

U.S. Department of Housing and Urban Development

*Semiannual Report to Congress
for the period ending March 31, 2002*



INSPECTOR GENERAL'S MESSAGE

On March 27, 2002, I was sworn in as the Inspector General of the Office of Inspector General (OIG), Department of Housing and Urban Development (HUD). I would like to extend my sincere appreciation to the Honorable David C. Williams, Inspector General of the Office of the Treasury Inspector General for Tax Administration, who served as Inspector General not only at his own agency but also as HUD's Acting Inspector General pending my confirmation. He truly deserves commendation for his outstanding professionalism and commitment throughout this interim period.

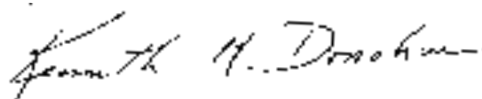
As Inspector General, I intend both to improve the OIG and to continue to address HUD's pressing needs. With respect to OIG, specifically, I will work tirelessly to restore the public image of and trust in this organization. In this regard, I shall lead the transition of OIG back to its core mission of combating waste, fraud and abuse. Moreover, I want to augment OIG's relevance within HUD, without compromising its independence, and I will strive to achieve this.

Regarding HUD's needs, we are most concerned with its management and performance challenges, which are discussed in Chapter 1 of this report. We are working with Departmental officials to ensure that these challenges are dealt with as expeditiously as possible. Both the General Accounting Office and the OIG have identified these areas as being of critical importance to HUD in its ability to carry out its mission.

We continue to report fraud and abuse in HUD's Single Family Mortgage Insurance Programs. These problems, which have been a major focus of our audits and investigations for several years, are discussed in Chapters 2 through 5 of this report. We have already begun to devote significantly more resources to Single Family Programs, and plan to further increase these efforts in the future. This will be made possible through the redeployment of OIG resources previously devoted to violent crime investigations associated with Operation Safe Home. Since 1994, the OIG has devoted considerable investigative resources to this anti-violent crime initiative, particularly to combating violent crime in public and assisted housing. With the termination of Congressional funding for Operation Safe Home in HUD's Fiscal Year 2002 Appropriations Act, OIG has closed violent crime investigations, and, as mentioned above, is now re-deploying more resources to single family housing fraud, which is part of OIG's core mission.

Chapter 6 of this report discusses the audit resolution process. In our last Semiannual Report to the Congress, we reported that, as a result of the cooperation and support of the current HUD Administration, we had no items to report on significant audits where a management decision had not been reached for audits that were more than 6 months old. We are pleased to report that, for the second consecutive semiannual reporting period, we again have no such items to report.

Finally, I look forward to working with Secretary Martinez and the Congress to ensure that HUD's resources are directed to their intended recipients, and I welcome any challenges we may face in making HUD a responsive, capable, and respected Department.



Kenneth M. Donohue, Sr.
Inspector General

HUD Secretary Presents New York Special Agent in Charge with Two Awards



HUD Secretary Mel Martinez presents Ruth Ritzema, Special Agent in Charge of the New York/New Jersey District, with the Secretary's Award for Valor and the Secretary's Award for Extraordinary Leadership at a HUD Headquarters ceremony on February 21, 2002. This is the first time the Secretary's Award for Valor has been presented to any recipient. Ms. Ritzema received the awards for her actions and extraordinary leadership following the tragic events in New York on September 11, 2001. At a reception following the ceremony, Ms. Ritzema said, "What we did wasn't extraordinary, it was just what all civil servants would do when faced with a similar situation, whether Federal Agents, Police, or Firemen — any of us. On that day, HUD OIG Agents and Auditors pulled together and did what we had to do. These awards are for all the people of the New York Office who were there and had to deal with that catastrophe."

Ms. Ritzema, as Special Agent in Charge, was the highest ranking HUD OIG official in New York on September 11. The OIG New York Office was destroyed by the towers when they fell. Fortunately, our Agents were at firearms training that morning, and Auditors and Support Staff safely evacuated World Trade Center (WTC) Building #6. Ms. Ritzema first joined the federal law enforcement team at the command post at the WTC, and then became a part of the Joint Terrorism Task Force led by the FBI. HUD OIG Agents assigned to the New York Office immediately teamed with FBI and other law enforcement personnel to accomplish the tasks of evidence retrieval and running leads. OIG Agents from Boston, Philadelphia, and Chicago were added to the team. Ms. Ritzema was asked to coordinate with the New York FBI Office, Treasury Inspector General for Tax Administration, and the President's Council on Integrity and Efficiency in providing an additional 80 Agents from OIG Offices of various Departments. HUD OIG Agents continued their investigative efforts for 30 days following the attacks. Concurrent with these efforts, Ms. Ritzema assessed and began the rebuilding process, not only of the many investigations that were disrupted by the attacks, but our office's infrastructure as well.

Chapter 1

*HUD's Management
and Performance
Challenges*

HUD's Management and Performance Challenges

Information About the HUD Office of Inspector General

HUD's Office of Inspector General (OIG) was one of the original 12 established by the Inspector General Act of 1978. The OIG provides oversight of HUD's programs and operations through its audit and investigative activities. While organizationally located within the Department, the OIG mission is to provide independent and objective reporting to the Secretary and the Congress. OIG activities seek to:

- Promote economy, efficiency, and effectiveness in the administration of HUD programs and operations.
- Detect and deter fraud and abuse in HUD programs and operations.
- Investigate allegations of misconduct by HUD employees.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to HUD programs and operations.

The Offices of Audit and Investigation carry out these duties with a cadre of staff located throughout the nation. Supporting these efforts are the Office of Counsel and the Office of Management and Policy.

Major Issues Facing HUD

The Department's primary mission is to find ways of expanding housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development programs. While HUD is a relatively small agency in terms of staff, about 9,500 nationwide, it relies on the performance and integrity of a large group of entities to administer a diversity of programs. Among HUD's administrators are hundreds of cities that manage HUD's Community Development Block Grant funds, hundreds of Public Housing Authorities that manage assisted housing funds, and thousands of HUD approved lenders that originate and service FHA insured loans.

Each year, in accordance with Section 3 of the Reports Consolidation Act of 2000, the OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. We submitted this year's assessment on February 26, 2002. These reported challenges have been the focus of much of our audit and investigative effort this reporting period. HUD is working to address these challenges and in some instances has made progress in correcting them. The Department's management challenges reported this year include:

Departmentwide Organizational Changes

In the last 5 years, the Department has undergone major organizational and management changes. The changes included the consolidation of common functions into Centers, the establishment of Community Builders, and an increased focus on enforcement. Many existing HUD employees were assigned

new duties and responsibilities and many new employees were hired. Sweeping changes were made to organizational lines of authority.

As HUD's new Administration took office last year, many of the organizational changes were still incomplete. Some of the changes created a pervasive tension between centralized control and local empowerment and it became evident to HUD's new management that some revisions were necessary. In this regard, efforts to realign HUD's field structure are being finalized. The Administration put an end to the Community Builder function. Other operational areas being reexamined include the functions of the Real Estate Assessment Center, Homeownership Centers (HOC), and the Enforcement Center.

Our audits and investigations have identified weaknesses brought about by delays in completing various operational changes. For example, in September 2001, we testified before the House of Representatives Subcommittee on Oversight and Investigations of the Committee on Financial Services regarding the 1998 scandals of the Section 203(k) Rehabilitation Home Mortgage Insurance Program in New York City. We noted that the pace of change in the Single Family Program during this period made HUD extremely vulnerable. In about a year's time, single family staff was cut in half and those staff remaining in New York were transferred to the Philadelphia HOC. These staffing shifts had a direct bearing on HUD's ability to provide adequate oversight.

HUD's new management team is in the process of reexamining the changes brought about by the previous Administration and deciding what organizational realignments are needed to best address program needs.

Financial Management Systems

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year (FY) 1991. This noncompliance represents a material weakness in internal controls. While progress has been made in improving the Department's general ledger system, HUDCAPS, a number of long-standing deficiencies remain.

Our annual financial audits continue to report problems with systems integration. For example, there is a lack of an automated interface between the Departmental general ledger and the FHA subsidiary ledger, which necessitates extensive manual analyses, reprocessing, and additional entries. FHA's funds control process is also largely manual, even to the point of requiring the hand carrying of documents. Other serious deficiencies include the inability to timely identify excess funds on expired Section 8 projects and inadequate assurance about the propriety of Section 8 rental assistance payments. The systems solutions to these problems remain unresolved.

During the FY 2001 Financial Statement Audit, we also noted another challenge for the Department in grants management. There are additional Joint Financial Management Improvement Program requirements for integrating certain transactions in the grants management systems with the core financial system. This has increased the importance of HUD's financial systems for consolidated financial reporting. However, the Department's efforts to implement the necessary grants management systems have made little progress to date.

To correct financial management deficiencies in a Departmentwide manner, HUD initiated a project to design and implement an integrated financial

system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction, and cost overruns. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system. In the meantime, the project to improve the FHA subsidiary accounting systems has made little progress.

HUD's security program and practices is another issue critical to HUD's financial systems. In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected.

HUD has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during FY 2001, HUD initiated the planning and program development for an entity-wide security awareness and training program. Despite these improvements, greater emphasis on information security is needed.

***Adequate and
Sufficiently Trained
Staffa***

HUD's FY 1999 Annual Performance Plan noted that the Department no longer had a system for measuring work and reporting time, and that HUD lacked a single integrated system to support resource allocation. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

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

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in December 2001. The next step in development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM is scheduled for implementation this Spring.

***FHA Single Family
Loan Origination and
Real Estate Owned
(REO) Oversight***

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of

virtually all aspects of single family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

A comprehensive audit of FHA loan origination practices 2 years ago found significant problems with FHA's reviews of lender underwriting and property appraisals. Also, the monitoring of lenders by HUD's Quality Assurance Division was deficient. We noted problems with the oversight of pre-endorsement contractors, and the accuracy of information in the automated tracking system. These weaknesses increase HUD's risk and can result in inflated appraisals, fraudulent underwriting, property flipping, and other lending abuses. OIG audits and investigations continue to result in indictments and convictions in FHA fraud schemes. These fraudulent activities are occurring at the same time that FHA delinquencies are rising. HUD's procedures for monitoring both lenders and contractors were less than effective, resulting in an increased risk of fraud, waste, and abuse.

More recently, we looked at the participation of not-for-profits in HUD Single Family Programs. The audit found that the Department was receiving little or no benefit from discounted sales of REO properties to not-for-profits. In many cases, not-for-profits were fronts for profit-motivated real estate agents, consultants, investors, contractors, or lenders. Discounted sales should have reduced the final cost to low- and moderate-income homebuyers.

The audit of FHA's FY 2001 financial statements includes a reportable condition on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. However, as of September 30, 2001, FHA had not yet fully implemented certain initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

FHA contracted for the management and marketing (M&M) of its single family properties in March of 1999. Seven companies received awards for the 16 M&M contracts to manage HUD's single family property inventory. The objective of the contracts was to reduce the inventory in a manner that: "(1) expands home ownership, (2) strengthens neighborhoods and communities, and (3) ensures a maximum return to the mortgage insurance fund." Our audits have shown that HUD needs to do more to strengthen its M&M contractor monitoring and follow-up procedures. We found performance deficiencies were not being corrected and HUD property conditions declined. HUD staffs were ill equipped to manage the voluminous amount of paperwork associated with M&M contractors.

***Public and Assisted
Housing Program
Administration***

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and Housing Authorities (HAs). These intermediaries, in turn, provide housing

assistance to benefit primarily low-income households. HUD spent about \$21 billion in FY 2001 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 Rental Assistance Programs. These programs are administered by HAS who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. The Office of Housing administers a variety of Assisted Housing Programs, including parts of the Section 8 Program and the Section 202/811 Programs. These subsidies are called "project-based" subsidies because they are tied to particular properties; therefore, tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

For many years, we have reported on material weaknesses with the monitoring of HAS and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration.

A recent study of rent determinations under housing assistance programs estimates that errors made by intermediaries result in substantial subsidy overpayments and underpayments. Using a statistical sample of tenant files, tenant interviews, and income verification data, the study projected subsidy overpayments of about \$1.7 billion and underpayments of about \$0.6 billion annually. Payment errors of this magnitude take on added significance in light of HUD's estimate of 4.9 million unassisted households that pay more than half of their income for housing or live in severely substandard housing.

We agree with HUD's initial efforts to address the incorrect rental subsidy determinations. HUD has undertaken initiatives such as: (1) providing HAS with information on the problems associated with rental subsidy determinations; (2) making available a guidebook on the requirements of housing choice vouchers; and (3) conducting reviews of rental determinations during some on-site monitoring reviews. However, it will be another 2 years before all of HUD's planned corrective actions are implemented to fully address the problems. In addition, it may take several more years before the success of these actions will be known.

During FY 2001, HUD continued to implement its performance oriented, risk based strategy for carrying out its HA oversight responsibilities. As noted in previous years, further improvements need to be made in the field offices' monitoring of HAS in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of HAS since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strategies needed to improve quality control over the rental assistance subsidy determinations. Nevertheless, we do believe that some of the initiatives are positive.

In prior years we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Office of Housing or Contract Administrator (CA) staff are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews conducted during FY 2001 compared with the previous year. However, at the end of FY 2001, reviews were performed at only a small portion of that part of the portfolio. A comprehensive plan needs to be developed which would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD's occupancy requirements.

HUD's plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted risk management of re-inspections of properties; better use of mortgagee inspectors; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system. We support these efforts.

Chapter 2

*Housing Fraud
Initiative*

Housing Fraud Initiative

The OIG Housing Fraud Initiative (HFI), which became operational in 1999, is a law enforcement effort designed to detect and prosecute fraud in HUD programs. HFIs generally combine OIG audit and investigative resources with those of the Federal Bureau of Investigation and the United States Attorneys' Offices. The HFI sites are the Judicial Districts of: (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. The goal of the HFI is to prosecute those who abuse HUD programs, thereby helping to ensure that HUD assistance reaches those who truly need it.

Fraud in single family loan origination continues to be the most pervasive problem uncovered by HFI investigations. The following are examples of recent HFI results.

Central District of California

Lilian Figueroa, Rodney Tyson, Frederico Loakes, and Jose Iniguez were sentenced to a total of 3 years and 1 month in prison, 11 years probation, and 8 months home detention, fined \$20,000, and ordered to pay nearly \$2.4 million in restitution. All four were involved in a conspiracy to obtain HUD insured single family loans using strawbuyers. Figueroa, a mortgage company employee in **Los Angeles**, purchased cashiers' checks for down payments in the names of the strawbuyers and purchased and caused others to purchase fraudulent W-2's, pay stubs, and other documents to create fictitious credit and employment histories for the strawbuyers. Subsequent to the closing of escrow, Figueroa received proceeds from the sales of the properties. Tyson obtained HUD insured home improvement loans using strawbuyers to pose as his wife. He recruited others to pretend that the co-conspirators were married and lived at the properties when they applied for the Title I loans. Tyson was tape-recorded offering \$3,000 to one of the individuals to pose as his spouse. He told the individual to act as if they were married when he arranged for them to meet with a notary and to sign the loan documents. Tyson was later arrested after he attempted to receive the proceeds of a fraudulent Title I home improvement loan from the Real Estate Mortgage Acceptance Company. Loakes and Iniguez cooperated with the government during the investigation. They were both employed as mortgage brokers at RE Mortgage where they conspired to obtain FHA insured single family home loans using strawbuyers. Loakes and Iniguez caused false information to be placed on loan applications and used fraudulent income documentation for strawbuyers. This was a joint FBI/OIG investigation.

In **Los Angeles**, Kathia Otero was sentenced for her involvement in a single family loan origination fraud scheme. She was sentenced to 6 months home detention, 3 years probation, and 1,500 hours of community service, and was ordered to pay \$1,228,442 in restitution and a \$1,000 special assessment fee. In April 2001, Otero pled guilty to 10 counts of conspiracy, wire fraud, and false statements. She knowingly used false information obtained

from strawbuyers to prepare fraudulent FHA insured home mortgage loan applications. Otero's co-conspirator, Andres Martinez, was previously sentenced for his part in the fraud. OIG and the FBI conducted this investigation.

