charges of conspiracy and distribution of heroin, following a transaction videotaped and witnessed by Task Force members. The supplier has major heroin connections in the New York/New Jersey area. The Task Force seized 6 ounces of heroin, \$7,200 in cash, 2 vehicles, 1 bullet-proof vest, 1 police scanner, 1 handgun, and a small amount of marijuana. A juvenile was also arrested on state charges of possession of a small quantity of heroin. Heroin previously purchased from this dealer has been tested and identified as 95 percent pure. Heroin use has become a growing problem in the Richmond Metropolitan area. Eighteen individuals have died due to heroin overdoses this year. This operation was conducted by the OIG, DEA, FBI, Virginia State Police, and the Richmond and Chesterfield County Police Departments.

The OIG, USMS, DEA, **Chicago, IL** Police Department's 5th District Gangs/Tactical Team and Organized Crime Division Gang Unit, the Cook County High Intensity Drug Trafficking Area Task Force, and the Cook County State Attorney's Office conducted "Operation Alligator" by executing 12 state arrest warrants on members of the *Black P Stones*, *Concrete Vice Lords*, and *Four Corner Hustler* gangs. These gangs operated a \$10,000 per day crack organization in the Altgeld Gardens public housing development. The arrest warrants were executed after the Task Force conducted numerous undercover drug purchases. The defendants were charged with criminal drug conspiracy and delivery of a controlled substance. During execution of the warrants, Task Force members seized 1/2 ounce of crack cocaine, 1 ounce of marijuana, and \$3,000 in cash. Following this first phase of "Operation Alligator," the Cook County State Attorney's Office authorized 10 additional arrest warrants for members of the *Black Disciples* and *Black P Stones* gangs involved in the distribution of crack cocaine to undercover Agents and Officers.

In **Tacoma, WA**, OIG Agents participated with the Tacoma DEA Task Force, including the IRS, INS, Washington State Patrol, and Tacoma and Puyallup Police Departments, in conducting a buy/bust operation involving 455 grams of heroin. The operation resulted in the execution of two search warrants in public and as



sisted housing. About 750 grams of black tar heroin, \$10,000 in cash, and 4 vehicles were seized. In addition, four individuals were arrested.

In another operation, the Tacoma Police Department's Special Investigations Division served a search warrant at a residence located next to assisted housing. The search warrant was executed as part of an investigation by OIG and the Tacoma Police Department targeting the trafficking of cocaine from the residence. The warrant resulted in the seizure of over 3 grams of cocaine and 3 grams of methamphetamine. Four individuals were arrested.

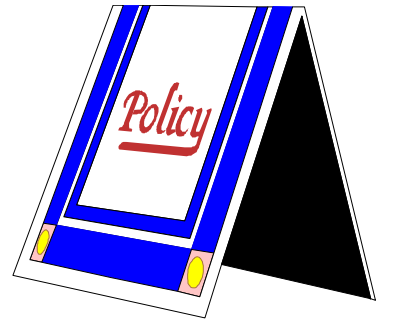
The **Atlanta, GA** High Intensity Drug Trafficking Area Task Force executed two arrest warrants on two individuals conducting business around the Jonesboro North and South public housing complexes. One of the arrestees was a licensed firearms dealer. An ATF analysis concluded that over the course of 2 years, the dealer sold 100 firearms, and 25 of those firearms were associated or involved with violent criminal acts. The second arrestee was a "straw" purchaser, who falsified ATF forms at the time the firearms were purchased. Another operation by the Task Force at the Jonesboro complexes netted the arrest of 5 people and the seizure of 2 pounds of marijuana, 8 grams of packaged marijuana, 1 gram of packaged crack cocaine, 1 digital scale, and drug paraphernalia. This Task Force is made up of the FBI, DEA, OIG, ATF, INS, USCS, the Atlanta Police Department, and the Georgia Bureau of Investigation.

Seven people were arrested and over 100 ounces of cocaine, a large variety of controlled substances, including Valium, Xanax, Rohypnol, Percodan, and Propoxyphene, \$15,000 in cash, 5 weapons, and 1 vehicle were confiscated as a result of Safe Home initiatives undertaken by the OIG, DEA, IRS, USCS, USMS, Mississippi Bureau of Narcotics, Jackson Police Department, Mississippi Safe Home/High Intensity Drug Trafficking Area Task Force, and the Hinds County Sheriff's Office. The initiatives were focused on public and assisted housing developments in **Jackson, MS**. In one case, a suspect was armed with a revolver, but an arrest was made without incident. Most of the arrestees were charged with distribution of drugs and drug trafficking. As part of these Safe Home efforts, a long-term investigation known as "Operation Safe Harbor" was initiated.

In **Las Vegas, NV**, a state search warrant executed at an apartment in the Hullum Homes public housing development led to the arrest of 1 person for possession of marijuana with intent to distribute. Over 100 grams of marijuana and \$4,000 in cash were confiscated. Two state search warrants executed at the Miller Plaza public housing development resulted in the arrest of two individuals for trafficking in cocaine. Thirty grams of cocaine, 54 grams of rock cocaine, and \$1,590 in cash were seized from the apartment. These operations were conducted by a Task Force made up of the Las Vegas Metropolitan Police Department and OIG.

# 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 139 legislative, regulatory, funding notices, and other HUD directive proposals. In addition, the OIG submitted one legislative proposal to the Congress. This chapter highlights some of the OIG recommendations.

## Legislation

### ***OIG Legislative Proposal***

In July 2000, the OIG submitted a legislative proposal to a Member of the House Committee on Appropriations, Subcommittee on Veterans Affairs, HUD, and Independent Agencies. The Member had expressed concern, during HUD's appropriation hearing, about Community Development Block Grant (CDBG) funds being used to benefit persons and entities other than low- and moderate income (LMI) individuals.

We proposed that section 104(b) of the Housing and Community Development Act of 1994 be revised to require a more effective methodology for measuring benefits provided to LMI individuals. The Act requires that CDBG funding be targeted to LMI individuals. In 1983, the Congress required that not less than 51 percent of CDBG funds benefit LMI individuals. The Congress increased the benefit threshold to 60 percent in 1988, and to 70 percent in 1990, to better target funding.

An audit by the OIG (Report No. 93-HQ-141-0008, dated April 27, 1993) reviewed CDBG expenditures for 18 grantees and found that the Department's LMI benefit claims were based largely on speculative estimates and inappropriate methodologies. As a result, those benefit claims were significantly overstated. The audit showed that the actual benefits to LMI individuals were 65 percent, even though the Department continually reported that the annual LMI benefits exceeded 90 percent. The Department takes the position that all grant expenditures for a particular activity may be counted towards satisfying the 70 percent overall LMI benefit requirement if 51 percent of the residents of the activity area, or 51 percent of the individuals benefiting from the activity, are LMI individuals. Using the Department's methodology, the full amount of these grants and their related administrative costs could be counted toward the 70 percent LMI benefit test, even though as little as 51 percent of the funds may have directly benefited LMI individuals.