Andres Ocampo, an admitted document forger, was sentenced for his role in manufacturing false income, employment, identification, and other documents. These documents were subsequently used by numerous real estate agents, loan officers, and others in the greater **Los Angeles** area in order to make ineligible applicants appear qualified for FHA insured loans. Ocampo, who admitted his involvement and cooperated with the government during the investigation, was sentenced to 4 months incarceration followed by 36 months supervised release, and was ordered to pay \$599,860 in restitution to HUD and a \$200 special assessment. This investigation was conducted jointly by OIG and the FBI.

Following an investigation by OIG and the FBI, Salvador Silva, a real estate salesperson in **Los Angeles**, was sentenced to 12 months incarceration and ordered to pay \$517,444 in restitution. He pled guilty in August 2001 to one count of conspiracy and one count of mail fraud. Silva and others involved in the fraud scheme purchased single family residential properties for the purpose of reselling them. Silva recruited potential buyers for the properties who often did not qualify for FHA insured mortgage loans due to insufficient income or assets for a down payment. He received a commission for every purchaser he located. The buyers were then assisted in finding co-signers for the loans. As a result, mortgage applications were completed and submitted containing false employment documents, false verifications that the down payments were either a gift or made from the buyers' personal funds, false explanation letters concerning the relationships of the co-signers to the buyers, and false notarizations of the buyers' and co-signers' signatures. Silva's actions caused at least \$2 million in fraudulent FHA insured loans. A real estate salesperson was also charged with one count of conspiracy and one count of mail fraud in this case. The salesperson's actions caused approximately \$1.5 million in fraudulent FHA insured mortgage loans. To date, the resulting loss to HUD is in excess of \$600,000.

During this reporting period, 11 people were sentenced and 3 pled guilty as a result of a 2-year investigation into single family loan origination fraud in the **Los Angeles** area. To date, the loss to the government resulting from the fraud is approximately \$11 million, with an additional \$15 to \$20 million of government insured loans in default. The investigation, conducted by OIG and the FBI, has thus far yielded sentences totaling 34 months incarceration, \$208,626 in restitution, \$22,000 in fines, and 20 years probation. There are eight remaining defendants to be sentenced.

Rose Pinkus and Rogelio Gonzalez, Sr., were sentenced after pleading guilty to two counts each of making false statements to HUD. Pinkus was sentenced to 2 years probation and 200 hours of community service, and was fined \$5,000. Gonzalez was sentenced to 3 years probation and 500 hours of community service, and was fined \$2,500. Xavier Lujan was sentenced after pleading guilty to two counts of making false statements to HUD. Lujan was

sentenced to 5 months incarceration and 5 months of home detention, and was ordered to pay \$67,525 in restitution to HUD. In addition, Sandra Sansur pled guilty to two counts of making false statements to HUD. Pinkus, Gonzalez, Lujan, and Sansur obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. Sansur, who worked as a real estate agent at Realty Masters, Pinkus, who was a real estate broker at Remax Tri-City, Gonzalez, a real estate agent with Dynamic Brokers, and Lujan, a loan officer at International Mortgage, then caused the false documents to be submitted to HUD. The loans based on false information from Pinkus have a total value of approximately \$1.2 million, and those identifiable with Gonzalez total approximately \$2.2 million. The loans based on false information from Sansur have a total value of approximately \$1.4 million, while those identifiable with Lujan have a total value of approximately \$2.7 million.

Molly Villa was sentenced after pleading guilty to two counts of making false statements to HUD. Villa was sentenced to 3 years probation and ordered to pay a \$500 fine and a \$200 special assessment. Villa, a loan officer for Arroya Home Loan, Inc., obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. The loans based on false information from Villa have a total value of approximately \$2.3 million.

Anthony Quintero, Cesar Villapudua, and Adela Jaime were each sentenced to 2 years probation after pleading guilty to 2 counts each of making false statements to HUD. In addition to the probation, Quintero was sentenced to 500 hours of community service and fined \$5,000. Villapudua was sentenced to 200 hours of community service and fined \$5,000. Jaime was sentenced to 250 hours of community service and fined \$4,000. The three defendants obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. Quintero was a real estate agent at City Mortgage; Villapudua was a loan officer at American Charter Mortgage; and Jaime was the owner and operator of California First Funding. The loans based on false information provided by Quintero, Villapudua, and Jaime have a total value of approximately \$1.3 million, \$.6 million, and \$3.4 million, respectively.

Juan Sandoval, a buyer and seller of homes, and Norma Simental, a loan officer for California First Funding, were sentenced after pleading guilty to two counts each of making false statements to HUD. Sandoval was sentenced to 12 months and 1 day incarceration and 12 months supervised release, and ordered to pay \$84,996 in restitution to HUD. Simental was sentenced to 6 months incarceration and 3 years probation, and ordered to pay \$45,701 in restitution to HUD and a \$200 special assessment. Both Sandoval and Simental obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. The loans based on false information from Sandoval have a total value of approximately \$673,000, while the loans based on false information from Simental have a total value of approximately \$3.1 million.

Andrew Lujan and Salvador Alvarez were sentenced after pleading guilty to two counts each of making false statements to HUD. Lujan was sentenced to 3 years probation and ordered to pay a \$5,000 fine and a \$200 special assess-

ment. Alvarez was sentenced to 6 months incarceration and 3 years supervised release, and was ordered to pay \$10,500 in restitution to HUD. Lujan and Alvarez obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. Lujan and Alvarez, who were real estate agents, then caused the false documents to be submitted to HUD. The loans based on false information from Lujan have a total value of approximately \$3.4 million, while the loans based on false information from Alvarez have a total value of approximately \$1 million.

Diana Villapudua was sentenced after pleading guilty to two counts of making false statements to HUD. Villapudua was sentenced to 6 months incarceration and 1 year supervised release, and was ordered to pay \$100,841 in restitution to HUD. Villapudua, a loan processor for the American Charter Mortgage Company, caused approximately \$1.5 million of insured loans based on false information.

Rogelio Gonzalez, Jr., a real estate professional who bought and sold properties, pled guilty to two counts of making false statements to HUD. Gonzalez obtained and used forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. The loans based on false information from Gonzalez have a total value of approximately \$5.3 million.

Mario Gonzalez, a mortgage broker and co-owner of Pacific Investment Capital (PIC) in **Los Angeles**, was sentenced to 24 months incarceration and 3 years supervised release, and ordered to pay a \$700 special assessment. He was previously found guilty of one count of conspiracy, five counts of mail fraud, and one count of money laundering. Rene Fagundo, a co-conspirator, was sentenced to 3 years probation and ordered to pay a \$200 special assessment. The two were also ordered to pay a total of \$242,458 in restitution. Fagundo pled guilty in August 2001 to two counts of mail fraud. Gonzalez and Fagundo were involved in a Title I and Title II loan fraud scheme that involved \$14 million in HUD insured loans and over 46 properties. To date, HUD has paid \$5 million in claims.

PIC was a mortgage brokerage company that originated Title I and Title II home improvement loans. Gonzalez and Fagundo created false verification of employment forms, W-2s, and pay stubs using personal information provided by employees of Allstate Mortgage. The false documents were submitted to HUD so that unqualified buyers were able to obtain HUD insured loans. The Allstate Mortgage employees involved in the scheme were previously charged. This case was initiated and conducted by OIG with the assistance of the FBI.

Clifton Anderson Hinds was sentenced to 24 months incarceration and 36 months supervised release, was fined \$3,000, charged a special assessment of \$1,400, and ordered to pay \$41,810 in restitution to HUD. Hinds previously pled guilty to 14 counts of mail fraud and 7 counts of making false statements. He had owned and operated real estate investment companies named United Funding Group, H&H Investments, and Noetic Investments, through which he recruited and met potential strawbuyers to help him obtain mortgage loans and invest in properties. The scheme was directed at commercial lending institutions and HUD. Hinds would purchase distressed properties in the **Los Angeles**

area and arrange for fictitious sales of the properties to strawbuyers at inflated prices. He then used the information obtained from the strawbuyers to prepare loan applications, real estate purchase contracts, deeds of trust, and other loan documents to obtain mortgages in the names of the strawbuyers. The lending institutions relied on the false information to extend loans to the strawbuyers. The profits from the proceeds of the fraudulent real estate transactions caused this scheme to continue and flourish. Hinds caused not less than \$10 million of loans to default at a loss to the government of between \$600,000 and \$1 million.

Two other individuals were also charged with mail fraud in this case. Using their companies, Malitop, Inc., Malitop Realty, Inc., Western Security Group, Champion Investment Group, Pacific Access, Inc., Western Property Management Group, and Nesbitt's Distributing, Ltd., the defendants allegedly used the personal information of others to fraudulently obtain single family mortgage loans and Title I loans insured by HUD/FHA. They obtained the loans through the fraudulent use of the victims' Social Security numbers, dates of birth, and other personal and credit information. The defendants recruited strawbuyers or directed others to do so, created or obtained false W-2 forms and pay stubs in the names of the strawbuyers, and notarized documents certifying that the strawbuyers signed deeds and other required documents. The loan applications and false documents were submitted to lending institutions to support inflated income levels necessary to obtain the loans; the lending institutions relied on the false information to extend loans to the strawbuyers. About \$1.5 million of FHA insured loans went into default as a result of this scheme. This was a joint FBI/OIG investigation.

A defendant in **Los Angeles** was arrested pursuant to a federal indictment charging her with six counts of wire fraud, five counts of bank fraud, and one count of aiding and abetting. Two co-defendants were summonsed to federal court pursuant to the same indictment. The co-defendants were involved in a fraud scheme from 1997 through 2000 that used businesses owned and operated by the first defendant to help unqualified borrowers obtain \$100 million in fraudulent FHA insured loans. The first defendant is currently on federal probation for a conviction on similar charges related to a document forging business that she ran. The most recent indictment charges that she continued the scheme by selling forged tax forms, check stubs, and credit documents that could be used to obtain FHA insured loans. She allegedly created fictitious businesses to verify the documents for lenders, and sold these documents to real estate brokers and agents for \$75 to \$300. The loss to HUD/FHA as a result of these schemes is approximately \$20 million. This was a joint FBI/OIG investigation.

Sheldon Port pled guilty to one count of mail fraud and one count of aiding and abetting in conjunction with a scheme to defraud American Development Corporation (ADC), a **Los Angeles** company that managed HUD subsidized multifamily properties. While the ADC employees were being paid with HUD funds to maintain Section 8 subsidized apartments, Port used the employees to perform construction work for the John Turner Construction Company on non-subsidized properties. Port and his co-conspirators then kept

the proceeds from the John Turner Company for themselves. Port was also paid by ADC to be a maintenance employee even though he performed no maintenance work. He submitted false timecards to a co-conspirator who approved them with the knowledge that Port had not done the work for which he was being paid. This case was conducted jointly by the FBI and OIG.

District of Columbia

The guilty pleas of three property speculators, John Quigley, Dorothy Quigley, and Timothy Blackburn, and a real estate agent, George Daniel Page, Jr., were unsealed in district court. The three speculators previously pled guilty to conspiracy to commit fraud against HUD. The speculators, with the assistance of the real estate agent, would buy and quickly resell distressed properties at fraudulently inflated prices, create and submit false financial documents regarding homebuyers in order to qualify them for FHA insured mortgages, and fraudulently inflate appraisals. This, in turn, caused lenders to lend more money than the properties were worth. The co-conspirators distributed the illegal mortgage proceeds among themselves. Proceeds from these transactions totaled over \$2.4 million. The real estate agent participated in at least 42 fraudulent sales of properties in the Washington, DC metropolitan area. Approximately 13 of the properties are in default or the foreclosure process, with an estimated loss to HUD in excess of \$700,000. This was an OIG/FBI investigation.

Eun Joo Hopkins was sentenced for her involvement in a mortgage flipping scheme. She was sentenced to 5 years probation and ordered to pay \$112,359 in restitution. Hopkins, acting as a loan officer, used false verifications of employment and false documentation of assets in order to ensure that strawbuyers would qualify for FHA insured mortgages. The investigation was conducted by OIG and the FBI.

A joint investigation by OIG and the FBI resulted in the sentencing of a Prince Georges County, MD mortgagor to 30 months incarceration in connection with a scheme in which counterfeit checks were negotiated at various institutions and false earning documents were submitted to HUD to obtain an FHA insured mortgage. The scheme resulted in a \$120,000 loss to the various institutions and a \$158,000 claim to HUD on the mortgage loan.

An Upper Marlboro, MD appraiser was indicted on one count of conspiracy and seven counts of accepting a bribe. The appraiser, an approved HUD real estate appraiser, along with unnamed co-conspirators, allegedly made money by creating and submitting false financial documents about homebuyers in order to qualify them for FHA insured mortgages, fraudulently inflating the values of the properties, and causing lenders to lend more money than the properties were worth. They then allegedly distributed the illegal mortgage proceeds among themselves. The appraiser appraised 45 properties that were bought and sold with 1 or more of the co-conspirators. Twenty of the 45 FHA insured mortgage loans have been foreclosed. HUD has acquired 14 of these properties and resold them at a total loss of over \$1.3 million. This investigation was conducted by OIG and the FBI.

A Metropolitan Police Captain and his wife, an Amtrak Police Officer, were indicted on charges of conspiracy and submitting false statements to HUD in connection with the purchase of an Officer Next Door (OND) Program property, a four-unit apartment building. An investigation by OIG and the Postal Inspection Service disclosed that the Officers failed to reside in the OND property for the required 3-year period. The Officers received a \$35,000 discount on the sales price of the property under the OND Program.

In addition, they were also indicted on charges of perjury and aiding and abetting. The Officers sought and obtained representation from the Federal Defender's Office, and in doing so, filed a false financial affidavit with the court.

Agents from the HUD and Social Security Administration OIGs executed a federal search warrant on the home of a Temple Hills, MD real estate speculator. The speculator is allegedly involved in illegal property flips in Maryland and Washington, DC. An investigation disclosed that the speculator lured unsophisticated buyers to purchase properties, on which the speculator had obtained inflated appraisals, by providing the buyers with false gift letters and working with lenders and settlement companies to disguise the sources of the down payment funds. To date, HUD has suffered financial losses approaching \$500,000 as a result of the speculator's scheme.

A joint investigation by the Postal Inspection Service, OIG, and the Howard County Police Department led to the arrest of a Laurel, MD man for identity theft, mail theft, possession of a credit card in the name of another person, and fraudulently using the identifying information of another person. The individual had stolen mail from numerous victims and assumed their identities to obtain credit cards. He then used HUD foreclosed homes as mail drops to receive the fraudulent credit cards and other mailings. Agents and Police Officers arrested the man as he picked up the mail at one of the HUD homes.

OIG and FBI Agents seized \$360,000 in profits from a speculator along with \$270,000 in property from a loan officer. The funds/property were derived from the individuals' illicit real estate transactions. The speculator and loan officer provided homebuyers with fraudulent gift funds, earning statements, and verifications of employment so they would qualify for FHA insured loans. The loan officer purchased a house using fictitious documents and proceeds from the fraudulent transactions.

In the same case, federal authorities arrested a former Washington, DC speculator at the Atlanta Hartsfield International Airport as she attempted to re-enter the United States from Panama. The woman fled the United States after OIG and FBI Agents seized \$500,000 in assets that were derived from her illicit real estate transactions. A U.S. Magistrate Judge in Atlanta ordered the woman detained pending her removal to the District of Columbia.

OIG and FBI Agents arrested a District of Columbia resident and a Montgomery County, MD resident for their involvement in a property flipping scheme in the Washington, DC area. The speculators allegedly purchased

distressed properties and then sold them for a significant profit. The pair helped the buyers qualify for FHA insured home loans by providing them with fictitious documents and fraudulent gift funds. The loss to HUD is estimated at \$1.4 million.