In our view, a simple legislative change would ensure a more realistic methodology for measuring benefits to LMI individuals. We proposed that section 104(b) of the Housing and Community Development Act of 1974 be revised to specifically provide that only the proportionate share of activity expenditures benefiting LMI individuals be used in measuring the overall LMI benefit. For example, if a grant activity benefits all the residents of a particular community but only 51 percent of those residents are LMI, then only 51 percent of the grant expenditures should be counted towards the LMI benefit test. This simple change could have a profound effect on how communities target their CDBG funds.

# Regulations

## ***Public Housing Purchasing Preference for Responsible Firearms Companies***

This proposed rule would establish a requirement for public housing agencies to give preference to responsible companies when purchasing firearms. Proposed Section 965.905 defines a responsible company as one that has demonstrated a commitment to producing safer firearms and is following sales and distribution procedures designed to minimize suspect sales that might lead to illegal firearms possession, or misuse by criminals, juveniles, or other persons.

We nonconcur with the proposed rule because we questioned HUD's authority to implement the rule. The preamble suggests that HUD is authorized to implement the proposed rule as an incentive for contractors to comply with public policy. However, there is no statute, regulation, or other policy that establishes the criteria in proposed Section 965.905. The criteria appear to be the product of an ad hoc coalition of government officials, the Communities for Safer Guns Coalition. This coalition is not chartered or endorsed by legislation or regulation, and therefore lacks the authority to establish public policy. A similar proposal is the subject of a lawsuit currently in the United States District Court for the Northern District of Georgia, National Shooting Sports Foundation, Inc. et al. V. Cuomo, et al., Civil Action No. 00-1063. The Department has not issued the proposed rule, and at the end of the semiannual reporting period, stated that it is still under consideration.

## ***Uniform Physical Condition Standards***

This proposed final rule would establish administrative processes for multifamily housing, including notifying owners of HUD's assessments of the physical condition of their housing, providing the owners an opportunity to seek technical review of those assessments, and prescribing actions that HUD may take when housing is found not to be in compliance with physical condition standards. The proposed final rule takes into consideration public comments received on the proposed rule published in the Federal Register on November 26, 1999.

We nonconcur with the proposed final rule because of concerns with lack of resident involvement in the inspection process, elimination of requirements for Section 542 projects, and risks associated with owner self-certification of completed repairs. The proposed rule did not provide adequate provisions for resident input on physical condition of properties or physical problems. While the interim rule covered Section 542 projects, the Housing Finance Agency Risk Sharing Program, the final rule excluded Section 542 projects from the inspection process. Considering HUD assumes considerable risk for Section 542 projects, those projects would benefit from the inspection process. We also disagreed that owners should self-certify to completed repairs. Many owners are certifying on their monthly Section 8 vouchers that their properties are decent, safe, and sanitary, when the properties, in fact, are not. Additional controls, such as certification by a tenant or a licensed inspector, would provide greater assurance that physical problems have been corrected. If needed repairs are not made, the entire inspection process loses its value as a program control and protection mechanism. The Department agreed to revise the final rule to address our concerns, but had not yet issued the rule at the end of the semiannual reporting period.

### ***Credit Watch Termination Initiative***

The interim rule prohibits a mortgagee that has received a notice of proposed termination of its origination approval agreement under HUD's Credit Watch Initiative from establishing new branch offices in the lending area covered by the termination notice. The purpose of the rule is to ensure that mortgagees that are not performing satisfactorily in specified geographic areas do not circumvent HUD's Credit Watch Program. Additionally, the rule allows HUD to amend the default and claim rate thresholds for placing mortgagees on credit watch.

We nonconcur with the interim rule because it did not adequately explain why there was a need for a regulatory change as it pertained to amending default and claim rate thresholds. Currently, HUD focuses its attention on those mortgagees with the most egregious default and claim rates and announces the thresholds that mortgagees will be evaluated against for each round of credit watch. The Department agreed with our comments and explained that, currently, each time it changes the thresholds, it must issue a waiver of the regulations. The regulatory change would eliminate the need for waivers in the future. The Office of Housing revised the rule to explain why the regulatory change was necessary, but had not yet issued the interim rule as of the end of the semiannual reporting period.

### ***Section 223(f) Mortgage Insurance for the Refinancing of Debt of Existing Hospitals***

This interim rule implements section 223(f) of the National Housing Act, which authorizes the Secretary of HUD to issue mortgages executed in connection with the financing of debt of existing acute care hospitals. The purpose of the 223(f) Program is to provide hospitals the opportunity to refinance their long-term debt service and thus improve their financial viability.

We nonconcur with the interim rule because of concerns with the use of mortgage proceeds, geographic concentration of risk, and certification requirements. Contrary to the National Housing Act, the rule allows for mortgage proceeds to be used for repairs, improvements, and equipment replacement. The Act requires that mortgage proceeds be used only to retire existing debt and pay necessary costs of refinancing. The rule indicated that it is not anticipated that the requirement for a certificate of need will be applicable unless required by state law. Section 242 of the Act states that HUD shall not issue a mortgage unless it receives a certification that there is a need for the hospital. The OIG believes that it is prudent to obtain a certificate of need when refinancing to ensure that the need for the hospital still exists. The General Accounting Office (GAO) suggested that HUD reduce risks caused by the hospital portfolio's geographic concentration by limiting the exposure in a particular state and capping the mortgage insurance amounts. The proposed rule states that the use of Section 223(f) for hospitals will address those concerns by lowering HUD's insurance risks through geographic diversification and additional premium income. However, the OIG believes that expanding the hospital program without the type of limiting factors suggested by GAO may, in fact, increase exposure to risks by allowing the concentration to continue. At the end of the semiannual reporting period, the Department was still considering OIG comments and had not yet issued the interim rule.

## Other HUD Directives

### ***Reorganization: Office of Housing- Federal Housing Administration Comptroller***

We nonconcur with the proposed reorganization of the Office of Housing-Federal Housing Administration Comptroller because one of the proposed duties is specifically assigned to the Office of Inspector General.

Under the proposed reorganization, one of the primary functions proposed for the Management Control Branch is to perform internal audits. This is not in compliance with the Inspector General Act. The Act states that the Inspector General's responsibilities and duties include conducting, supervising, and coordinating audits and investigations relating to programs and operations of HUD. The Office of Housing revised the reorganization plan by deleting performance of internal audits from the duties of the Management Control Branch to address our nonconcurrency.