Northern District of Illinois

OIG and the FBI conducted a joint investigation involving a 20 person property flipping scheme in **Chicago**. To date, 12 persons have been sentenced, while 21 have been indicted and convicted for their participation in the scheme. Tamira Smyth, also known as Tamira Russo, a former loan officer, was sentenced to 20 months confinement and 3 years supervised release, and ordered to pay \$2.2 million in restitution to HUD and various private lenders. In Smyth's capacity as a loan officer, she fraudulently originated at least 27 loans, 9 of which were FHA insured. Specifically, Smyth was responsible for the submission of false loan documents on behalf of buyers. For her participation in the scheme, she received kickbacks at the closings under an alias.

Jerry Williams, a recruiter and mortgagor, and Reginald Owens, an appraiser, were sentenced to a total of 33 months incarceration and 3 years probation, and ordered to pay \$1.9 million in restitution, \$821,000 of which was due to HUD. William was responsible not only for recruiting strawbuyers, but also obtaining his own mortgage through the use of fraudulent documents. Owens intentionally inflated appraisals for the transactions. He also received kickbacks for his role in the scheme.

Loan processor Nicole Williams was sentenced to 12 months confinement and 3 years supervised release, and ordered to pay \$831,428 in restitution to HUD and various other private lenders. Williams previously pled guilty to her participation in the origination of eight fraudulent loans, two of which were FHA insured. Although some of the loans were for the borrowers of flip transactions, Williams personally obtained two loans for herself through the submission of false loan documents.

Loan officer Nancy Zimmerman was sentenced to 10 months in prison and 2 years supervised release and ordered to pay \$666,700 in restitution to HUD and other private lenders. Zimmerman previously pled guilty to originating 14 fraudulent loans, 9 of which were FHA insured, for the end borrowers of flip transactions. For her participation in the scheme, Zimmerman received kickbacks under an alias following the loan closings.

Marlon Jackson, a real estate agent, and Keith Sloan, a paralegal, were sentenced after pleading guilty. Jackson, who facilitated 6 fraudulent loan originations, 4 of which involved FHA insured mortgages, was sentenced to 16 months confinement and 1 year supervised release, and ordered to pay \$311,000 in restitution to HUD and other private lenders. Sloan, who participated in the falsification of records at a title company, was directly responsible for 14 fraudulent loans, many of which were FHA insured. He was sentenced to 3 years supervised release and 200 hours of community service, and ordered to pay \$638,396 in restitution to HUD and other private lenders.

Valarae Washington-Hill, a mortgagor, was sentenced to 3 years probation and 100 hours of community service, and ordered to pay \$94,079 in restitution to HUD. Washington-Hill previously pled guilty to her participation in the purchase of her own FHA insured home, and receiving kickbacks for her role in cashing inflated sales proceeds checks for Brian Parr, a property flipper who has already been convicted.

Curtis Jackson, a mortgagor/recruiter, was sentenced to 3 years probation and 1 month house arrest, and fined \$5,000. Jackson not only fraudulently obtained his own FHA insured property, but recruited a buyer to whom he sold another property through fraudulent means and split \$34,000 in proceeds from that transaction.

Angela Nash pled guilty to one felony count. Nash, who was charged with bankruptcy and bank fraud, admitted submitting a fictitious name, Social Security number, and employment information in order to purchase an FHA insured home and a sport utility vehicle. She also used the false information in filing three separate bankruptcies following her failure to make payment on the loans.

Hermilyn Strong was sentenced in **Chicago** to 60 months imprisonment and 3 years supervised release, and ordered to pay \$562,000 in restitution to HUD, private lenders, and various other victims. Strong previously pled guilty to one count of submitting false statements to HUD, bankruptcy fraud, and misuse of a Social Security number in connection with a scheme wherein she purchased properties with fraudulent information and bogus identities and forestalled foreclosure by providing additional false information on bankruptcy filings. This was a joint investigation by the HUD and Social Security Administration OIGs and the FBI.

Carol Wikell, a Section 8 landlord, and Maria Davis, a Section 8 resident, both of whom were originally charged in December 2000, pled guilty and were sentenced in **Dupage County**. Wikell, who collected housing assistance payments on behalf of a deceased resident, was sentenced to 24 months probation and ordered to pay \$4,113 in restitution. Davis, who failed to report her correct income, was sentenced to 30 months probation and 100 hours of community service, and ordered to pay \$6,242 in restitution. This brings the total restitution in this case to \$97,000 to date. The investigation was conducted by OIG and the Dupage County States Attorney's Office.

In **Zion**, Rene Pierce was sentenced to 3 years supervised release and ordered to pay \$23,733 in restitution. Pierce previously pled guilty after an OIG investigation determined that though she received Section 8 rental benefits, she did not occupy her Section 8 property. Instead, she purchased an FHA insured home and occupied it.

Following an OIG investigation, Section 8 resident Sammie Carter pled guilty to state benefits fraud and was ordered to pay \$11,664 in restitution to the **Joliet** Housing Authority. Carter was indicted in July 2001 as part of a follow-up to an Attorney General Section 8 landlord/tenant prosecution package. Specifically, Carter failed to report her and her husband's wages to the Housing Authority and then filed bankruptcy, wherein she listed all of the unreported income as well as a multitude of creditors.

In **Chicago**, Wilma Corks and Eugene Hardney, who earlier pled guilty to their participation in an FHA fraud scheme involving fraudulent identities, fictitious banks and employers, and the submission of counterfeit cashiers'

checks at closing, were each sentenced to 5 years probation and were ordered to pay a total of \$26,424 in restitution. This was a joint investigation by OIG and the Secret Service.

A joint OIG/FBI investigation of Easy Life Realty in **Chicago** resulted in seven guilty pleas and one arrest. Richard Nelson, president of Easy Life Realty, and Millie Morales, Nelson's office assistant/real estate agent, each pled guilty to one count of mail fraud. The two falsified mortgagors' down payments and closing costs by making the down payments appear to be gifts from relatives, when in fact Nelson and Morales provided the cash. Losses attributed to Nelson and Morales range between \$200,000 and \$300,000.

Barbara Brown-Reich, Laura Stegmeir-Pauwels, and Peter Sandow, all former real estate agents for Easy Life Realty, were sentenced after earlier pleading guilty to defrauding HUD by falsifying gift information on behalf of FHA insured loan applicants. Brown-Reich was sentenced to 15 months probation and a \$1,500 fine. Stegmeir-Pauwels was sentenced to 1 year probation and a \$1,000 fine. Sandow was sentenced to 1 year probation and a \$1,000 fine, and was ordered to immediately surrender his Illinois real estate license. All three cooperated in the investigation following their indictment.

Robert Ducks, former Easy Life real estate agent, was arrested on an outstanding murder warrant. The murder warrant was discovered when Ducks' fingerprints matched those of one Donald Galloway, who was wanted for the 1979 murder of his wife. Ducks' fingerprints were taken after he pled guilty to one felony count in connection with making fraudulent gifts on FHA insured loans. Additionally, while using the Galloway alias, Ducks is believed to have been arrested several times, including on a felony charge for which he spent time in the Stateville Correctional Center.

Helen Miller, a real estate agent and former employee of Easy Life Realty, pled guilty to her involvement in the FHA fraud scheme. Miller also admitted to falsifying gift letters, when in fact Easy Life Realty provided the cash for borrowers to qualify for the loans. The loss attributed to Miller is approximately \$111,000.

John Morelli, a loan officer, and his wife, closing agent Deborah Rivera, each pled guilty to federal charges in connection with their attempt to refinance and cash out on a property in **Chicago** that they never actually owned. Specifically, they falsified deeds as well as verifications of deposit and employment. This was a joint OIG/FBI investigation.

Reynaldo Saez, a loan officer, pled guilty to mail fraud. Saez admitted falsifying W-2 documents, verifications of employment, and loan applications in connection with three different FHA insured properties in **Chicago**. This was a joint OIG/FBI investigation.

An investor in **Chicago**, who is currently being investigated for selling properties to which he does not have title, was indicted on charges of submitting false statements. The investor allegedly used a fictitious name in bankruptcy filings, and at the time of the filings, failed to disclose that he grossed

over \$140,000 in real estate proceeds over the last 2 years or that he owned 2 real properties. This was a joint OIG/FBI investigation.

A loan officer, who is currently under indictment for two different real estate schemes under the **Cook County** States Attorney's Office, another loan officer, a loan processor, and their employer were indicted on multiple counts of conspiracy, theft of over \$100,000, theft of over \$10,000, and computer fraud over \$50,000. The second loan officer and the loan processor were indicted on two counts of forgery relative to a fraudulent bankruptcy. The second loan officer was also charged separately for failure to file state income tax returns. These individuals allegedly originated eight FHA insured loans. As part of the scheme, the loan officers acted as the sellers under fictitious names, while simultaneously recruiting strawbuyers with assumed identities to apply for the fraudulent financing. The properties allegedly had inflated appraisals, making the scheme similar to a flip transaction. The sales occurred on the same day as the original sales, or shortly thereafter, with prices much higher than the original sales prices. This investigation was conducted by OIG and the Illinois State Police.

A former loan officer, already under investigation for activities in connection with a series of FHA insured loans, was indicted for the second time on state charges with two other individuals for attempting to sell a property in **Chicago** to which they did not have title. These individuals were indicted the first time on August 16, 2001. Specifically, the former loan officer, acting as the attorney, and two other individuals, acting as the seller's representative and the strawbuyer, allegedly attempted to sell a mortgage-free property in order to make over a half million dollar profit. All of this was unknown to the true owner. In total, the individuals were each charged with one count of attempted deception, one count of forgery to make or alter documents, five counts of forgery with intent to issue or deliver documents, and one count of forgery to possess with intent. The individuals posing as the seller's representative and the strawbuyer were charged with an additional count of possession with intent by display of fraudulent identification. This was an OIG/Chicago Police Department investigation.

District of Maryland

Anthony Deal, a former real estate salesman in **Greenbelt**, was sentenced to 33 months incarceration and 3 years probation, and ordered to pay \$348,000 in restitution to HUD for his role in at least 36 fraudulent FHA transactions. Deal, who previously pled guilty to an 8-count indictment, failed to file personal tax returns for 1995, 1996, and 1997, and filed false tax returns for at least 11 clients, claiming nonexistent business losses, child care credits, and a false real estate deduction. Deal also made fraudulent real estate sales, using false employment verification documents, wage statements, and gift letters to secure FHA insured loans. The loss to the government from these false transactions will exceed \$2.5 million. This investigation was conducted by the OIG, IRS, and FBI.

George Schiaffino, a real estate agent, Kay House Realty, his company, and William Dennis White, a non-licensed real estate agent who previously

pled guilty to submitting false statements to HUD, were sentenced in federal court in **Baltimore**. A joint investigation by OIG and the FBI, which included an undercover operation, found that the defendants flipped approximately 80 properties and provided the mortgagors with false paperwork, including gift letters, rental histories, employment documents, and credit information, to enable them to qualify for about \$5 million in FHA insured mortgages. Approximately 20 percent of these mortgages have gone into foreclosure, with losses to the FHA insurance fund in excess of \$300,000.

Schiaffino was sentenced to 6 months house arrest with electronic monitoring and 5 years probation, and ordered to pay \$342,341 in restitution to HUD and a \$100 special assessment fee. As part of a special condition, Schiaffino was also ordered to pay Kay House Realty's fine in a lump sum payment within 180 days. This amount will be credited to Schiaffino's restitution. Kay House Realty was sentenced to 3 years probation, fined \$62,001, and ordered to pay a \$200 special assessment fee. White was sentenced to 4 years probation and 1,500 hours of community service, and ordered to pay \$104,932 in restitution to HUD and a \$100 special assessment fee. Both Schiaffino and White were determined to be responsible for restitution. Schiaffino and Kay House have been debarred from participating in HUD programs for 3 years.

Harvey Adler, the owner of Adler Services Group, was sentenced to 41 months incarceration and 3 years probation, and ordered to pay \$235,000 in restitution to HUD for his role in submitting false and inflated bills to the Housing Authority of **Baltimore City** (HABC) for maintenance and repair work on several public housing properties. Adler was previously convicted on nine counts of making fraudulent statements to the HABC. He caused his company to submit invoices for maintenance on gas and oil fired furnaces that was never performed and inflated the cost of the parts. Adler directed technicians to install parts that were not needed and to inflate the number of hours they worked by two or more times.

Scott Dower, the former vice president of Adler Services Group, was also sentenced in this case to 3 years probation and ordered to pay \$28,519 in restitution and perform 300 hours of community service. Dower submitted false and inflated bills to the HABC for maintenance and repair work on several public housing properties. This was a joint OIG/FBI investigation.

Scott Mead, who flipped dozens of **Baltimore** properties, often using aliases, and then laundered hundreds of thousands of dollars in illicit profits through Cayman Islands bank accounts, was sentenced to 64 months in federal prison. Mead also returned to the government \$187,856 from his bank accounts in the Cayman Islands and Liechtenstein and from the sale of a Montana ski condominium that he bought and moved to after learning he was under investigation. Over a 4-year period, Mead bought low-cost houses and quickly resold them at prices as much as twice the actual value. Buyers put little money into the deals and were promised cash at settlement. Mead admitted not only using false information to obtain mortgages for the buyers, but also that the loans exceeded the value of the homes by more than \$1 million. After the deals were closed, the money was wired to New York and then to Liechtenstein. During the course of the investigation, it was learned that Mead arranged for

one of his properties to be burned down for insurance proceeds after he learned that he would be unable to realize sufficient profit after resale. This was a joint investigation by OIG, ATF, and the Postal Inspection Service.

Kent Cockrell, a tax return preparer in **Greenbelt** and known associate of speculator Donald Harmon, was sentenced to 6 months home detention, 2 years probation, and 75 hours of community service, and ordered to pay \$77,330 in restitution to HUD for his role involving a mortgage fraud scheme in Prince George's County. Cockrell created fraudulent W-2's and pay stubs in order to enable a speculator to obtain approximately 20 properties; the documents were used in support of loan applications to obtain FHA insured mortgages. The loss to the government exceeded \$600,000. Harman previously pled guilty and is awaiting sentencing. This investigation was conducted by the OIG, FBI, and Postal Inspection Service.

In **Greenbelt**, David D. Nuyen, the owner of 15 rental properties in the District of Columbia and Maryland, was sentenced to 24 months incarceration and 3 years probation, and fined \$50,000 for obstructing justice and submitting false documents to HUD in order to conceal his failure to notify tenants of the presence and hazards associated with lead-based paint. This was the first criminal prosecution in the Nation relating to lead hazard warnings required under the Lead Hazard Reduction Act of 1992. Nuyen sought to obstruct HUD's investigation and to conceal his failure to properly notify tenants of the presence of any lead-based paint hazards by giving HUD lead paint disclosure forms for his tenants that were false and misleading. Nuyen directed resident building managers to have tenants sign and backdate the lead-based paint disclosure forms. He also backdated his own signature and tenants' signatures representing that all available lead-based paint information had been provided to the tenants. Nuyen presented lead hazard notification forms to HUD representing that he had notified tenants that he had no specific information regarding certain apartments, when he had actually been issued housing deficiency notices. Nuyen was also sentenced to 12 months incarceration, to run concurrently, for violating the Toxic Substance Control Act. He failed to provide the required lead hazard pamphlet and lead paint disclosure form even after learning of and obstructing HUD's investigation. HUD OIG, the EPA Criminal Investigations Division, and the FBI conducted this investigation.

On the same day in a related case, Nuyen, as a real estate broker and mortgage lender, was also sentenced for submitting false documents to HUD in order to conceal the fact that he was under investigation. Nuyen was charged with making materially false statements to HUD as part of his effort to become a loan originator. He knew and deliberately failed to disclose material information on his application that HUD was conducting an investigation regarding his compliance with the Lead Hazard Reduction Act and that the Department of Justice planned to file a civil lawsuit against him. This was a joint OIG/FBI investigation.

Following an investigation by the OIG District of Maryland and District of Columbia Housing Fraud Initiative Offices, Ruby Frye, a former employee of Special Properties Incorporated (SPI), was sentenced to 4 months incarceration.

tion, 4 months home detention, and 1 year probation, and ordered to pay \$7,000 in restitution to HUD. Frye was responsible, under a real estate asset management contract with SPI, for preparing and submitting invoices to HUD for work performed by SPI's subcontractors on properties in **Montgomery County**. Frye submitted false invoices in order for SPI to obtain additional profits from the contracts. The invoices included Frye's certification that work completed was done in a satisfactory manner and in accordance with the terms of the contract.

Two Section 8 tenants pled guilty in **Baltimore City** to one count of felony theft. Cynthia Steward and Daisy Victoria Reed were previously indicted for conspiracy to commit theft through the sale and distribution of bogus Section 8 vouchers from July 1999 through February 2001, which resulted in a total loss to the victims of \$15,944. The defendants were sentenced to 5 years in prison (suspended), 3 years probation, and 100 hours of community service, and ordered to pay \$375 in restitution to a victim and a \$175 court fee. They have also been terminated from the Section 8 Program.

This investigation stemmed from information provided by the Housing Authority of Baltimore City (HABC) Police Department. Documents were seized during the execution of two state search warrants, including folders of individuals with forged Section 8 vouchers and receipts of payments to the subjects. Also seized were Section 8 vouchers and other HABC paperwork that were whited-out except for the signature of the Housing Authority official. The documents were copied and sold to numerous individuals for approximately \$500-\$750 per voucher. In many instances, the subjects often portrayed themselves as HABC employees and explained that for a fee, the City had a program that could expedite the Section 8 waiting process. The victims would take the forged voucher and request for lease approval to the landlord and move in to a Section 8 unit. Due to problems at HABC, the landlords were not suspicious when they did not receive timely payments. Eventually, the landlord would contact HABC only to be informed that the tenants did not have legitimate vouchers. This was an OIG investigation.

FAA employee Malcolm Morris, Jr., pled guilty in **Baltimore** to submitting false statements to HUD in order to help Rose Wright, who previously pled guilty and is awaiting sentencing, avoid the foreclosure of her home. In March 1999, Wright sold her property to Morris, who obtained an FHA insured mortgage. In support of his loan application, Morris submitted W-2 wage and tax statements for 1997 and 1998 as well as a gift letter for \$9,000 from his sister. All of these documents were false and were created by Morris as a favor to Wright. When a bank employee called Morris to confirm his stated employment, Morris lied to support the false W-2's. After one payment, the property went into foreclosure. HUD paid a claim of \$135,855.

Also in this case, Cathy Mack, sister of Malcolm Morris, pled guilty to furnishing the false \$9,000 gift letter. This was a joint investigation by OIG and the Postal Inspection Service.

Former Section 8 recipient Joan Wyre pled guilty to furnishing false information to the **Baltimore County** Housing Authority to obtain excess rental

assistance. An OIG investigation found that Wyre failed to disclose that another person, who was employed for most of the 10 years that she received assistance, resided with her. She also failed to report income that she earned as a day care provider and a convenience store clerk. Total assistance overpaid on Wyre's behalf exceeded \$50,000.

An 11-count indictment was unsealed against a real estate agent charging him with submitting false statements to HUD by creating fraudulent financial documents for borrowers in order to help them secure FHA loans. The agent was allegedly involved in submitting false documentation on at least 30 properties, with a loss to the government in excess of \$750,000. Most of the false documentation included tax returns, W-2's, pay stubs, and gift letters. In addition, the agent was involved in a series of flip transactions involving properties in **Southern Maryland**. He allegedly used his own company to buy and then resell single family properties, at a significant price increase, to unsuspecting first-time homebuyers. In some cases, the agent provided the purchasers with false documentation to assist them in obtaining FHA loans. This was a joint OIG/FBI investigation.

Eastern District of New York

Darrell Hill, a homebuyer/recruiter in **New York City**, pled guilty to making false statements and was sentenced to 3 years in prison. Hill used false documents to assist in qualifying homebuyers for FHA insured mortgages. He submitted, and caused to be submitted, loan applications to banks; these applications overstated the income of homebuyers and misrepresented the sources of funds used for down payments and closing costs. Hill also recruited several strawbuyers who purchased a total of 21 properties with FHA insured loans. HUD has paid claims for 16 of the 21 loans; the remaining 5 loans are still in default status. The total loss to the FHA insurance fund is estimated at over \$4.2 million. This was an OIG investigation.

A real estate agent in **Brooklyn**, who was responsible for arranging illegal flips on properties that were insured by FHA and originated by several local banks on Long Island, was arrested for submitting false statements to HUD. An investigation by OIG and the FBI's Bank Fraud Unit found that the agent allegedly arranged for the use of strawbuyers and false employment and income verification documents, and staged fraudulent gifts in order to obtain FHA insured loans. This agent also appears to have profited substantially by being the undisclosed middle buyer in these real estate transactions. Four additional arrest warrants and one search warrant were also executed as part of this fraud investigation involving applications for FHA insured loans which were originated by Saxon Mortgage Bank. The arrestees included a certified public accountant (CPA)/real estate broker in Brooklyn, who was purportedly responsible for producing false W-2's, pay stubs, tax returns, and verifications of employment for many of the applicants, a loan officer employed by Saxon Mortgage Bank, a second real estate broker, and a business owner. The search warrant was executed at the CPA's office.

The former director of the Youth Program for the Municipal Housing Authority for the **City of Yonkers** was arraigned for theft of \$261,000 in

government funds. The former director allegedly caused the Housing Authority to issue 429 checks in the names of current and former Youth Program employees between May 1996 and February 2001, which were subsequently deposited in a checking account controlled by him. A review of records disclosed that the former director used this money for personal benefit. The investigation was conducted by OIG and the Municipal Housing Authority for the City of Yonkers.

The president of the Ingersoll Tenants' Association, Inc., a community based not-for-profit organization established in the Ingersoll public housing development in Brooklyn, was arraigned on charges of making false statements to HUD in connection with single family equity skimming. From November 1998 through June 1999, the individual allegedly signed as borrower for mortgages on 34 distressed properties located in **Brooklyn and Queens**. An investigation by the HUD and New York City Housing Authority OIGs and the New York City Department of Investigation disclosed falsified information on all of the mortgage forms. In addition, all 34 properties, with Section 203(k) Rehabilitation Home Mortgage Insurance Program mortgages, went into default within 1 year. The Tenants' Association received rental payments from the tenants even though the Association never made a mortgage payment on any of the FHA insured properties. These properties are currently in foreclosure.

*Northern District of
Texas*

Sharon Morris, the former executive director of the **Lancaster** Housing Authority, was sentenced on 1 count of theft to 6 months home confinement and 36 months supervised release, fined \$3,000, and ordered to pay \$92,490 in restitution to HUD. The sentencing is the result of an OIG investigation which found that from 1992 to 1999, Morris and an assistant stole over \$300,000 in Section 8 funds from the Authority. To conceal the theft scheme, they altered tenant income forms to reflect certain tenants' reported income, and to indicate that tenants' rents were 100 percent subsidized by the Authority. Morris and her assistant had the tenants pay rent to them at the Authority and paid the landlord with checks written from the Section 8 account. They also provided tenants with rent receipts, threatened to evict them for non-payment, and split the funds after cashing tenant checks or depositing them in their personal bank accounts. The stolen money was spent on personal expenses and used to pay off numerous credit card balances. Morris' assistant, Catherine Massingill, was sentenced in July 2001.

Rodney Dale Waggoner, the owner of Texas Real Tax, Inc. (TRTI), was sentenced following an earlier guilty plea to one count of making false statements. Waggoner was placed on 5 years supervised release and ordered to pay \$69,500 in restitution to HUD. The sentencing is the result of a joint investigation by OIG and the FBI which found that Waggoner conspired with various closing attorneys to charge them less than amounts appearing on statements submitted to HUD for closing costs. Several closing attorneys contracted to do HUD closings in the **Dallas/Fort Worth** area hired TRTI to research the taxes paid on the HUD properties being closed. Waggoner entered into "back door" agreements with at least three attorneys to charge them less than the amount shown on the statements submitted to HUD so that the closing attorneys could

“pocket” the difference. While Waggoner took none of the “extra” cash, the scheme assured TRTI a steady high volume share of business in the area. Waggoner has cooperated with investigations of the closing attorneys that used TRTI. Losses to HUD are expected to be in excess of \$200,000.

Nancy L. Kozlowski, a former **Dallas** Police Department Officer, was sentenced after pleading guilty to one count of submitting false statements to HUD. She was placed on 2 years supervised release and ordered to pay \$21,688 in restitution to HUD. The sentencing is the result of an OIG investigation which found that Kozlowski made false statements to Special Agents during an official interview concerning her participation in the Officer Next Door Program (ONDP). Kozlowski received a \$34,500 discount on a home purchased through the ONDP, and instead of residing in the property for 3 years as required, vacated the house after 1 year and entered into a rental agreement with another individual. The tenant was subsequently evicted and the house was sold for \$80,000.

Bruce E. Collingsworth, the facilities manager for the **Fort Worth** Police Department, was sentenced for submitting false statements to HUD. Collingsworth was fined \$1,000 and ordered to pay \$38,793 in restitution. The sentencing is the result of an OIG investigation which found that Collingsworth, while not a full time Police Officer, participated in the ONDP. He purchased a home under the program, and instead of using the home as his primary residence for 3 years, as required by the program, failed to reside in the home.

Collingsworth is one of six North Texas Police Officers convicted for abusing the ONDP. The prosecutions have resulted in more than \$175,000 in restitution to HUD. One Officer is serving 18 months in prison.

Earl Williams, an automotive business owner, and his spouse, Gayla Williams, a U.S. Postal Service employee, were sentenced in **Dallas** for conspiracy and aiding and abetting. Earl Williams was sentenced to 11 months incarceration and 3 years supervised release. His wife received 180 days home confinement and 5 years supervised release. Both were ordered to pay a \$100 special assessment and restitution in an amount determined by the court. The couple previously pled guilty to their roles in a scheme to defraud HUD. The sentencings stemmed from an OIG investigation which found that the couple originated a \$96,000 FHA insured mortgage in the name of their minor daughter in an attempt to conceal their prior credit problems, including a previous foreclosure on an FHA insured mortgage. Their mortgage application contained false income information and identification documents. The sentencings are part of an investigation of Infinity Mortgage Company, which originated \$22 million in fraudulent FHA insured mortgages.

Bobby Omolo, a co-conspirator in a scheme to elicit funds from distressed single family homeowners, pled guilty to Social Security fraud. In July 1998, Omolo represented to a credit card company that he was the holder of a Social Security card issued by the Commissioner of Social Security, when in fact, he was not. Omolo was a co-conspirator with his mother, Mary Omolo. Mother

and son, doing business as MBC Financial Group, purchased **Dallas/Fort Worth** area monthly foreclosure lists of properties identifying homeowners facing foreclosure. They then mailed advertisements to these homeowners representing that for a fee, MBC could help them avoid foreclosure by making payments to or renegotiating the terms of the loans with the mortgage companies. After the homeowners paid the fees, no negotiations were held with the mortgage companies and the properties went into foreclosure. Some of the loans were insured by FHA. Mary Omolo was sentenced in July 2001. The approximate loss to the Department is \$550,000. This investigation, known as "Operation Payback," was conducted by the OIG.

The president of Kings Land Development (KLD), a subsidiary of Grace Outreach Church, the pastor of Grace Outreach Church, and 2 other individuals were indicted on 36 counts of conspiracy and false statements. The indictments are the result of a joint OIG/FBI investigation which found that KLD and Grace Outreach Church allegedly purchased dilapidated homes at low prices, performed some repairs, obtained inflated appraisals, and sold the homes, with FHA insured loans, to low-income buyers through American Investment Mortgage Company (AIM). Closing costs and down payment assistance were provided through a City of **Fort Worth** grant program. One of the subjects operated as Royal Lending, a net branch of AIM, and also falsified documents to qualify the buyers for the FHA insured loans which later went into default. The estimated loss to the government is expected to be in excess of \$13 million.

Also in this case, Venita Darlyn Lawson, a loan processor for AIM, pled guilty to one count of wire fraud for processing loans containing false documentation.

Ronnie Lamar Williams was sentenced for threatening to use a weapon of mass destruction. He was ordered to serve 30 months in prison and 5 years supervised release. The sentencing is the result of a joint investigation by OIG and the FBI which found that in October 2001, Williams contacted the law firm of Baker, Brown, and Dixon in **Arlington**, disguising his voice so that he sounded Middle Eastern, and left a message on the office answering service threatening to send a package of anthrax to the law firm. The answering service logged the message as well as the caller identification information. The telephone number where the call was initiated belonged to a resident of a HUD subsidized property owned by the Dallas Housing Authority. The OIG Southwest District Housing Fraud Initiative Office is located in the same commercial building as the law firm.

A single family mortgagor in **Dallas** was indicted for submitting false statements to HUD, identity theft, and bankruptcy fraud. The indictment is the result of a larger investigation by OIG and the FBI involving alleged loan origination fraud by Universal Lending Group (ULG) of **Southlake**. ULG originated over \$50 million in loans over a 2-year period, \$4 million of which are in default and on which the Department has lost over \$1 million. The investigation found that the mortgagor used a Social Security number belonging to another individual in order to obtain an FHA insured loan, and then later used that same Social Security number to file bankruptcy.

A federal grand jury in **Dallas** indicted an individual on charges relating to previous INS deportation charges, submitting false statements to HUD, and submitting false statements relating to an application for and use of a passport. The indictment is the result of an OIG investigation which found that the subject, in addition to violating previous deportation charges, used a false name and Social Security number in order to obtain an FHA insured loan. The subject also made false statements on applications for a Social Security number and a passport.

Chapter 3

Audits

In addition to evaluating HUD's management and reform challenges, conducting audit work in support of the Housing Fraud Initiative, 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 2 audit-related memoranda on internal HUD operations, and 10 reports and 19 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports and memoranda issued.) Collections amounted to \$6.9 million, with another \$11 million in management decisions on audits with questioned costs.

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, among other reviews, we conducted a nationwide audit of nonprofit organizations' participation in FHA insured Single Family Programs and follow-up nationwide audits of the Loss Mitigation and Asset Control Area Programs.

Single Family Insurance Programs

Nonprofit Participation

An OIG nationwide audit of nonprofit organizations' participation in FHA insured Single Family Programs disclosed that HUD's current regulations, guidelines, and controls have allowed profit-motivated entities and individuals to manipulate the Real Estate Owned (REO) Discount Sales Program and reap the benefits of discounted sales prices. As a result, low- and moderate-income homebuyers have not benefited significantly from the approximately \$220 million in discounts given under the program between January 1998 and April 2001. During this period, we identified nearly 4,000 REO discount sales properties that were subsequently resold by the original nonprofit agencies to individuals who obtained FHA insured mortgages. Analysis of information relating to these resales showed:

- The average resale price of the properties by the nonprofit agencies was 30 percent higher than HUD's as-repaired value of the property.
- The average resale price by the nonprofit agencies, in relation to the subsequent FHA appraised value of the properties, was 98 percent.
- Gifts were provided by the nonprofit agencies to the mortgagors purchasing the properties from them in only 15 percent of the cases.

Abuses of HUD's program for discount sales to nonprofit organizations have resulted from a deficient initial screening and approval process; lack of effective on-site monitoring; inadequate reviews of annual reports; lack of controls over resale and reporting on properties sold at a 10 percent discount; and a failure to take quick and effective actions when problems are noted. Although HUD has made important changes in its approval and monitoring processes over the last year, significant problems continue to exist.

We recommended that approval, monitoring, recertification, and sanction processes be strengthened. (Report No. 2002-SF-0001)

Loss Mitigation Program

The OIG performed a nationwide follow-up audit of HUD's Single Family Loss Mitigation Program to evaluate whether the program is effectively and efficiently achieving HUD's goals for increased home retention and minimized costs to the insurance fund. The audit included reviews at six large and two mid-size servicing mortgages and the private contractor servicing partial claim notes.