### ***Notice on Guidelines for Mark-Up-To- Market Nonprofit Transfers and Budget-Based Rent Increase for Capital Repairs by Nonprofit Owners***

This Notice supersedes instructions provided in Housing Notice H 99-36, and gives guidance to owners, management agents, contract administrators, and HUD staff on two initiatives: the Mark-Up-To-Market Nonprofit Transfers (Transfer Program) and the Budget-Based Rent Increase for Capital Repairs by Nonprofit Owners (Capital Needs Program). The Transfer Program allows HUD to mark up rents up to market to facilitate a change in ownership from a for-profit owner to a nonprofit, or from one nonprofit to another nonprofit. Under the Capital Needs Program, HUD permits Section 8 budget-based rent increases for nonprofit projects to perform capital improvements.

We nonconcur that projects must have a Real Estate Assessment Center inspection score of greater than 30 to be eligible as a transfer project. The Transfer Program permits the current owner to be under administrative sanctions. While it is desirable to replace a poor performing owner, a transfer owner subject to sanctions should be prohibited from receiving cash or other benefits as a result of transfer under these circumstances. We also questioned why unassisted tenants were exempt from rent increases when transfer projects are marked up to market. Unassisted tenants should be subject to rent increases to bring their rents up to market levels so they pay a fair share in the cost of improving or maintaining the project. While we agree rent increases on Capital Needs projects should be limited to 10 percent, their rents should also be increased to market. However, we believe the rent increases should be spread over a number of years to avoid creating hardships for tenants. The Department addressed our comments and we removed our nonconcurrency on May 24, 2000. The Notice had not been published at the end of the semiannual reporting period.

### ***Section 203(k) Rehabilitation Mortgage Insurance Program - Single Family Loan Production***

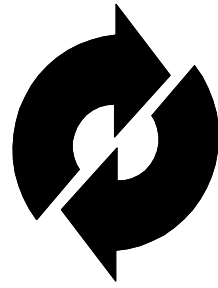
This Mortgagee Letter announced changes to the Section 203(k) Program relating to mortgagee responsibilities, 203(k) consultant requirements, and processing procedures. We nonconcur with the proposed Mortgagee Letter because it did not prohibit the use of any consultants other than those that are approved by HUD and appear on the FHA 203(k) consultant roster, and did not provide adequate procedures for monitoring consultant performance. The Department addressed our concerns and issued the Mortgagee Letter on July 26, 2000.

***Gift Documentation,  
Mortgage Forms,  
and Other Credit  
Policy and Appraisal  
Issues***

This Mortgagee Letter announced revisions to FHA credit policy on gift letter verification, underwriting procedures in community states, blanket verification for loan documents, and other items. We nonconcurred with the Letter and recommended changes for improvement. We suggested that gift donors be required to provide a copy of their bank statements as evidence of funds being available for the gift and that the debt of non-purchasing spouses be considered during loan origination in community property states. We also suggested that the lender certify the authenticity of each document in the case binder for FHA insurance endorsements, rather than using the Department's proposed blanket certification. The blanket certification weakens accountability and makes it difficult to identify the individual who certified any fraudulent documents that may be found during audits. The Department revised the Letter to address our concerns regarding blanket certifications and debts of non-purchasing spouses. While the Department did suggest that donors' bank statements be obtained, it was not required. Instead, donors are required to certify that they are providing the gift from their own funds and that the funds were not received from a party in the real estate transaction. We removed our nonconcurrence on July 27, 2000. The Mortgage Letter was issued on August 7, 2000.

# 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 OIG disagreed with management decisions, and where management decisions were revised. 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 9/30/00," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/00."

## Delayed Actions

### ***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 (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for FY 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. 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 problems in converting the general ledger from the Program Accounting System (PAS) to HUD's Central Accounting and Program System (HUDCAPS); (2) the inadequate state of HUD's reconciliation efforts and 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 FY 1999 report on internal controls are consistent with results reported in Semiannual Reports 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. Corrective action plans have continued to change over the last 9 years.

### ***Audits of FHA's FY 1991 through FY 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 FY 1999 financial statements discussed problems similar to most of those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its 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 FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and

application level security controls. The FY 1998 report added a new issue — that FHA must improve federal basis and budgetary accounting to develop support for preparing future federal basis financial statements. The FY 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 FY 2001 financial statement audit will assess FHA's accomplishments in correcting these conditions

### **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. Almost 8 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 reviewed were collecting duplicate fees. The excessive fees for 1 of these HFAs amounted to over \$640,000 for the 8-year period covered by our audit. The Office of Housing's current position is to prevent HFAs from collecting both fees on future deals. HFAs will be allowed 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 fees inappropriately obtained from HUD. 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 inequitable and sends the wrong message to those doing business with HUD. HFAs and other entities doing business with the Department may conclude that overbilling for services will be overlooked or later waived by HUD.

Despite numerous attempts to have this issue resolved, including involvement of the Deputy Secretary, the Department is unwilling to require repayment of the duplicate fees. HUD is of the view that the duplicate fees do not represent a debt owed the government and allowing agencies to petition for a waiver of the regulation is both fair and appropriate. OIG continues to maintain the position that the dual fees are overpayments for the reasons originally cited in our 1993 audit report and that the dual fees constitute a debt owed the government. On July 27, 2000, the OIG recommended that HUD request a ruling from OMB or GAO to determine if the overpayments represent a debt and are subject to the debt collection rules. We were recently advised that the Office of Housing will not request a ruling from OMB or GAO. Instead, they plan to allow agencies to petition for a waiver of the regulations. The OIG will refer the matter to GAO for a ruling. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

### **Section 108 Loan Guarantee Program**

*Issued November 17, 1997.* We reviewed complaints received from the Seattle Displacement Coalition related to the City of Seattle's Section 108 loan guarantee for acquisition of the Frederick and Nelson building. Our review focused on the regulatory and programmatic issues in the complaints. We identified four programmatic issues that HUD needs to address to further its efforts to empower grantees and citizens. To address these issues we recommended that HUD:

- Remind grantees that they need to explain to citizens how the assistance to for-profit businesses meets the regulatory requirement that the assistance be

appropriate to carry out an economic development project.

- Decide whether it should better define the criteria for “spot blight,” and inform grantees of the importance of full disclosure to its citizens about how the project meets the “spot blight” national objective.
- Inform grantees submitting Section 108 applications of the importance of complete disclosure of pertinent facts about the project, and require compliance with HUD Reform Act disclosure requirements.
- Determine if there is a need to address citizens’ concerns and misconceptions about the Section 108 Program through information statements or other means.

In January 1998, HUD management told the OIG they would take appropriate action to correct the identified deficiencies. Over 2-1/2 years have passed since OIG concurred with management’s decision to address the above program deficiencies. The planned actions are currently over 750 to 900 days overdue. Since January 1999, OIG staff have made numerous attempts to move local HUD officials to take action to resolve these issues. To date, our attempts to prompt the Assistant Secretary to correct the problems have not been successful. (Report No. 98-SE-148-0001)

### **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 a very high rate of default on their loans. Because of the serious potential drain on the insurance fund, we recommended that HUD no longer allow investors to participate in the program.