The Department has exceeded its goals to increase the usage of loss mitigation strategies, thereby reducing losses to the FHA insurance fund with foreclosure avoidance. Although HUD has expanded the usage of loss mitigation on FHA insured loans, additional work is needed to improve the administration of the program. We identified four issues that are keeping the Loss Mitigation Program from reaching its full potential and achieving HUD's goals to help borrowers retain homeownership while mitigating the economic impact to the FHA insurance fund. First, servicers are approving borrowers for loss mitigation when the work-out is unlikely to succeed. These actions are delaying the foreclosure process, increasing the cost of foreclosure, and subsidizing borrowers who fail to make their mortgage payments for extended periods of time. Second, servicers are over-relying on partial claims, the costliest of the three home retention loss mitigation strategies, because partial claims are quick and easy to process while other loss mitigation strategies are more complicated. Third, additional collection procedures are needed to collect borrowers' defaulted partial claim notes that are not paid during the sales or refinance transactions. Fourth, HUD needs to improve its monitoring and oversight of large servicers to ensure the servicers are consistently administering the Loss Mitigation Program within HUD requirements.

To resolve these problems, the Department needs to enhance existing policies and procedures to improve the effectiveness and efficiency of the program and to further achieve HUD's goals. (Report No. 2002-DE-0001)

Asset Control Area Program

The OIG performed a nationwide audit of the Asset Control Area Program to assess its effectiveness in meeting the objective of expanded homeownership opportunities in revitalization areas. Our audit disclosed that eligible single family properties were improperly made available to for-profit developers at discounted prices. More importantly, we noted that the Asset Control Area Program has only produced limited numbers of homeownership opportunities. Furthermore, we noted that HUD is unable to adequately evaluate the effectiveness of the program because of a lack of management controls, and that the program has increased HUD's administrative burden under its Property Disposition Program. We further noted that HUD has a history of problems in its attempts to administer rehabilitation programs for its single family properties. A case in point is the Section 203(k) Program, which is the Department's primary program for the rehabilitation of single family properties. There have been a number of OIG and GAO audits that discuss fraud and mismanagement in that program. In this regard, we question the need for another rehabilitation program, e.g., the Asset Control Area Program, especially since HUD is experiencing implementation problems.

We recommended that HUD assess the need for the Asset Control Area Program in light of: (1) the decline in the inventory of HUD owned single family properties; (2) the susceptibility of the program to abuse by housing investors and contractors; and (3) the fact that the program will place an increased burden on HUD staff. If HUD decides to continue the Asset Control Area Program, we recommended that various management controls be strengthened. In addition, in order to ensure that the program stays at a manageable size, we recommended that HUD limit the number of properties that are involved in the Asset Control Area Program. This would give HUD the flexibility to control the size of the program. To ensure this flexibility, HUD may need to seek legislative change. (Report No. 2002-NY-0001)

***Loan
Origination
Activities***

In **Sandy, UT**, an OIG review of American Union Mortgage's management controls over its loan origination and quality control procedures for the origination of FHA insured loans showed American Union not to be in compliance with HUD requirements.

American Union has been using independent contract loan officers to perform all loan origination functions, including those functions that are required by HUD regulations to be performed only by American Union employees. American Union established mortgage loan origination agreements with its independent contract loan officers, requiring exclusivity to American Union, as they felt this would bring their loan origination operations in compliance with HUD requirements. In addition, American Union has not actively participated in the loan origination process performed by its independent contract loan officers. American Union relied solely on its direct endorsement mortgagee as its checks and balance for the propriety of information contained in loan origination packages.

The audit recommended that the Denver Homeownership Center: (1) require American Union to comply with HUD requirements by making all independent contracted loan officers full or part-time employees; (2) direct American Union to develop and implement a management control process that will ensure all loan origination functions are monitored for compliance with HUD requirements; and (3) review American Union's implementation of these recommendations. (Report No. 2002-DE-1801)

Public and Indian Housing Programs

HUD provides grants and subsidies to approximately 4,200 housing authorities (HAS) nationwide. About 3,200 HAS manage public housing units and another 1,000 HAS, with no public housing, manage units under Section 8 Programs. (Many HAS administer both public housing and Section 8 Programs.) HUD also provides assistance directly to HAS' 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 HAS 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 administrative efforts of various HAS.

In response to an anonymous complaint, we performed a review at the **Philadelphia, PA** Housing Authority (Authority). The complaint alleged that the Authority's executive director (ED) was unfairly recruiting and promoting individuals with whom he was affiliated rather than allowing for open and fair competition. The complaint also alleged that the ED's management style was causing many executive level personnel to leave the Authority.

We found the allegation relating to the ED's unfair hiring practices had merit. However, as for the second allegation, although there was a general consensus that the ED was a demanding supervisor and a number of executive personnel left for this reason, we did not find his management style violated any federal or state laws. In addition, we noted that the Authority violated the conflict of interest provision of its consolidated Annual Contributions Contract (ACC) with HUD when it hired the daughter of a member of the Authority's board of commissioners for a senior management position for which she was not qualified. Further, we questioned the circumstances relating to the Authority's obtaining the services of a human resource consultant, who drafted the Authority's personnel policy that exempted the ED from following the Authority's prescribed personnel policies and procedures.

We recommended that the board of commissioners update the Authority's personnel manual to clearly define all directions and mandates granted to the ED and other executive managers on their discretionary hiring authority, and to include adequate safeguards to identify, track, and monitor all discretionary hires. Further, we recommended that the board objectively assess whether the actions taken by the ED, as defined in the report, warrant disciplinary action. We also recommended that HUD's Office of Public and Indian Housing evaluate whether the conflict of interest constitutes an actionable breach of the ACC, and if so, implement appropriate action to remedy the breach. (Report No. 2002-PH-1803)

Following a complaint to the HUD Hotline, the OIG reviewed the Housing Authority of the City of **Evansville, IN**, and found that the Authority's former and current management staff and its board of commissioners did not effectively manage the Authority. Specifically, they: (1) misused over \$911,000 in HOPE I and Comprehensive Grant Program funds to purchase and renovate its administration building; (2) improperly awarded three consulting contracts worth over \$70,000 and over \$10,000 in fringe benefits to its former chief executive officer; (3) awarded 5 cleaning contracts totaling over \$199,000 without full and open competition and/or when conflicts of interest existed; (4) inappropriately acquired, developed, and disposed of property for the Emporia Project; (5) did not exercise sound management practices over steel purchased for construction work; and (6) did not establish an acceptable cost allocation plan to support the allocation of costs among the Authority's programs.

The audit recommended, among other things, that the Director of the Public Housing Hub, Cleveland Area Office, assure that the Authority obtains training for its current management staff and board of commissioners, take appropriate administrative actions against the former chief executive officer and former director of operations, reimburse the HOPE I and Comprehensive Grant

Programs for misused funds, and implement procedures to ensure the Authority follows appropriate requirements when awarding contracts. (Report No. 2002-CH-1801)

At the request of the Director of Public Housing, HUD Kentucky State Office, the OIG reviewed the **Waverly, TN** Housing Authority and found that because of mismanagement, abuse, and a lack of internal controls, the Authority is financially troubled and tenants are living in housing that is not decent, safe, and sanitary. The audit disclosed that Authority expenditures were inappropriate, inefficient, and undocumented. Between May 2000 and December 2000, the former executive director (ED) diverted more than \$165,000 to himself, his wife, and Authority staff through excessive salary and bonus payments. In a possible attempt to conceal or justify the diversions, the ED submitted a budget revision on August 31, 2000, to the board of directors and HUD requesting over \$14,000, including bonuses of over \$5,000 for the ED and \$9,500 for other staff. The budget revision was approved even though it conflicted with the Authority's personnel policy. Neither the board nor HUD was unaware when they approved the revision that the ED had already paid bonuses totaling \$49,750. We believe the diversions remained undetected over an extended period due to ineffective board oversight and a lack of management controls.

The audit recommended that HUD require the Authority to collect \$165,630 through its fidelity insurance policy and terminate all employees involved in the diversions. We further recommended that HUD ensure the Authority obtains and maintains competent management and institutes proper management controls. We also recommended administrative sanctions, as appropriate. (Report No. 2002-AT-1804)

At the request of the Senior Community Builder of the HUD San Antonio Office, the OIG reviewed the Housing Authority of the City of **Lockhart, TX**. We concluded that:

- *Allegation: family members of Authority employees are paid to perform "odd jobs" for the Authority.* We found two occurrences of payments to family members of Authority employees for temporary employment. Also, an independent accountant audit report for the year ended September 30, 1997, included a finding that a contractor for the Authority hired the executive director's (ED) son to help him. We found no further payments to the ED's son during our review.
- *Allegation: family members of Authority employees and board members have custody of Authority cell phones.* The ED permitted at least two personal cell phones to be billed to the Authority. These phones are not used for Authority business. The ED also permitted Authority employees to use Authority cell phones for personal use. However, based on our review, the Authority only pays for cell phone usage related to Authority business.
- *Allegation: the Authority purchased its vehicles from a company owned by the chairman of the board.* The Authority violated the Annual Contribu-

tions Contract, as well as its own procurement policy. Since the board chairman and his family own Lockhart Motor Company, there is an appearance that a conflict of interest may exist in the Authority's purchase of a vehicle from the dealership. Also, the Authority solicited only two bids instead of the required three.

Our review also found that the Authority arbitrarily allocated almost \$121,000 in personnel salaries to the Low-Rent Program.

We recommended that HUD require the Authority to implement procedures consistent with OMB Circular A-87 to allocate costs to the Low-Rent Program based on the benefit received, justify unsupported salary allocations, and correct the instances where we found that complaints were valid. (Report No. 2002-FW-1801)

In response to a request from the Director of Public and Indian Housing, HUD Massachusetts State Office, the OIG reviewed of the **South Kingstown, RI** Housing Authority and found that the Authority lacks proper internal controls, thus contributing to the improper use of credit cards, poor safeguarding of assets, and the failure to enforce travel policies. Further, the Authority has been unable to adequately recover outstanding tenant accounts receivable, which have increased 50 percent over a 10-month period because the Authority does not enter into repayment agreements with tenants on a timely basis, and does not enforce court decisions to evict tenants for non-payment of rent.

The former executive director (ED) used the Authority's Visa card for over \$15,000 in purchases of personal items. While the ED repaid the money, he also used the Authority's credit cards for another \$4,800 in inappropriate charges which were not reimbursed.

Both the maintenance director and the administrative assistant at the Authority maintain manual logs to track non-expendable equipment. However, the logs were missing significant information. A computerized work order system used by the Authority to track maintenance work by job was also missing pertinent information.

The Authority spent over \$56,000 on training and travel during the past 4 fiscal years. However, in the absence of supporting documentation justifying the need for the travel, we could not be assured that these costs were reasonable and necessary.

The audit recommended that HUD require the Authority to implement necessary internal control procedures, perform an inventory of all non-expendable equipment and reconcile the results with property records, and implement procedures to aggressively recover outstanding tenant accounts receivable. We also recommended HUD impose appropriate administrative sanctions against persons responsible for the misuse of low-income operating funds. (Report No. 2002-BO-1801)

At the request of the Program Center Coordinator, HUD's Portland Office of Public Housing, the OIG audited the **Nampa, ID** Housing Authority and found that its board of commissioners did not adequately carry out its responsibilities to oversee the administration and operations of the Authority. The board did not provide adequate monitoring or adopt policies and procedures that are adequate or consistent with program requirements. Specifically:

- The Authority does not have specific procedures for evaluating employee performance and determining the reasonableness of staff salaries. As a result, the board substantially increased the executive director's salary without properly evaluating his performance or the reasonableness of the increases.
- The board advised the executive director not to track his time, resulting in HUD grants paying for work on non-HUD activities. Also, the Authority charged employee salaries to HUD grants based on budget estimates rather than actual activities.
- The board did not always ensure that the executive director's travel was approved and claims were proper. Therefore, the Authority does not know if travel costs were necessary and reasonable.
- The board did not exercise reasonable controls when it allowed the executive director to sell items to the Authority, resulting in conflicts of interest and questionable purchases.
- The board did not ensure the Authority had controls to safeguard tenant rent and security deposits, resulting in misappropriated funds. In addition, the board did not take action to recover the misappropriated funds.

The audit recommended that HUD: (1) determine, in conjunction with appropriate City officials, the proper administrative actions to be taken against the board and the executive director; (2) implement the necessary policies and controls to ensure the Authority is run efficiently, has proper board oversight, and complies with HUD requirements; and (3) require the Authority to reimburse or provide support for questionable costs. (Report No. 2002-SE-1001)

Based on concerns by the HUD Michigan State Office of Public Housing Hub about the **Ypsilanti, MI** Housing Commission's controls over monetary assets and inventory, the OIG audited the Commission. We found that the Commission's controls over cash and other monetary assets and inventory were weak. Specifically, the Commission: (1) improperly claimed almost \$98,500 in operating subsidy since the Commission did not adjust its subsidy claims for long-term vacant units and inflated the number of occupied units claimed; (2) failed to maintain an acceptable level of occupancy that resulted in the Commission's losing an estimated \$157,000 in rental income; and (3) did not implement procedures and controls to safeguard its cash and other monetary assets against possible waste, loss, and misuse. Procedures and controls were lacking over cash receipts and deposits, disbursements, equipment, procurement, and financial and administrative processes.

We recommended that the Director of HUD's Michigan State Office of Public Housing Hub assure that the Commission implements controls to correct the weaknesses cited in the audit. (Report No. 2002-CH-1001)

As a result of citizen complaints, we completed an audit of the Housing Authority of the City of **Alton, IL's** Low-Income Housing and Public Housing

Drug Elimination Programs. The complainants' allegations were: (1) the Authority's former executive director (ED) was granting preferential treatment to certain tenants; (2) the Authority improperly used HUD funds; and (3) the Authority had poor controls over its equipment.

There was no evidence that the Authority's former ED was granting preferential treatment to certain tenants. However, the Authority did improperly use HUD funds and had poor controls over its equipment. Specifically, the Authority: failed to make required tax payments totaling almost \$51,000; claimed at least \$38,800 in excess operating subsidies over a 4-year period; did not make sufficient efforts to collect tenant accounts receivable totaling \$39,700; inappropriately charged expenses of almost \$145,000 to its Drug Elimination Grants; and improperly paid its former ED almost \$6,700 for accrued but unused sick leave. The Authority's system of management controls was weak. Controls did not assure that the Authority adhered to its policies concerning performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements. As a result, HUD lacks assurance that the Authority's resources were used to the maximum extent to benefit low- and moderate-income tenants.

We recommended that the Director of HUD's Illinois State Office of Public Housing Hub assure that the Authority reimburses HUD for the ineligible use of funds and implements controls to correct the weaknesses cited in the audit. (Report No. 2002-CH-1002)

An OIG audit of the **Concord, NH** Housing Authority contains four findings: (1) improper procurement activities where we questioned the correct valuation of contracts costing \$772,000; (2) lack of an adequate system of management controls; and (3) improvement needed in the administration of the Public Housing Drug Elimination Program (PHDEP); and (4) improvement needed over administration of the Section 8 Program. We identified unsupported costs totaling over \$58,000 relating to PHDEP and ineligible costs of more than \$6,000 relating to duplicate Section 8 payments. For these 4 findings, we made 16 recommendations to recover ineligible costs, document unsupported costs, establish proper values for goods and services, ensure that proper practices are carried out, and utilize HUD provided resources efficiently and effectively. (Report No. 2002-BO-1002)

HUD issued its final debarment letter to Rogelio P. Perez, former executive director of the **Uvalde, TX** Housing Authority. The debarment resulted from a December 2000 OIG audit of the Authority which showed that Perez diverted over \$500,000 of Section 8 and Low-Rent Housing Program funds for other than their intended purpose. The debarment is for a 3-year period, from November 26, 2001, the date of HUD's initial proposed debarment letter, to November 25, 2004.

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide

decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. During this reporting period, OIG audits focused primarily on grantees' administration of the Community Development Block Grant (CDBG) and HOME Programs, Enhanced Enterprise Community Funding, and the Continuum of Care.

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 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, and interest subsidies. Enhanced Enterprise Community Programs were designed to address severe community problems such as high unemployment, crumbling infrastructure, and minimal access to business capital. The Continuum of Care Program is designed to fight against homelessness by linking key housing services and expediting movement toward housing for the homeless.

CDBG and HOME Programs

At the request of the HUD Pennsylvania State Office of CPD, the OIG audited the City of **Williamsport, PA's** CDBG and Home Investment Partnership (HOME) Programs. HUD requested the audit based on the number of deficiencies identified in the City's program administration during a routine HUD monitoring review completed in June 2000. For the 6 activities reviewed, we found the City violated 22 specific program regulations, several of which had multiple violations. Because the City did not have a sound internal control environment in which to execute its programs, it funded over \$2 million of ineligible activities, made over \$576,000 in unsupported payments and draw-downs, and ultimately executed activities that may not have fully benefited low- and moderate-income persons.

Key recommendations in the audit require the City to continue submitting supporting documentation for funded activities until it demonstrates the capacity to administer its programs without supervision, and reimburse HUD for all ineligible costs, unsupported costs, and drawdowns which it cannot adequately support. (Report No. 2002-PH-1001)

The OIG completed an audit of the City of **Utica, NY's** (grantee) CDBG, HOME, and Section 8 Existing Housing Programs in December 1999, but postponed issuance of a final audit report until a related ongoing criminal investigation was completed. Upon completion of the investigation, we performed a review to update the status of the four findings developed during the 1999 audit. Our review disclosed that deficiencies continue to exist within each of the program areas examined in 1999. Specifically, we reported:

- Management controls are lacking or ineffective over financial and accounting functions, program monitoring, and programmatic communications.
- Because the grantee did not establish adequate controls to safeguard assets, CDBG funded rehabilitation programs were charged nearly

\$377,000 of ineligible and unsupported costs. This lack of controls also Allowed an employee to embezzle almost \$114,000.

- The grantee could not adequately demonstrate that HUD funds amounting to almost \$832,000 were used for eligible and necessary activities, or that all HUD funded activities achieved appropriate program objectives.
- The grantee did not effectively scrutinize the performance of Utica Community Action, Inc. (UCAI), with which it contracted to administer its Section 8 Program. Consequently, in the first 11 months of its contract, UCAI expended over \$127,000 in costs not adequately documented.

The audit recommended that HUD require the grantee to implement the management controls needed to correct deficiencies cited in the audit, reimburse ineligible costs to the CDBG Program from non-federal funds, and provide justification for the unsupported costs. (Report No. 2002-NY-1801)

Although the City of **Worcester, MA**, generally utilized its CDBG funds efficiently and effectively, an OIG audit identified problems with the administration of the program. Our finding indicates that the City improperly allocated salaries of over \$710,000, fringe benefits of \$113,500, and related maintenance expenses of \$77,700 as direct costs to the CDBG Program.

We recommended that the grantee establish and submit for HUD approval an appropriate method for allocating direct and indirect costs in accordance with Federal Cost Principles, and provide documentation to support the eligibility of its costs, or reimburse the CDBG Program with non-federal funds. (Report No. 2002-BO-1001)

While the City of **Ithaca, NY** (grantee), generally complied with HUD program requirements in administering its CPD Programs, an OIG audit found that in certain areas, the grantee did not always carry out its activities efficiently and effectively. The grantee did not implement adequate program controls to ensure that the developer of the Marina Realty Development Project complied with HUD requirements and federal regulations. We found ineligible costs of nearly \$76,500 that represent payments for duplicate withholding taxes, unnecessary interest costs, late fees, and unnecessary environmental costs, and for restaurant equipment that was not included in the grant agreement. We also found unsupported costs of almost \$197,000 that lacked adequate documentation for us to make an eligibility determination. In addition, the grantee could not demonstrate that \$100,000 in CDBG funds expended by another subrecipient were used for allowable program activities. The audit also found nearly \$208,000 in questionable and/or unsupported costs which we attribute to the grantee's weakened management controls.

We recommended actions that will strengthen the grantee's future administration of HUD funded programs. We also recommended that HUD require the grantee to repay \$76,500 in ineligible costs and provide justification for nearly \$505,000 in unsupported costs. (Report No. 2002-NY-1001)

An OIG review found that the City of **Baltimore, MD's** Department of Housing and Community Development (DHCD) is generally administering its HOME Program in accordance with HUD requirements. However, we identified four areas where DHCD needs to improve procedures and increase management

emphasis on the administration of its HOME Program: (1) loan agreements and potential HOME Program income are not monitored and tracked; (2) administrative expenditures are not adequately reviewed to ensure that contracts are formally established to acquire professional services, contract rates for technical inspection services are within approved limits and clearly defined, and invoices are sufficiently reviewed prior to payment; (3) matching fund requirements are not properly applied to ensure accurate accountability; and (4) HOME Program activities are not sufficiently monitored.

Among other things, the audit recommended that HUD require the City to develop a loan management system designed to track and monitor the status of HOME Program funds and develop administrative cost review procedures that will allow for periodic analyses of expenses. (Report No. 2002-PH-1801)

In response to three complaints made to our office, the OIG reviewed Partners for Community Development, Inc.'s Home Buyers-Lease Purchase Program and the HOME Homeowner Rehabilitation and Accessibility Program. The complainants alleged that Partners, located in **Sheboygan, WI**, did not consistently obtain competitive bids for single family housing rehabilitation work, award rehabilitation contracts to the lowest bidder, and perform the rehabilitation work in a quality manner. The complainants also alleged that Partners overcharged program participants for rehabilitation work.

We found that Partners charged its HUD funded programs excessive amounts for housing rehabilitation work and the quality of the work was poor. The problems occurred because Partners acted as the general contractor for the rehabilitation work, completed all major rehabilitation work, and then inspected its own work. Partners only subcontracted for technical repairs. As a result, Partners overcharged its HUD funded programs nearly \$25,000 to rehabilitate 6 single family homes that we inspected. In addition, Partners did not ensure that the work was obtained through full and open competition.

The audit recommended that Partners reimburse its HUD funded programs from non-federal funds for the excessive rehabilitation charges, follow HUD's procurement regulations and the State of Wisconsin's requirements to ensure housing rehabilitation contracts are awarded through full and open competition, and complete necessary repairs and obtain independent inspections for the six properties cited in the audit. (Report No. 2002-CH-1802)

Enhanced Enterprise Community Funding

In response to a citizen complaint about selection of recipients, the OIG reviewed the Enhanced Enterprise Community (EEC) funds awarded to the City of **Kansas City, KS**, in 1994. Although we did not identify any specific violations of HUD regulations regarding selection of recipients, we did determine that the City cannot fully support its administration of EEC funds. Because the City did not maintain an adequate recordkeeping system, it does not have full support for actions taken and decisions made regarding funds. In particular, the City cannot support its efforts to evaluate the feasibility of a business venture that ultimately received \$4.2 million in HUD funds. The venture was the first project funded with EEC funds and was intended to expand an existing business that would create jobs for residents.

We recommended that HUD ensure that the City establishes and implements a system to collect and manage HUD related program data, and take

appropriate administrative action if the City does not provide the records necessary to demonstrate that it is administering HUD funds according to federal regulations. (Report No. 2002-KC-1801)

Continuum of Care

In administering its 1996 and 1997 grants, the **Houston/Harris County, TX Continuum of Care** had adequate management controls to ensure it developed a strategic plan that fairly represented the community's needs, had a representative membership, and had a fair funding process. However, the Continuum did not have sufficient management controls to measure its members' performance and to gather, track, record, and report critical program data. As a result, the Continuum did not know which members were performing as planned in order to hold them accountable for their performance. In addition, it could not provide evidence that it met HUD's goal of helping homeless individuals and families "transition from the streets to jobs and independent living." Also, in contradiction to plans submitted to HUD, the Continuum did not coordinate its programs once HUD awarded grant funds.

The audit recommended that HUD encourage the Continuum to implement a process for evaluating program effectiveness and participant outcomes, establish procedures so that its members coordinate services among themselves and serve only homeless individuals and families, and track participants to ensure their transition to jobs and independent living. (Report No. 2002-FW-1001)

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to efforts to address equity skimming during this period, the OIG reviewed multifamily management agent 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.

An OIG audit resulted in a successful court judgment and subsequent favorable settlement in the amount of \$856,000. The case, which was referred

to the U.S. Attorney in March 1997, alleged that the owners of Dove Meadows Apartments in **Wilmington, NC**, used approximately \$608,000 in project funds in violation of the Regulatory Agreement. Specifically, the owners repaid loans that were made to the project by an identity-of-interest construction company when there was no available surplus cash and without HUD approval. Partly as a result of these improper payments, the physical condition of the project deteriorated significantly and HUD was forced to foreclose. As a remedy for the owners' violations, the government sought double the amount of the diversions plus costs and fees as authorized by the double damages statute. On January 7, 2002, the court granted judgment for the government in the amount of the diversions, and thereafter, the U.S. Attorney's Office in Raleigh, NC, obtained a settlement with the project owners in the amount of \$856,000. This amount is made up of \$606,000 for the owners' improper diversions, \$150,000 in double damages, and \$100,000 for audit costs and attorneys' fees.

The OIG performed a review of D.B. Frye and Associates in **Norfolk, VA**, an owner and identity-of-interest management agent responsible for managing five multifamily projects in Virginia, three of which are HUD insured, and four other projects in North Carolina, South Carolina, and Georgia. We initiated our review in conjunction with a criminal investigation conducted by the OIG Mid-Atlantic District. We reviewed all project expenditures for four projects (Stuart Gardens I and II, Southgate Court, and Hilltop North) located in Virginia.

We found that the management agent did not maintain adequate accountability over project funds in accordance with its Regulatory and Management Agreements with HUD. Altogether, for the 4 projects we reviewed, \$1.1 million of over \$6.6 million in expenditures lacked adequate documentation to support the expenditures. As a result, we have no assurance that these project expenditures were necessary and reasonable for project operations. Significant risk may be associated with the financial aspects of these projects, as well as the other five projects the management agent manages throughout the Southern United States.

We recommended that the management agent use non-project funds to reimburse the relevant project accounts for all costs that cannot be adequately supported, and take steps to ensure all payments from project accounts are made only for those expenses that are necessary and eligible. Further, we recommended that the local HUD Office coordinate its monitoring activities with other HUD Offices where the management agent has projects. (Report No. 2002-PH-1802)

An OIG review of Dutchtown Care Center in **St. Louis, MO**, found that Dutchtown improperly used over \$484,000 in project funds to repay owner advances when the project did not have surplus cash. Dutchtown also paid over \$308,000 in project funds to provide a salary to one of the owners. Paying a salary to an owner is prohibited unless HUD has approved the salary as essential to project operations. In addition, project funds totaling nearly \$52,000 were paid for other ineligible or unsupported purposes. These distributions violated HUD's requirement that the project complete a calculation that

shows the project has accumulated surplus cash before distributions are made. At the time these expenditures were made, the project did not have surplus cash. These distributions increased the risk to HUD's mortgage insurance fund.

We recommended that the Director, Office of Multifamily Housing, HUD Kansas City Hub, take appropriate actions to correct the deficiencies and prevent them from occurring in the future. (Report No. 2002-KC-1001)

At the request of HUD's Caribbean Multifamily Program Center Director, the OIG reviewed the Jardines de Valencia Housing Cooperative in **Rio Piedras, PR**. The request resulted from deficiencies disclosed during the independent audit of the Cooperative's FY 1999 financial statements. These deficiencies included, among other things, excessive benefits and compensation to or in favor of the Cooperative's former project administrator.

Our review found that the former project administrator received excessive benefits of nearly \$26,000 from the Cooperative's operating funds, falsified payroll records, and performed other improper actions while administering the Cooperative. These actions were carried out with the assistance of the Cooperative's former fee accountant. Further, some members of the board of directors were negligent in carrying out their duties, making the former Cooperative officials' actions possible. This caused an unnecessary burden on the Cooperative's financial resources.

The audit recommended repayment of the \$26,000 and debarment of the former project administrator, fee accountant, and appropriate board officials from future participation in HUD programs. (Report No. 2002-AT-1807)

In response to a request from HUD's Sacramento Multifamily Program Center, the OIG completed a limited review of commercial rent activities at the Lorenz Hotel in **Redding, CA**. The Lorenz Hotel is a 77-unit low-income housing project once owned by the Shasta Housing Development Corporation (SHDC), a California nonprofit community entity. HUD and SHDC executed an agreement for housing assistance payments whereby HUD would provide long-term Section 8 rental assistance to low-income people. In addition to the lobby used by the residents, there is commercial rental space on the ground floor that houses small businesses. OIG found that SHDC disregarded requirements contained in the property's sales contract and grant deed by improperly retaining over \$53,000 in commercial rent. This reduced the project's ability to readily meet its financial obligations and provide for future monetary needs.

OIG recommended that SHDC, now known as Community Revitalization and Development Corporation, return the \$53,000 to the project. (Report No. 2002-SF-1802)

Management Agent Operations

The OIG audited Mitchell Management, the management agent responsible for managing Denver Northeast Apartments, Mitchell 66 Apartments, and Rotella Park Manor Apartments, three HUD insured multifamily projects in **Denver, CO**, and found that Mitchell's management control structure was not adequate to ensure that operations at the properties were in compliance with HUD requirements. Management controls for project maintenance, cash collections and accounting, tenant eligibility determination, and HUD subsidy payments were not reliable and need to be strengthened to improve the projects'

housing operations. We also found that the projects were not maintained in a decent, safe, and sanitary condition.

Our audit identified essentially the same conditions that were presented in HUD reports and in reports issued by the projects' independent public accountant. Even though these previous reports identified needed management changes and improvements, we found that limited changes were made by Mitchell Management in the operations of the HUD insured projects. Our audit recommended that HUD require Mitchell Management to establish and implement an effective inspection and maintenance work order system for the projects, and implement necessary procedures to ensure that project revenues are timely deposited into the appropriate project's bank account. HUD should provide necessary guidance and direction to Mitchell Management in these efforts. (Report No. 2002-DE-1001)

Financial Statement Audits

HUD Financial Statements Audits

In compliance with the Chief Financial Officers (CFO) Act of 1990, on February 27, 2002, we issued our report on the consolidated balance sheets of the Department as of September 30, 2001 and 2000. Also, we reported on the consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and financing. We found the financial statements presented fairly HUD's financial position for the period and the net costs of operations, changes in net position, status of budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with generally accepted accounting principles. In completing our audit, we identified five material weaknesses and nine reportable conditions, which are summarized as follows:

- Material weaknesses in internal controls in FY 2001 related to the need to:
 - Complete improvements to financial systems;
 - Improve oversight and monitoring of housing subsidy determinations;
 - Ensure that rental subsidies are based on correct tenant income;
 - Improve the Federal Housing Administration's (FHA) controls over budget execution and funds control; and
 - Enhance FHA information technology systems to more effectively support FHA's business processes.

- Reportable conditions in internal controls in FY 2001 related to the need to:
 - Refine performance measures to effectively implement results management;
 - Improve controls over project-based subsidy payments;
 - Strengthen controls over HUD's computing environment;
 - Improve personnel security for systems' access;
 - Improve processes for reviewing obligation balances;
 - More effectively manage controls over the FHA systems' portfolio;

- Place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages;
- Sufficiently monitor FHA's single family property inventory; and
- Improve FHA's process for preparing timely estimates and properly reporting credit subsidy adjustments.

Most of these weaknesses result from long-standing problems in the Department. Correcting them will be difficult. HUD needs to address issues that fundamentally impact its internal control environment. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems, but challenges remain. HUD's ability to address its problems will substantially improve if it completes the efforts to:

- *Deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements.*
Completing the development of adequate systems is the most critical need faced by HUD in improving its control environment. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since FY 1991. To correct financial management deficiencies in a Departmentwide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction, and cost overruns.
- *Develop a process to identify and justify its staff resource requirements.*
More effectively managing limited staff resources is another critical need. Many of the audit problems identified in Chapter 3 of this report are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans for Total Estimation and Allocation Mechanism (TEAM) implementation.

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and housing authorities (HAS). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$21 billion in FY 2001 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies on intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 Programs, the HAS determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD that these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring along with the absence of an ongoing quality control program that would periodically assess the accuracy of intermediaries' rent determinations. In Chapter 1 of this report, we discuss the magnitude of these errors.