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 had 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 June 14, 1999, the 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 the Inspector General and others. While the Department just recently requested that GAO close the four recommendations in GAO’s report, they are still open. The OIG is still waiting for the Deputy Secretary to direct the Office of Housing to institute a permanent ban on investors in the 203(k) Program to resolve this 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. On July 26, 2000, the Office of Housing issued Mortgagee Letter 00-25. According to the

Letter, HUD plans to develop a formal examination process during FY 2001 similar to the test FHA appraisers now complete. The Mortgagee Letter, which encompasses the improvements we recommended, has not yet been implemented. (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 and the issues remain unresolved. The Mortgagee Letter issued on July 26, 2000, referenced in the paragraph above, did not address these issues. The OIG will meet with Office of Housing staff to determine when and how they will address these recommendations. (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 sufficient information regarding FHA's reimbursement to contractors for property repair costs, or monetary penalties for contractor noncompliance. Also, the new contract monitoring manual did not provide comprehensive guidance for reviewing and approving reimbursement of repair cost, conducting contract risk assessments, and documenting monitoring results. While it was too early to evaluate performance under these contracts, we recommended improvements to contract monitoring policies. FHA agreed to take action to address all our recommendations, but actions have not been completed.

- By April 2000, FHA was to award a contract for technical support services to evaluate current program procedures and standards to determine what revisions are needed. FHA was also to have completed a reassessment of program controls by July 2000.
- By May 2000, FHA was to issue revised policies and procedures for: (1) approving reimbursement and documenting the need for repairs; (2) standardizing monitoring assessments; and (3) enforcing contractor compliance and sanctions for noncompliance.

As discussed in Chapter 1 of this Semiannual Report, a recently completed nationwide audit of FHA's Single Family Property Disposition Program found problems with all seven M&M contracts we reviewed. The audit results showed the recommendations from our previous report are still very much needed. (Report No. 99-AT-123-0001)

**Initial Development  
Efforts of the  
Departmental Grants  
Management System**

*Issued November 4, 1999.* HUD has changed its development solution for the new Departmental Grants Management System (DGMS) from a combined expansion of existing systems to a custom development solution. In September 1998, the Financial Systems Integration Team, under the HUD Chief Financial Officer, completed a feasibility study which concluded that the custom development solution

was the most expensive and risky solution. The Department disagreed with four of the five recommendations in our audit report. In two responses, dated January 3, 2000, and June 26, 2000, the Department refused to: (1) assign full project responsibilities to the Chief Information Officer; (2) perform new feasibility studies including a cost benefit analysis of technical alternatives; (3) curtail further development until the recommended studies are completed; and (4) involve experienced grantees to assist the Department in developing a new grants management system.

Subsequent to our review, on June 22, 2000, the Deputy Secretary announced that due to contractor non-performance, development for Phase I of DGMS had been suspended. HUD became concerned that delays in correcting software defects and the software development approach being employed would neither provide a high level of grant program functionality nor meet the needs of our business partners on a consistent basis. DGMS costs through June 30, 2000, totaled \$5.3 million.

In a memorandum dated August 25, 2000, we again requested the Deputy Secretary to reconsider the Department's position on the disagreed recommendations. The Deputy Secretary informed us on September 29, 2000, that he had initiated a review of the issues we raised. He indicated that the review should be completed by October 16, 2000, and he would, at that time, be prepared to discuss our request for reconsideration. (Report No. 00-DP-166-0002)

***HUD Office of  
Native American  
Programs —  
Non-Competitive  
1998 Rural  
Housing and  
Economic  
Development  
Grant Awards***

*Issued March 31, 2000.* We found that the Oglala Sioux Tribe grant was inappropriate because the Appropriation Act required competitive awards. This position was based on an OIG Office of Counsel opinion. Relying on HUD Counsel's contradictory opinion, the Assistant Secretary for Public and Indian Housing disagreed with the finding and did not provide management decisions.

On June 21, 2000, the OIG referred the legal question to the Comptroller General for legal interpretation of the statute. However, in September 2000, the Senate Committee on Appropriations (Report No. 106-410) referred to this audit and supported the OIG's position. The Committee stated the \$2,000,000 grant award made to the Oglala Sioux Tribe was "a clear violation of the law" because it should have been made competitively. Noting that the Tribe cannot repay the funds, the Committee "expects the Secretary to refund these amounts out of the overall funding of the Native American Housing Block Grant Program." We will evaluate the Department's FY 2001 appropriation bill to determine whether language concerning the grant award is included in the final appropriations report. If not included, we will continue to pursue the Comptroller General's decision. (Report No. 00-DE-156-0001)

***Down Payment  
Assistance Programs***

*Issued March 31, 2000.* We reported that HUD allowed nonprofit organizations to operate down payment assistance programs that circumvent FHA requirements. The down payment loan transactions do not meet the intent of FHA requirements in that the down payment assistance is not a true gift because the sellers reimburse the nonprofit for the assistance. Audit results indicate that default rates for buyers receiving down payment assistance from nonprofit organizations are significantly higher than for other FHA loans. Also, some sellers have raised the sale prices of properties to cover the cost of the down payment assistance programs, causing buyers to finance higher loan amounts. The circumvention of FHA requirements occurred because HUD did not have an established process or specific criteria to evaluate these programs.

During the audit, HUD issued a proposed rule for comment which would preclude down payment funding derived from the seller of single family properties, either directly or indirectly. The audit report provided evidence supporting HUD's proposed rule: the elimination of seller funded down payment assistance "gift" programs, such as those operated by Nehemiah and HART, which circumvent FHA requirements, result in significantly higher default rates and over-appraised properties.

Subsequent to the audit, FHA reversed the position taken in the proposed rule. FHA now plans to draft and issue a final rule which we believe violates the intent and spirit of Section 203(b)(9) of the National Housing Act, and contradicts the proposed rule. There is no statutory exception to the buyer's minimum down payment requirement of 3 percent. A final rule that permits seller funded down payments is contrary to existing HUD guidance. FHA would be hard pressed to legally support classifying a seller funded down payment as a "gift" since the contribution would not be made gratuitously without consideration. We strongly disagree with the proposed decisions and question their legality. The matter will be referred to the Deputy Secretary for decision in October 2000. (Report No. 00-SE-121-0001)

## Significant Management Decisions With Which OIG Disagrees

### ***Community Builder's Role in Phoenix Point Transitional Housing***

*Issued October 14, 1999.* Our review disclosed that HUD's New Orleans Senior Community Builder inappropriately interfered with a Public Trust Officer's attempt to bring the Alexandria Housing Authority within compliance of its Annual Contributions Contract. The Senior Community Builder's interference created an atmosphere of confusion for Authority and local government officials. As a result, the Authority did not know whose directions to follow. Further, HUD's Director of Community Planning and Development (CPD) attempted to impede our audit by denying that his office had any files relating to Phoenix Point.