In FY 2001, HUD initiated the Rental Housing Integrity Improvement Project, which calls for systems capability that will identify relevant tenant and program data for rent calculations, and requires the data to be submitted by HAS. HUD would use the data to identify possible HAS' certification or recertification processing deficiencies. This increased capability and information could also make the large-scale computer match a viable option for identifying excess rental subsidy or tenant overpayments.

HUD needs to complete its ongoing efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve controls over the computing environment and administration of personnel security operations.

We also noted the need for HUD to improve its processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. We found that specific statutory or grant requirements for outstanding obligations are not being enforced. Also, we found a lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended Section 8 project-based obligations. (Report No. 2002-FO-0003)

FHA Financial Statements Audit

The independent certified public accounting firm of KPMG LLP performed a separate audit of FHA's FY 2001 and 2000 financial statements. Their report, dated January 31, 2002, includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and four reportable conditions. The FHA material weaknesses are as follows:

- *HUD/FHA's ADP system environment must be enhanced to more effectively support FHA's business processes.* HUD and FHA are conducting day-to-day business with legacy based systems. Several systems directly impact FHA's financial activity and necessitate financial transactions to be processed

through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting financial activities.

- *Controls over budget execution and funds control must be improved.* FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

KPMG LLP also identified four reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio; (2) continue to place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages; (3) sufficiently monitor its single family property inventory; and (4) continue to improve its process for preparing timely estimates and properly reporting credit subsidy adjustments.

We included KPMG's material weaknesses and reportable conditions for FHA in our consolidated report for the Department. (Report No. 2002-FO-0002)

Ginnie Mae Financial Statements Audit

A separate audit was performed of the Government National Mortgage Association's (Ginnie Mae) financial statements for FYs 2001 and 2000 by KPMG LLP. Their report on Ginnie Mae's financial statements, dated January 14, 2002, includes an unqualified opinion on Ginnie Mae's financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations. (Report No. 2002-FO-0001)

Other Significant Audits

In response to a Congressional request, the OIG reviewed alleged violations of the Antideficiency and HUD Reform Acts in awarding Section 514 Technical Assistance Grants by the Office of Multifamily Housing Assistance Restructuring (OMHAR). HUD did not violate the Antideficiency Act in awarding the grants for FYs 1998 through 2001. However, HUD did not fully comply with the HUD Reform Act because they did not publish the required notifications in the Federal Register identifying the grantees and award amounts.

Weaknesses in HUD's management controls resulted in errors in the award of the grants. These errors, as well as management decisions that unnecessarily limited the period of funds availability, led to the appearance of potential violations of the Antideficiency Act. HUD did not obligate or expend more Section 514 Technical Assistance funds than were authorized by statute and made available for FYs 1998 through 2001. However, HUD did not comply with

the Bona-fide Needs Statute because of misunderstandings between various HUD offices regarding the availability of funds. This resulted in the misstatement of actual or valid obligations in FYs 1998 and 1999. Also, it caused confusion regarding the amount of FY 2001 obligations. The Bona-fide Needs Statute provides that the balance of an appropriation or fund is available only for payment of expenses properly incurred during the period of availability.

The audit recommended that: (1) HUD's Chief Financial Officer adjust HUD's accounting records for Section 514 Technical Assistance Grants to address prior year errors; and (2) the Assistant Secretary for Housing take appropriate actions to ensure future grants are timely awarded and properly recorded in HUD's accounting system. (Report No. 2002-DE-0801)

An OIG audit of the Chief Financial Officer's (CFO) controls over the audit resolution process found that oversight of the process by the CFO's Office has improved markedly since the previous OIG audit in 1996. We found no examples of abuse of the recommendation closure process, nor did we find significant errors by the current Audit Liaison Officers. However, we did find some areas where procedures/controls can be improved to ensure that agreed-upon recommendations are supported and properly documented when closed.

Action Officials and Audit Liaison Officers and/or their designated representative do not always follow the correct procedures to ensure timely management decisions and final actions are achieved. We believe the CFO does not have a training program in place that ensures Action Officials and Audit Liaison Officers have a full understanding of the policies and procedures.

HUD guidance is not sufficient to ensure that recommendations are implemented correctly. The process of tracking and verifying the resolution of audit recommendations has been continually refined over the past several years, and the policy has not been updated to reflect the changes.

We did not make any recommendations in our audit since the CFO is in the process of implementing a new follow-up system and has initiated an audit resolution task force that is addressing the issues raised in our findings. (Report No. 2002-KC-0001)

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 discusses the OIG's recent participation in the Federal Aviation Administration's (FAA) Federal Air Marshal Program following the events of September 11, 2001. The Chapter also presents results from: (1) white collar investigations relating to HUD's Multifamily, Public and Indian Housing, Single Family, and Community Planning and Development Programs; (2) other significant white collar investigations; and (3) Operation Safe Home (OSH) investigations relating to violent crime and drug trafficking in HUD's Public and Assisted Housing Programs. Results from this third area, violent crime and drug trafficking investigations, are reduced from previous Semiannual Reports to Congress. This reduction has occurred as a result of our systematic phasing out of OSH cases. The Congress funded OSH through FY 2002 to allow an orderly and responsible conclusion of the initiative, to cease complete operations by September 30, 2002. Thus, in accordance with the requirements of HUD's Fiscal Year 2002 Appropriations Act (Pub. Law 107-73, approved November 26, 2001), OIG is closing OSH violent crime investigations and re-deploying staff to focus on investigations involving single family fraud and property flipping.

FAA Federal Air Marshal Program

Very shortly after the tragic events of September 11, 2001, a call went out to federal law enforcement agencies requesting Special Agents to become Federal Air Marshals. HUD OIG contributed 20 Special Agents who volunteered to participate in the program. Those Agents began training the first week of October 2001. They joined many others Agents from various law enforcement agencies, and were immediately assigned to duties in one of the several hundred airports across the Nation. HUD OIG agents were sworn in as Air Marshals and were detailed to the Federal Aviation Administration for a period of 6 to 18 months. Our Agents worked for 6 months and were released from their details in mid-March 2002. During their tenure as Air Marshals, they worked many hours of overtime away from their families and flew thousands of miles. We are proud of the fact that 29 OIG Agents originally volunteered for 20 openings to serve their Country in a time of national emergency. We are also proud of those who were selected and performed their duties in an exemplary manner.

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 disclosed criminal equity skimming under Operation Safe Home, as well as kickbacks, money laundering, perjury, and bribery.

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.

Douglas S. Wasserman, the former owner of the Mott Haven multifamily housing development in the **Bronx, NY**, pled guilty to equity skimming charges for diverting to his personal use approximately \$894,000 of HUD funds at a time when Mott Haven was in disrepair and while its mortgage remained unpaid. Wasserman also pled guilty to tax evasion.

From October 1990 until March 1997, Wasserman owned and managed Mott Haven. From 1994 until March 1997, Mott Haven was in a non-surplus cash position. The development was in disrepair with numerous problems and hazards, including the following: nearly all of the windows in the buildings needed replacement, the roofs had numerous leaks and holes, the buildings needed new boilers, the elevators were non-functional, the buildings were infested with vermin and insects, the front doors did not lock, and many apartments had crumbling cabinets, exposed electrical wiring, and faulty appliances. Wasserman continued to receive hundreds of thousands of dollars in HUD Section 8 payments and tenant rental payments.

Wasserman diverted the money through several different methods, including paying personal expenses directly out of the Mott Haven account, making checks payable to cash, and paying funds to companies he controlled as purported payments for repairs when in fact the companies performed no work on the buildings. Wasserman used these funds to pay numerous personal and business expenses, including legal fees for his divorce and a civil lawsuit, personal credit card charges, car leases, and for another multifamily development he owned that was not HUD insured.

Wasserman also admitted that he attempted to evade paying taxes for calendar year 1995. He took several measures to conceal his income, including funneling his income through various corporate entities under his control and causing these corporations to pay his personal expenses, using nominees to conceal his control over the corporations paying his personal expenses, and causing the corporations under his control to provide him with cash income by making checks payable to cash.

On March 12, 1997, Wasserman assigned his ownership of Mott Haven to HUD and HUD became mortgagee-in-possession, causing a potential loss to the government of over \$3 million. This investigation was conducted jointly by the OIG, FBI, and IRS Criminal Investigation Division.

A federal grand jury in **Rochester, NY**, indicted an individual on one count of equity skimming. In March 1997, the individual, who was the owner and management agent of Cambridge Court Apartments, defaulted on the project's FHA insured mortgage. While the mortgage was in default, the individual collected and used approximately \$525,000 of the project's rental income for other than reasonable operating expenses and necessary repairs. The investigation was conducted jointly by OIG and the FBI.

Other Significant Investigations

In **Norfolk, VA**, contractor Arthur L. Franklin, III, doing business as Commercial Roofing-U.S.A. Inc., and Tidewater Contracting Services, was sentenced to 33 months incarceration and 3 years supervised release, fined \$75,000, and ordered to pay \$297,000 in restitution to the reserve for replacement account of the HUD assisted Stuart Gardens Apartments, as well as the cost of his imprisonment and supervised release, which will run approximately \$40,000 per year. Franklin's sentencing followed his previous guilty plea to paying at least \$140,000 in kickbacks to 2 different managers at 4 HUD assisted developments, including to LuAnne Wade, former property manager for Stuart Gardens. Most of the kickback money was related to Franklin's ceiling replacement work at Stuart Gardens. Wade was previously convicted and sentenced. This was a joint investigation by OIG and the FBI.

Franklin's original indictment was superseded two times to include charges of money laundering and perjury in a bankruptcy proceeding. In addition, Franklin's attorney was disqualified as defense counsel in this case based on further investigation that led to a ruling by the trial judge that the attorney tampered with witnesses and other potential evidence.

Following an OIG investigation, Margaret Walters, a former asset manager in the HUD **Jacksonville, FL** Office, was sentenced to 6 months home confinement and 36 months supervised release. Walters previously pled guilty to receiving items of value, such as jewelry, dinners, a ceiling fan, a computer monitor, show tickets, and a wireless telephone, from a management agent that she was responsible for monitoring.

Public and Indian Housing Programs

HUD provides grants and subsidies to approximately 4,200 housing authorities (HAS) nationwide. About 3,200 HAS manage public housing units and another 1,000 HAS, with no public housing, manage units under Section 8 Programs. (Many HAS administer both public housing and Section 8 Programs.) HUD also provides assistance directly to HAS' 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 HAS 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.

Fraud in Public Housing Administration

During this reporting period, the OIG discovered instances of fraud, false statements, conspiracy, theft, and bribery involving Public and Indian Housing Programs.

Michael Gray, the former executive director of the **Sayre, OK** Housing Authority, was sentenced after previously pleading guilty to embezzlement. Gray was sentenced to 5 years supervised release, ordered to attend mental health counseling, ordered to pay \$9,900 in restitution to the Authority, and pay a \$100 court fee. The sentencing took place in Denver, CO, after the proceedings were transferred from the Western District of Oklahoma to the District of Colorado. A joint investigation by OIG and the FBI disclosed that Gray embezzled tenant rental income from July 1995 to November 1997. He fled Oklahoma and remained a fugitive until he was arrested in Colorado in October 2000.

In **Cleveland, OH**, Claire Freeman, the former executive director of the Cuyahoga Metropolitan Housing Authority between 1990 and 1998, was found guilty on all counts of her indictment. Freeman, who previously served as HUD Assistant Secretary for Administration and who held a high level position at the Department of Defense, was previously charged with theft of public funds, mail fraud, and making false statements on loan documents. Specifically, Freeman diverted monies from a Housing Authority fund for her own benefit, including paying off a \$50,000 personal loan and making \$62,000 in mortgage payments on her rental property in Virginia by using forged authorization letters from the board of commissioners. She faces a minimum of 18 months or a maximum of 48 months in prison.

Additionally, Ronnie Davis, the former director of finance for the Authority, was sentenced in federal district court to 3 years probation and 150 hours of community service, fined \$5,000, and ordered to pay \$5,468 in restitution. Davis also agreed to exclude himself, until March 2003, from participating in all HUD primary and lower-tier covered transactions. In addition, he agreed that he will not resume employment at the San Francisco Housing Authority and never accept re-employment with, be a contractor for, or a consultant to that Authority. Davis obtained a \$5,600 check for compensation to which he was not entitled and kept the money. This investigation was conducted by OIG and the FBI with assistance from Ohio State Auditors.

Stacy Green, the former manager at the HUD assisted Timbercroft Apartments in **Towson, MD**, was sentenced in state court to 18 months incarceration and 2 years probation. She was also ordered to repay approximately \$22,000 to current and prospective tenants from whom she admitted obtaining illegal fees in exchange for moving them up on the Section 8 waiting list. This was a joint investigation by OIG and the Baltimore County Police Department.

Reginald Carl Fluker, a former employee of the **Louisville, KY** Housing Authority, was sentenced to 36 months supervised release. He previously pled guilty to transmitting a death threat to another Authority employee. Fluker confessed that he sent two threatening e-mails to the Authority's executive director after his employment was terminated. The investigation was conducted by OIG and the FBI.

Julius Bannerman, the former executive director of the **Newburgh, NY** Housing Authority (NHA), pled guilty to 1 count of soliciting and demanding \$25,000 in bribes and kickbacks involving \$329,260 in contracts awarded on behalf of the Authority.

Maria Suarez, the former director of the Section 8 department of NHA, and Derrick Ruillano, a landlord under an NHA housing assistance payments contract, pled guilty to one count of embezzlement for their part in a scheme involving the creation of fictitious Section 8 tenants. The scheme resulted in a loss to HUD of approximately \$220,000.

Dwight Parker, a maintenance supervisor at NHA, and Rene Gayle, another NHA employee, pled guilty to conspiring to fraudulently convert to their own use more than \$100,000 of NHA funds. Parker created false work orders for which Gayle typed fraudulent invoices and processed them for payment under the name of an accomplice posing as an independent contractor. Gayle then gave the checks to Parker, who accompanied the accomplice when the checks were cashed. Parker and Gayle were responsible for the withdrawal of approximately \$108,000 in NHA funds for work that was never performed. This was an OIG investigation.

Faith Tanner, the former president of the Waimanalo Housing Resident Association (WHRA) in **Honolulu, HI**, pled guilty to embezzling \$22,300 from a Tenant Opportunity Program (TOP) grant received from HUD in 1995. Sandra Napuua Clarke, the former vice president, was found guilty on one count of conspiracy and two counts of theft from a government funded program. An OIG investigation disclosed that between 1995 and 1999, Clarke misused \$24,950 in funds from a TOP grant. Clarke also helped Tanner obtain the \$22,300, which Tanner illegally used for her own personal benefit.

HUD, through TOP, funded the WHRA. The TOP was established to allow HUD to provide financial assistance to resident associations of public housing projects. The ultimate goal was to promote self-help initiatives that would enable residents to create a positive living environment and increase resident satisfaction in public housing communities.

In **Brooklyn, NY**, two individuals, including a Postal Service employee, who defrauded the Section 8 Program out of \$60,884 were arrested by the OIG, Postal Inspection Service, and New York City Department of Investigation. The New York City Department of Housing Preservation and Development's (HPD) Division of Rent Subsidies alerted the OIG after they found that key information and signatures contained on required recertification forms did not match previously submitted forms. An investigation disclosed that in March 1995, the tenant of record had moved from her Section 8 subsidized apartment in Brooklyn to another HUD subsidized multifamily development in Pittsburgh, PA. The tenant concealed the move from both HUD and HPD, and allowed her friend, the Postal Service employee, to sublet the subsidized unit in Brooklyn. As a result of the fraud scheme, the tenant of record received a total of \$60,884 in excess Section 8 subsidies. The defendants were charged with theft of government funds, conspiracy to defraud the United States, mail fraud, and making false statements.

The City of **Frederick , MD** Public Housing Authority's director of finance and a subordinate were charged by the State Attorney General with conspiring to violate both the Maryland Public Information and the Labor and Employment Acts. An OIG investigation found that the director ordered the subordinate to use her official position to obtain confidential state employment information on the director's ex-husband for use in ongoing child support litigation.