We recommended the Deputy Secretary clarify that the Senior Community Builder has no program authority and inform the Authority it should follow the Office of Public and Indian Housing's instructions on programmatic issues. Finally, the Deputy Secretary should direct the Senior Community Builder not to interfere with Public Trust Officer duties and take appropriate action against the CPD Director for attempting to impede the audit.

The Deputy Secretary responded in December 1999 that the Department had acted properly, and therefore, no actions were necessary. The Deputy Secretary also said the Department had closely reviewed the circumstances of the CPD Director's release of information to the Auditors and concluded that the CPD Director had not deliberately withheld information. Therefore, no action was necessary. In February 2000, and again in July 2000, we requested documentation of the reviews made by the Department; none was provided. Since the Deputy Secretary is the Department's audit resolution official and makes the final decision, we closed the recommendations in disagreement. (Report No. 00-FW-177-0801)

## ***Attempt to Audit the FY 1999 Financial Statements***

*Issued March 1, 2000.* Our review of HUD's compliance with significant laws and regulations disclosed that HUD is not in compliance with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998 (the Act). HUD is not enforcing properly the Act's requirements relating to housing authorities' timely expenditure and obligation of public housing modernization funds. We recommended that the Assistant Secretary for Public and Indian Housing enforce the Act's requirements and issue clarifying guidance in accordance with the Act. Because HUD's and OIG's interpretation of relevant provisions of the Act differ, HUD has decided not to implement our recommendations.

The Act provides that public housing modernization assistance shall be spent not later than 4 years after the date on which funds become available for obligation. The Act provides that the Secretary shall enforce requirements for expenditure of funds through default remedies up to and including the withdrawal of funds. Our review of expenditures of FY 1995 and prior years' public housing modernization funds showed \$337 million in unexpended funds as of September 30, 1999. HUD believes the Act's provisions relating to expenditures do not become effective until FY 2000. It is our opinion that the provisions do apply to the prior years' funds, and the funds are subject to the enforcement provisions of the Act.

The Act also expressly provides that FY 1997 and prior year modernization funds be obligated by housing authorities no later than September 30, 1999. HUD does not believe that the sanction and recapture provisions of the Act apply to FY 1997 and prior FY funds. Furthermore, HUD believes a December 22, 1999 Federal Register Notice providing policy on the funds was a legal and reasonable exercise of HUD's authority to prescribe remedies for the unobligated FY 1997 and prior funds. We agree that HUD can impose any number of improvised performance remedies; however, it is our opinion that HUD must impose the Congress's mandated remedy. To resolve these differing opinions, on August 15, 2000, the Inspector General requested that the Comptroller General provide a legal opinion on the appropriate interpretation of the statutory language. (Report No. 00-FO-177-0003)

## Significant Revised Management Decisions

### ***Memphis Housing Authority***

*Issued January 13, 1997.* The Memphis Housing Authority (MHA) has been unable to provide decent, safe, and sanitary housing to its residents. Maintenance of its units has been a long-standing problem. Our report recommended obtaining an independent needs assessment of MHA's maintenance and modernization programs by a consultant or team of knowledgeable HUD individuals.

The Assistant Secretary for Public and Indian Housing 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 wished to allow the newly appointed MHA executive director the opportunity to improve his maintenance operations. In July 2000, we agreed with the revised action, based on HUD's negotiating a new Memorandum of Agreement with MHA. The Memphis Troubled Agency Recovery Center will be monitoring the MHA to ensure that critical goals established are achieved by October 2001. (Report No. 97-AT-201-1001)

**City of Miami  
Community  
Development  
Programs**

*Issued March 26, 1998.* The audit found the City spent over \$5.2 million of Community Development Block Grant funds for grant administrative expenses without proper support and spent nearly \$500,000 for ineligible grant administrative expenses. Originally, HUD agreed that these amounts were to be repaid to the program. The Comptroller's Office and the Coral Gables, FL HUD CPD Office reviewed additional documentation provided by the City and determined that \$2.6 million were eligible costs. The Comptroller's Office proposed and we agreed to revise management decisions in June 2000 requiring repayment of the remaining ineligible and unsupported costs of nearly \$3.1 million. (Report No. 98-AT-241-1003)

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

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial system requirements within 3 years or obtain OMB's concurrence if more time is needed. FFMIA requires us to report in the Semiannual Report instances and reasons when an agency has not met the intermediate target dates established in the remediation plan. HUD initially determined in April 1998 under FFMIA that 38 of its systems were not in substantial compliance. At the end of FY 1999, the Department reported that 18 systems were not in substantial compliance with FFMIA. During FY 2000, the Department has classified 9 of the 18 systems as either compliant, non-financial, immaterial, or discontinued. As of the end of September 2000, the Department was working to finalize remediation and corrective action plans for nine systems which remain non-compliant. In our attempt to audit HUD's FY 1999 financial statements, we noted that remediation plans for systems needed 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.

As of September 2000, the Department was in the process of developing plans to address financial management system weaknesses and bring systems in conformance with FFMIA. Given that the Department is still in the planning stages of this effort, it is likely that systems will not be in compliance by the April 2001 deadline. As a result, the Department will need to obtain OMB's approval for additional time.



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HUD Office of Inspector General

# Semiannual Report to the Congress

as of September 30, 2000

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



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
Semiannual Report to the Congress

for the 6-month period April 1, 2000 through September 30, 2000

# **Appendices**

# APPENDIX 1 - AUDIT REPORTS ISSUED

## Internal Reports

### Single Family

00-AT-123-0001  
00-AT-123-0002

Single Family Property Disposition Program, 9/28/00.  
Demolition of HUD Real Estate Owned Properties, Chicago, IL, 9/29/00. Questioned: \$541,143; Better Use: \$151,454.

### Multifamily

00-PH-119-0001  
00-SE-119-0003

Up-Front Grant Program, 9/29/00. Questioned: \$1,123,826; Unsupported: \$1,123,826.  
Final Report on Nationwide Audit, Use and Disposition of Residual Receipts, 9/29/00. Questioned: \$64,369.

### PIH

00-AT-106-0003  
00-KC-103-0002  
00-SE-107-0002

Atlanta Housing Authority, Atlanta, GA, 8/1/00.  
Housing Subsidy Program, 9/29/00.  
Final Report on Office of Native American Programs, Staff Training Conference, Reno, NV, 9/29/00.

### Miscellaneous

00-DP-166-0003

Integrated Disbursement and Information System, Washington, DC, 5/11/00.

### Single Family

00-SF-121-0802

Los Angeles Area Office and Santa Ana Homeownership Center, Santa Ana, CA, 4/6/00.

### Multifamily

00-BO-111-0802  
00-CH-199-0801  
00-PH-119-0801

Section 8 Contract Renewal Process, Boston, MA, 9/29/00.  
HUD's Settlement Agreement, Associated Estates Realty Corporation, Office of Multifamily Housing, Chicago, IL, 9/28/00.  
HUD Pittsburgh Office's Income and Age Waivers for Presbyterian Association on Aging Projects, Oakmont, PA, 5/3/00.

### Audit Reports

### Audit-Related Memoranda

## Internal Reports - continued

### PIH

### Audit-Related Memoranda - continued

00-AO-185-0802 Tenant-Based Section 8 Program, Washington, DC, 8/10/00. Questioned: \$82,780; Unsupported: \$82,780.

### Miscellaneous

00-AO-174-0801 Use of Fair Housing Initiatives Program Funds, Washington, DC, 7/6/00.  
 00-DP-182-0804 Department's September 2000 Purchase of COTS Financial Management System, 9/29/00.  
 00-FO-177-0801 Independent Accountant's Report on HUD's FY99 Detail Accounting Submission Report (Drug Control Funds), 5/15/00.  
 00-FO-177-0802 Survey of HUD's Contract Award Process, 9/29/00.  
 00-PH-169-0802 Resource Estimation and Allocation Process Implementation, Progress Assessment, 9/29/00.

## External Reports

### Single Family

### Audit Reports

00-AT-222-1009 Southeast Alliance of Foreclosure Specialists, LLC, Norcross, GA, 9/15/00.  
 00-BO-222-1005 Citiwest New England, Inc., Management and Marketing Contractor, Hartford, CT, 9/29/00.  
 00-CH-211-1005 Golden Feather Realty Services, Inc., Management and Marketing Contractor for Atlanta Area A-1, Chicago, IL, 9/26/00.  
 00-DE-222-1003 First Preston Management Inc., Management and Marketing Contract, Denver, CO, 9/21/00.  
 00-FW-222-1003 Pope & Booth, P.C., Closing Agent Contract, Austin, TX, 5/24/00. Questioned: \$391,058; Unsupported: \$390,473.  
 00-FW-222-1005 Portnoy & Greene, P.C., Closing Agent Contract, Boston, MA, 8/16/00. Questioned: \$275,625; Unsupported: \$258,587.  
 00-FW-222-1006 Fortune Escrow, Inc., Closing Agent Contract, Glendora, CA, 8/23/00. Questioned: \$43,900.  
 00-FW-222-1007 Shapiro & Ingle, Inc., Closing Agent Contract, Raleigh, NC, 9/29/00. Questioned: \$139,575; Unsupported: \$136,000.  
 00-NY-229-1006 First Preston Foreclosure Specialist, Marketing and Management Contract, Blue Bell, PA, 09/21/00.  
 00-PH-222-1005 Michaelson, Conor and Boul, Management and Marketing Contractor, Huntington Beach, CA, 9/29/00.  
 00-SF-222-1002 Single Family Property Disposition Program Management and Marketing Services Contract, Irvine, CA, 9/22/00.

## External Reports - continued

### Multifamily

00-CH-212-1004

Neighborhood Commons Cooperative, Multifamily Rental Housing, Chicago, IL, 8/8/00.

### PIH

00-AT-202-1007

St. Petersburg, FL Housing Authority, 5/24/00. Questioned: \$363,230; Unsupported: \$363,230.

00-AT-202-1008

Cullman, AL Housing Authority, Public Housing Programs, 8/31/00. Questioned: \$27,387; Unsupported: \$23,272.

00-BO-202-1003

Housing Authority of the City of New Britain, CT, 6/12/00.

00-BO-204-1004

Housing Authority of the City of Bridgeport, CT, 7/5/00. Questioned: \$811,413; Unsupported: \$26,000.

00-DE-207-1004

Chippewa Cree Housing Authority, Review of Housing Activities and Related Management Controls, Rocky Boy, MT, 9/21/00.  
Questioned: \$126,679.

00-FW-201-1004

Housing Authority, City of San Antonio, TX, Procurement Activities, 8/9/00. Questioned: \$865,409; Unsupported: \$54,717.

00-KC-209-1002

Housing Authority of St. Louis, MO, Paul Simon Tenant Association, 5/31/00. Questioned: \$15,158; Unsupported: \$15,158.

00-NY-202-1005

Poughkeepsie, NY Housing Authority, Low-Rent Housing Program, 9/25/00. Questioned: \$121,712; Unsupported: \$106,262;  
Better Use: \$268,069.

00-PH-204-1004

Wilmington, DE Housing Authority, Public Housing Operations, 9/28/00. Questioned: \$1,704,420; Unsupported: \$373,105.

00-SE-207-1001

Housing Activities Administered by Lummi Indian Business Council, Bellingham, WA, 9/29/00. Questioned: \$1,333,901;  
Unsupported: \$1,323,964.

### CPD

00-CH-255-1003

State of Ohio, Community Housing Improvement Program, Columbus, OH, 6/15/00. Questioned: \$450,987.

### Multifamily

### Audit-Related Memoranda

00-BO-219-1801

Computer Learning Center-Greater Hartford Realty Management Corporation, Hartford, CT, 6/14/00.

00-CH-211-1809

Harbor View Estates, Multifamily Equity Skimming, Duluth, MN, 7/5/00.

00-CH-211-1810

Eenhoorn L.L.C., Multifamily Equity Skimming, Grand Rapids, MI, 8/31/00.

00-DE-212-1801

Village 88 Apartments, Review of Project Operations, Thornton, CO, 7/26/00.

00-DE-212-1802

Village Garden Apartments, Review of Operations, Aurora, CO, 8/18/00.

## External Reports - continued

### PIH

### Audit-Related Memoranda - continued

00-AO-202-1801	District of Columbia Housing Authority, Washington, DC, 4/4/00. Questioned: \$82,714.
00-AT-202-1802	Fort Valley, GA Housing Authority, Misuse of HUD Funds, 4/26/00.
00-AT-201-1803	City of Atlanta, GA Housing Authority, Design and Construction Management Department, 8/4/00.
00-FW-202-1802	Alexandria, LA Housing Authority, Agreed Upon Procedures, 4/26/00.
00-FW-202-1803	Leesville, LA Housing Authority, 5/10/00. Questioned: \$333,452; Unsupported: \$333,452.
00-NY-202-1802	North Bergen, NJ Housing Authority, Low-Rent Housing Program, 9/1/00.
00-NY-209-1803	Hoboken, NJ Housing Authority, Low-Rent Housing Program, 9/25/00.

### CPD

00-BO-251-1802	Continuum of Care Program, Boston, MA, 8/14/00.
00-BO-255-1803	State of Maine FIX ME Program, Augusta, ME, 9/25/00.
00-CH-249-1811	City of South Bend, IN, Broadway Street Mortgage Loan Subsidy Program, 9/13/00. Questioned: \$8,350.
00-FW-251-1804	Housing Crisis Center Supportive Housing Grants, Dallas, TX, 5/12/00. Questioned: \$55,715.
00-FW-251-1805	Houston, TX Regional HIV/AIDS Resource Group, Inc., 9/5/00. Questioned: \$34,150.
00-FW-251-1806	Houston, TX Regional HIV/AIDS Resource Group, Inc., Supportive Housing Grant, 9/27/00. Questioned: \$182,398; Unsupported: \$109,314.
00-KC-241-1801	City Housing Policies, Kansas City, MO, 4/6/00.
00-PH-255-1802	Westmoreland County Consortium, HOME Program, Westmoreland, PA, 8/21/00.

# TABLE A

## AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 09/30/00

\*Significant Audit Reports Described in Previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
* 00DP0002 Initial Development Efforts of the Departmental Grants Management System.	Management decisions have not been reached on 4 of the 5 reported recommendations. The Deputy Secretary initially disagreed that corrective action was necessary. In August 2000, the OIG requested the Deputy Secretary to reconsider the Department's position on the 4 recommendations. On September 29, 2000, the Deputy Secretary informed the OIG that the Department is reviewing the issues and would be prepared to discuss our request for reconsideration upon completion of their review in October 2000.	11/4/99 11/30/00
* 00AT1003 Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR.	Management decisions were not reached for 15 of the 19 reported recommendations. Subsequent to the semiannual reporting period, acceptable management decisions were proposed by the Assistant Secretary for Public and Indian Housing for an additional 4 recommendations, leaving 10 recommendations in disagreement as of October 4, 2000. Because of disagreement between the OIG and the Assistant Secretary regarding the proposed actions and the urgency of implementing corrective action, the 10 recommendations without management decisions were referred to the Deputy Secretary for management decisions on October 17, 2000.	3/6/00 11/16/00
* 00AT1801 Puerto Rico Public Housing Administration, Misuse of Funds, San Juan, PR.	Management decisions proposed by the Assistant Secretary, Public and Indian Housing, for 2 of the 3 reported recommendations did not adequately address management problems or the urgency of implementing corrective action. Accordingly, the 2 recommendations were referred to the Deputy Secretary for management decision on October 17, 2000.	3/9/00 11/16/00



# TABLE A

## AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 09/30/00

\*Significant Audit Reports Described in Previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
* 00SF0001 Single Family Production - Home Ownership Centers.	Management decisions were not reached on 21 of the 27 reported recommendations during the semiannual period because the Assistant Secretary for Housing/Federal Housing Commissioner was not responsive to OIG requests for information. On October 4, 2000, subsequent to the end of the semiannual period, adequate information was provided to reach management decisions on 5 more recommendations. OIG is awaiting additional information from the Office of Housing on the remaining recommendation.	3/30/00 11/17/00
* 00BO0002 Office of Housing's Use of REAC's Physical Inspection Reports.	The Assistant Secretary for Housing/Federal Housing Commissioner was not responsive to OIG requests for additional information on proposed management decisions for 2 of the 5 reported recommendations. Subsequent to the semiannual reporting period, management decisions were reached, on October 4 and October 12, 2000 for the 2 remaining recommendations.	3/31/00 10/12/00
* 00SE0001 Nationwide Audit Down Payment Assistance Programs.	Management decisions have not been reached on the 4 reported recommendations. The Assistant Secretary for Housing/Federal Housing Commissioner reversed the Department's previous position on nonprofit organizations' down payment assistance. OIG responded to the Assistant Secretary on June 26, 2000, nonconcurring with 2 management decisions allowing seller funded down payment assistance and requesting further information on 2 recommendations. The OIG believes the Office of Housing's position violates Section 203(b)(9) of the National Housing Act. On September 29, 2000, the Assistant Secretary for Housing notified the OIG he disagrees with OIG. Because of the disagreement, the recommendations will be referred to the Deputy Secretary for management decision in October 2000.	3/31/00 11/20/00

# TABLE B

## SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 09/30/00

Report Number	Report Title	Issue Date	Decision Date	Final Action
90FW1004	Regency Place Apartments	04/05/90	07/31/90	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	Note 1
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	03/31/01
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 1
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
93SF1014	Tucson Health Care Limited Partnership	09/23/93	01/21/94	Note 1
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, Excess Rental Income Collections	12/21/94	03/31/96	Note 2
95CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
96FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	11/23/00

<b>Report Number</b>	<b>Report Title</b>	<b>Issue Date</b>	<b>Decision Date</b>	<b>Final Action</b>
96SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	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 1
96FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	08/19/96	10/17/96	11/23/00
96DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 1
97PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 1
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	Note 2
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
97AT1806	Limited Review of Martin Street Plaza, Atlanta, GA	04/17/97	07/14/97	01/30/01
97CH1007	Developing Economical and Better Living, Inc., Single Family Direct Sales Program, Chicago, IL	05/22/97	09/19/97	Note 1
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	06/30/01
98NY1001	Limited Review of Braco I - Multifamily Operations, Buffalo, NY	10/24/97	12/23/97	Note 1

<b>Report Number</b>	<b>Report Title</b>	<b>Issue Date</b>	<b>Decision Date</b>	<b>Final Action</b>
98SE0001	Acquisition of Frederick & Nelson Building, Section 108 Loan Guarantee, Seattle, WA	11/17/97	04/30/98	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	Note 1
98SF1001	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz, CA	03/24/98	09/24/98	01/31/01
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	Note 2
98AT0002	Audit of Section 203(k) Rehabilitation Mortgage Insurance Program	05/01/98	01/04/99	Note 1
98AT1006	Centro Campesino, Youthbuild Grants, Florida City, FL	05/19/98	03/25/99	Note 1
98SF1003	San Francisco, CA Housing Authority, Drug Elimination Program	07/22/98	12/09/98	Note 2
98SF0002	Audit of the Office of Fair Housing and Equal Opportunity	09/15/98	02/24/99	Note 1
98AO1804	Upfront Grant for Ridgecrest Heights Apartments - Washington, DC	09/24/98	05/25/99	Note 2
98CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 2
98CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 2
98DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	09/29/99	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
99BO1001	Narragansett Indian, Wetuomuck Housing Authority, Housing Development Grant, Charlestown, RI	01/29/99	04/08/99	Note 2

<b>Report Number</b>	<b>Report Title</b>	<b>Issue Date</b>	<b>Decision Date</b>	<b>Final Action</b>
99PH1002	Norfolk, VA CDBG Program	02/16/99	06/11/99	Note 2
99NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 2
99CH1004	Detroit Revitalization, Inc., Section 203(k) Mortgage Insurance Program & Partners for Affordable Housing, Detroit, MI	02/22/99	06/28/99	Note 2
99AT1004	Housing Authority of the City of Sarasota, FL	02/24/99	04/29/99	Note 2
99FO0002	Federal Housing Administration Audit of FY 1998 Federal Basis Financial Statements	03/12/99	09/30/99	Note 2
99FO0003	U.S. Department of HUD FY 1998 Financial Statements	03/29/99	09/30/99	Note 2
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	Note 2
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	06/30/01
99AT1806	Citizen Complaints, Housing Authority of the City of Winston-Salem, NC	06/03/99	12/02/99	10/06/00
99SF1003	City of Lynwood, CA CDBG and HOME Programs	08/19/99	12/16/99	10/15/00
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	01/12/01
99AT0001	Single Family Property Disposition Program	09/17/99	08/28/00	01/31/01
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	01/10/01
9DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	09/30/01

<b>Report Number</b>	<b>Report Title</b>	<b>Issue Date</b>	<b>Decision Date</b>	<b>Final Action</b>
99PH0002	HUD Contracting, Follow-up Review	09/30/99	09/27/00	11/01/00
00PH1001	Pittsburgh, PA Housing Authority, Public Housing Drug Elimination Program	10/01/99	12/28/99	12/27/00
00AT1001	Mego Mortgage Corporation, Title I Approved Lender, Atlanta, GA	10/04/99	02/09/00	11/30/00
00CH1001	Great Lakes Housing, Inc., Section 203(k) Mortgage Insurance Program and Partners, Wyoming, MI	10/19/99	02/16/00	02/01/01
00PH1801	Allegheny County, Supportive Housing Grants, Pittsburgh, PA	11/01/99	02/11/00	02/11/01
00DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99		Note 3
00PH1002	Philadelphia, PA Housing Authority Police Department	11/15/99	03/16/00	03/06/01
00KC1001	Omaha, NE Housing Authority, Housing Authority Operations	12/03/99	03/31/00	10/31/00
00NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	12/31/00
00BO1002	HOME Program, North Suburban Consortium, Malden, MA	12/30/99	03/30/00	11/30/00
00FW1801	Dallas, TX Jewish Coalition for the Homeless, Supportive Housing Grant	01/18/00	05/08/00	12/31/00
00FW1001	New Orleans, LA Housing Authority, Executive Monitor Contract with Moten & Associates	01/19/00	09/29/00	09/22/01
00FW1002	Texas Department of Housing and Community Affairs, HOME Investment Partnership Program Administrative Costs, Austin, TX	01/27/00	04/24/00	11/30/00
00SF0801	Limited Review - REO Division Operations	02/10/00	09/29/00	11/15/00
00DE1001	City and County of Denver, CO, Housing Opportunities for Persons with AIDS Program	02/25/00	06/21/00	06/15/01
00FO0002	Federal Housing Administration, Audit of FY 1999 Financial Statements	02/29/00	08/09/00	12/31/05
00FO0003	Attempt to Audit the FY 1999 HUD Financial Statements	03/01/00	09/29/00	05/15/01
00AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00		Note 3

Report Number	Report Title	Issue Date	Decision Date	Final Action
00AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00		Note 3
00AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	03/31/01
00NY1801	Atlantic City, NJ Housing Authority, Low-Rent Housing Program	03/24/00	09/08/00	04/30/01
00AT1005	Benson, NC Housing Authority, Public Housing Programs	03/27/00	09/13/00	03/31/01
00BO0001	Office of Public and Indian Housing, Use of REAC's Physical Inspection Assessments, Boston, MA	03/28/00	06/12/00	12/31/00
00NY0001	Nationwide Audit - Enforcement Center	03/28/00	07/10/00	12/30/00
00SF0001	Single Family Production	03/30/00		Note 3
00AO0001	Nationwide Audit of Storefront Operations	03/31/00	09/08/00	Note 2
00BO0002	Office of Housing, Use of REAC's Physical Inspection Assessments, Boston, MA	03/31/00		Note 3
00CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
00KC0001	Assessment of Resident Association Grants, Multi-Location Summary Report	03/31/00	07/28/00	09/30/01
00SE0001	Final Report of Nationwide Audit, Down Payment Assistance Programs	03/31/00		Note 3
00SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	09/30/01

## AUDITS EXCLUDED:

20 audits under repayment plans  
18 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 9/30/00  
(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	14	\$40,204	\$15,775 <sup>1</sup>
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	9	\$15,153	\$4,375
A3 For which additional costs were added to reports in beginning inventory	0	\$1,196	\$43
A4 For which costs were added to non-cost reports	2	\$923	0
B1 Which were issued during the reporting period	24	\$9,179	\$4,720
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+ B)	49	\$66,655	\$24,913
C For which a management decision was made during the reporting period	19	\$22,940	\$16,298
(1) Dollar value of disallowed costs:			
• Due HUD	5 <sup>2</sup>	\$2,457	0
• Due Program Participants	15	\$19,654	\$15,709
(2) Dollar value of costs not disallowed	3 <sup>3</sup>	\$829	\$589
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	6	\$12,781	\$3,895
E For which no management decision had been made by the end of the reporting period	24 < 62 > <sup>4</sup>	\$30,934 < \$30,542 > <sup>4</sup>	\$4,720 < \$4,328 > <sup>4</sup>

1 Opening balance is \$35,304 less than from prior 6-month period closing balance due to a reclassification of costs from unsupported to ineligible for Report Number 00-AO-201-1001.

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

3 1 audit report also contains 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 09/30/00  
(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	\$4,128
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	0	0
B1 Which were issued during the reporting period	3	\$420
Subtotals (A+ B)	6	\$8,459
C For which a management decision was made during the reporting period	0	0
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	0	0
• 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	\$3,912
E For which no management decision had been made by the end of the reporting period	4 < 5 > <sup>1</sup>	\$4,547 < \$4,547 > <sup>1</sup>

<sup>1</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

## EXPLANATIONS OF TABLES C AND D

The Inspector General 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  
April 1, 2000 through September 30, 2000

<b>Audit and Investigation Results</b>	<b>Audit</b>	<b>Investigation</b>	<b>Combined</b>	<b>FY 2000</b>
Recommendations That Funds Be Put to Better Use	\$419,523		\$419,523	\$4,603,096
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	0		0	\$1,752,772
Questioned Costs	\$11,298,266		\$11,298,266	\$56,620,398
Management Decisions on Audits with Questioned Costs	\$22,939,920		\$22,939,920	\$33,948,733
Indictments		301	301	430
Successful Prosecutions		141	141	200
Years of Prison Sentences		94	94	200
Investigative Recoveries	\$1,540,399	\$12,123,463	\$13,663,862	\$32,914,307
Collections From Audits and Investigations	\$6,844,310	\$1,850,500	\$8,694,810	\$19,311,243
Arrests		2,465	2,465	4,965
Search Warrants		456	456	789
Value of Drugs Seized		\$4,335,905	\$4,335,905	\$7,468,403
Weapons Seized		260	260	552
Administrative Sanctions	0	144	144	207
Subpoenas Issued	11	194	205	345