In **Morgan City, LA**, several Berwick Housing Authority (BHA) officials and contractors were charged with conspiracy to defraud HUD. The charges follow an OIG investigation which disclosed that BHA officials and other individuals conspired to commit theft of government funds. The former executive director, former assistant executive director, and the former maintenance supervisor of BHA, an independent plumbing contractor, and two other individuals turned themselves in to the St. Mary's Parish Sheriff's Department. Total loss to the government is expected to be in excess of \$30,000.

In **Gracemont, OK**, a former secretary for the Caddo Indian Housing Authority was arrested and arraigned for embezzling over \$1,000 from the Authority. These actions resulted from a joint investigation by the HUD and Department of the Interior OIGs which disclosed that in March 1997, the subject falsified three Authority invoices and their accompanying checks from HUD that were to be used for Authority operations. The subject allegedly altered the checks, making them payable to her, maintained false invoices on the Authority's books, cashed each check, and embezzled the money.

Other Investigations

In **San Jose, CA**, Matt Madison, the owner of Acadian Manor Apartments in Lafayette, LA, was sentenced to 18 months in prison and 36 months supervised release and ordered to pay \$1,406,255 in restitution and a \$400 special assessment. Madison was charged with one count each of mail fraud, money laundering, false statements, and conspiracy in California, Wyoming, and Louisiana, respectively. The restitution and fine were paid in court. The sentencing is the result of a joint investigation by the FBI, IRS, and the OIG Southwest and Pacific-Hawaii Districts which disclosed that Madison conspired to submit false statements in an effort to receive Section 8 benefits from persons who did not exist.

Demetrio Perez, a Section 8 landlord and a prominent **Miami, FL** area public official, was sentenced to 6 months home detention, 24 months supervised release, and 500 hours of community service, fined \$10,000, and ordered to pay \$210,000 in restitution. Previously, Perez pled guilty to conspiracy to commit mail fraud, mail fraud and making false statements when an investigation disclosed that he had overcharged Section 8 tenants living in his properties. The investigation was conducted by the FBI, OIG, and the Miami-Dade Police Department.

In **Oakland, CA**, Catherine Stephens, a former Section 8 tenant, was sentenced in federal district court for failing to disclose her assets, employment, and income to HUD and the Social Security Administration (SSA).

Stephens, who was convicted on 6 felony counts of false statements and 1 count of theft of government funds in February 2001, was sentenced to 15 months in prison and 3 years supervised release, and was ordered to pay more than \$85,000 in restitution to HUD and SSA and a \$600 special assessment fee. An OIG investigation disclosed that Stephens failed to report her income and assets derived from a dental business that she owned and operated between February 1992 and October 1999. As a result of her non-disclosure, she received more than \$67,000 in housing subsidy payments and \$50,000 in disability income to which she was not entitled. These benefits, combined with her income, enabled her to amass a fleet of 6 vehicles, including a 28-foot watercraft, and a house on a 3-½-acre lot in Lower Lake, CA. She also rented six residential and commercial properties at fair market rent from landlords in Oakland and Los Angeles. These properties were used for her businesses and secondary residences for her and her two sons.

James Todd, a former HUD assisted resident in **Seattle, WA**, was sentenced to 5 years probation and ordered to pay \$44,693 in restitution for concealing his employment income. Todd pled guilty to one count of submitting false income statements between 1990 and 2000. This was an OIG investigation.

Following an OIG investigation, Tranda Wecker was sentenced in federal district court to 3 years probation and ordered to pay \$21,328 in restitution. Wecker previously pled guilty to nine felony counts of making false statements to obtain government benefits and one felony count of mail fraud. Between September 1997 and August 2000, Wecker made false statements to HUD, through the Northeast Community Action Corporation and the **St. Louis, MO** Housing Authority, during her Section 8 housing assistance recertifications. Wecker is the birth mother whose twins were caught in a trans-Atlantic adoption dispute after the twins were placed for adoption through a California based Internet service.

In **Indianapolis, IN**, Kevin Gladney, Linda Gladney, Anita Alexander, Tiawanna Edmundson, Kalencia Kirkland, Stacy Ruffin, and Conzine Lewis were convicted and subsequently sentenced in state court for their role in forging and cashing or attempting to cash counterfeit checks on the bank account of the Indianapolis Housing Agency. Johnny Parker pled guilty to one count of forgery for his part in the counterfeit check scheme. The counterfeit checks were prepared on a computer by scanning a legitimate Section 8 Program check received by one of the tenants. This process produced high quality appearance checks that did not raise questions at banks. The combined sentences for all these individuals were 27 years in prison, 19 years of probation and \$17,000 in restitution. This was an OIG/Indianapolis Housing Agency Police Department investigation.

In **Los Angeles, CA**, Consuelo Urenda Lopez was sentenced to 30 days in jail and ordered to pay \$100,000 in restitution for defrauding the City of Oxnard Housing Authority. Lopez previously pled guilty to one count of grand theft of Section 8 subsidies. The plea came in response to a three-count felony complaint charging one count of grand theft from the City of Oxnard

Housing Authority, one count of grand theft from the County of Ventura, and one count of conspiracy to commit grand theft by fraud. An investigation, conducted by OIG and the District Attorney's Office for the County of Ventura, found that an unauthorized person was living with Lopez in her Section 8 residence, and that this person was gainfully employed.

Paula Hughes, a former Section 8 recipient at the **Columbia, MO** Housing Authority, pled guilty to three counts of forgery. Hughes forged credit card applications by using several different names to obtain the credit cards. She was sentenced to 5 years incarceration. This was an OIG investigation.

In **Jefferson City, MO**, Amy Holmes pled guilty in federal district court to two counts of making false statements. Holmes made a false statement to HUD on her annual recertification for Section 8 housing assistance through the Columbia Housing Authority, and falsified her application for federal student aid which she submitted to the Department of Education. Holmes stated on her February 1998 Section 8 recertification that her income was derived solely from Aid to Families with Dependent Children, when in fact she made \$30,000 per year from her employment at High-Tech Institute. As a result of this false statement, as well as others Holmes made to HUD since 1996, she received \$19,700 in overpaid Section 8 housing assistance. This was an OIG investigation.

In **Pittsburgh, PA**, an individual who received Section 8 subsidies for 7 years under an assumed name was charged in federal court with obtaining, under false pretenses, \$125,000 in HUD rental assistance and Social Security benefits. A joint investigation by the HUD and Social Security Administration OIGs found that, from 1994 to 2001, the defendant received \$87,000 in Social Security benefits under at least two false identities and Social Security numbers, and \$38,000 in rental assistance at Royal Court Apartments, New Kensington, PA, under one of the false identities. In addition to using a false identity, the individual also allegedly failed to report all of her Social Security benefits on recertification forms. The defendant was 1 of 12 individuals charged by the U.S. Attorney as part of an aggressive initiative to prosecute fraud in federal benefit programs.

Carolyn Matthews, a former Northridge Cooperative Homes Section 8 tenant, pled guilty in federal district court to eight counts of making false statements in connection with her 1998-2000 annual recertifications to HUD. Matthews resided at the HUD subsidized multifamily housing development from August 1993 through July 2001. OIG began the investigation after receiving an anonymous complaint that alleged Matthews' purchase of a 6-bedroom house in Antioch, CA. Matthews learned of the OIG investigation in July 2001 and promptly terminated her Section 8 contract and released control of her apartment to the **San Francisco, CA** Housing Authority.

The investigation disclosed that Matthews had not reported her true assets and income since 1996. In July 1999, upon her retirement, Matthews received a disbursement of more than \$1.7 million from several investment and retirement accounts from her employer. She later used these funds to purchase an

Infiniti 2000 SUV for \$39,000 and the house in Antioch for \$548,832. She later moved her family to this house. Additionally, Matthews also owns a house in San Francisco that she acquired from her parents in 1995 and which she leases to her brother for \$900 a month. This rental income was not disclosed to HUD nor was her change in residency.

Despite her wealth, Matthews continued to submit annual recertifications in 1996, 1998, 1999, and 2000 to HUD in which she certified that she had no assets or income for the year. As a result of her non-disclosure, Matthews received more than \$85,000 in housing subsidies to which she was not entitled.

A **Roanoke, VA** Section 8 tenant residing at the HUD assisted Mountain View Apartments was charged in a 39-count federal indictment with making false claims and statements to various state and federal agencies, including HUD, to obtain housing, Medicaid, food stamps, and Social Security benefits to which he was not entitled. A joint investigation by the HUD and Social Security Administration OIGs and the Virginia State Police disclosed that the defendant failed to report income from self employment, resulting in theft of benefits totaling at least \$40,000, \$13,000 of which represents excessive rental assistance.

A former public housing resident was indicted in federal court for willfully making a false, fraudulent, or fictitious statement or representation to the **Topeka, KS** Housing Authority to obtain rental assistance to which he was not entitled. A joint investigation by OIG, the Department of Agriculture, and the Kansas Department of Social Services found that the resident allegedly failed to disclose that he was employed as a truck driver for the 3 years he was living in public housing. He also failed to report his income to the Social Security Administration and the Department of Agriculture, thus enabling him to receive workman's compensation benefits and food stamps and commodities. The resident received a total of \$28,383 in government benefits to which he was not entitled, including \$12,897 in rental assistance benefits.

A Section 8 tenant residing at Essex Village Apartments in **Richmond, VA**, was charged in federal court with making false statements to obtain rental assistance to which she was not entitled. An investigation conducted by OIG following a referral from Essex Village staff disclosed that the tenant has been employed since at least November 1996 and failed to report the income on annual certifications of income and family composition. Overpayment of assistance totaled \$18,000.

The Alameda County District Attorney's Office filed a felony complaint charging an **Oakland, CA** Section 8 tenant with three counts of welfare and housing fraud. The individual was charged with perjury, grand theft of property in excess of \$400, and aid by misrepresentation. A joint investigation by the Alameda County District Attorney's Office and the OIG disclosed that the individual simultaneously maintained two HUD assisted housing units from December 2000 through December 2001. By submitting false statements about her income to HUD and the Contra Costa County Housing Authority, the

individual was able to obtain a Section 8 unit at the Morh I Apartments in Oakland and a public housing unit at the Los Deltas development in Richmond. The individual received \$16,765 in housing assistance to which she was not entitled. The Morh I Apartments' management and the Contra Costa County Housing Authority have taken administrative action to terminate the housing assistance.

A husband and wife in **Lebanon, PA**, were indicted in district court on two counts each of submitting false statements, mail fraud, and aiding and abetting in connection with a Section 8 rental subsidy fraud scheme. The indictment is the result of an OIG investigation which disclosed that the two allegedly failed to report the wife's earned income on annual recertification forms. From April 1997 to April 2000, the wife received approximately \$12,908 in rental subsidy by falsely claiming she was estranged from her husband and that she had no source of income. The investigation further disclosed that she lived with her husband during this time period and that he earned approximately \$30,000 per year. In addition, the wife allegedly received \$18,000 in income "under the table" as a waitress. As a result of the fraudulent scheme, the husband and wife were able to save enough money to purchase the single family home located next door to their Section 8 residence.

A Section 8 landlord was indicted on two counts of theft for allegedly collecting benefit checks on behalf of a tenant who was actually incarcerated. The landlord was one of several individuals charged in a public housing fraud prosecution package by the Marion County State's Attorney. This was an OIG and **Indianapolis, IN** Housing Police investigation.

In **Oklahoma City, OK**, an individual was charged by the State of Oklahoma with two counts of obtaining money by false pretenses. The subject allegedly submitted false documents in an effort to receive Section 8 benefits. The charges are the result of a search warrant served on the subject's residence by the FBI in an attempt to locate evidence concerning the September 11, 2001 terrorist attacks. The search warrant included the arrest of the subject's spouse as a material witness in the September attacks. In addition, the FBI provided information to the OIG concerning the subject's unlawfully obtaining Section 8 benefits from the Norman Housing Authority by not reporting the income of his spouse. An investigation by the OIG found that the subject was also unlawfully obtaining food stamps and temporary aid to needy families.

A criminal complaint for two counts of false statements was filed in federal district court against an individual for concealing her employment with the U.S. Government from the **Richmond, CA** Housing Authority. During the recertification process for Section 8 subsidies, the individual stated that she worked at a daycare facility instead of the U.S. Post Office. This was an OIG investigation.

In **Ft. Smith, AR**, an individual was indicted on two counts of submitting false statements. The indictment is the result of an OIG investigation which disclosed that the subject failed to report employment on recertifications for

Section 8 benefits. The subject, a resident at Smith-Keys Village in Texarkana, recertified for Section 8 housing assistance benefits by claiming no employment and no source of income. In fact, she worked as a bus driver for the Texarkana Special Education Center, Inc., doing business as Opportunities, Inc. The anticipated loss to the Department is expected to be nearly \$8,000.

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 schemes of fraud involving property flipping, loan origination, and Title I home improvement loans.

In **Atlanta, GA**, former loan officer Regina McLean was sentenced to 47 months in prison and 36 months supervised release. Former real estate broker Marcus Andre Stancil was sentenced to 41 months in prison and 36 months supervised release. Former loan processor Wendy Andrea Dilbeck was sentenced to 33 months in prison and 36 months supervised release. The three individuals previously pled guilty in federal court to conspiracy to defraud HUD and were ordered pay \$1,871,087 in restitution.

Investor Velmon McLean was sentenced to 18 months in prison and 36 months supervised release, and ordered to pay \$840,664 in restitution. McLean previously pled guilty in federal court to conspiracy to defraud HUD. He was indicted in April 2001 on 64 counts of conspiracy, wire fraud, mail fraud, money laundering, using false Social Security numbers, and HUD mortgage fraud.

A real estate agent/loan officer was indicted by a federal grand jury. The loan officer, who managed a branch office of a mortgagee, was charged with mail fraud and making false statements to HUD. She was responsible for originating over \$2 million in fraudulent FHA insured loans, representing a potential loss to HUD of approximately \$500,000. A co-conspirator, who was also a real estate agent, was also indicted and charged with tampering with a witness. This second real estate agent allegedly created false documents relating to the loans originated by the loan officer and gave them to a witness to provide to an OIG Agent.

The defendants used false identification to obtain fraudulent mortgages by having strawbuyers assume the identities of other individuals to purchase the properties. The defendants then lived in the properties or rented them out without making the mortgage payments, and delayed foreclosure proceedings by filing false bankruptcy petitions in the names of the purported owners of the properties. The properties involved mortgages totaling over \$2.4 million. The indictments also contained a forfeiture provision for all assets obtained through criminal activity. The investigation was conducted by the HUD and Social Security Administration OIGs, the FBI, and the IRS.

In **Houston, TX**, the following actions are the results of a joint task force investigation by the OIG, FBI, IRS Criminal Investigation Division, and the

Postal Inspection Service known as “Operation Straw House.” The overall scheme may involve 3 criminal organizations and an estimated \$74 million in fraudulent loans obtained by approximately 75 individuals. To date, 38 individuals have been charged, 33 of whom have pled guilty. Two have been convicted, and the rest are pending trial. In addition, over \$5 million in real estate and approximately \$58,000 in cash have been seized.

Howard Paillet, an approved FHA real estate appraiser, was sentenced on bank fraud charges to 27 months in prison and 60 months supervised release, and was ordered to pay \$332,598 in restitution to 2 financial institutions and a \$100 special assessment. Paillet provided false and inflated appraisals and submitted false statements on loan applications to secure two HUD insured Title I home improvement loans and six conventional single family mortgage loans.

Alvin J. Loupe, the owner of Lone Star Remodeling Company, was sentenced for bank fraud to 24 months in prison and 36 months supervised release, and ordered to pay a \$100 special assessment and \$241,473 in restitution to the Bank of Yorba Linda, CA. Loupe was a co-conspirator with Kevin and Frank Mei, doing business as BCM Builders — a Title I home improvement contractor.

Alta House, the former office manager for BCM Builders, was sentenced for mail fraud. House pled guilty to submitting false information via the U.S. mail on loan applications for HUD insured Title I home improvement loans and conventional single family mortgage loans. House was sentenced to 18 months imprisonment and 36 months supervised release, and ordered to pay a \$100 special assessment.

Jonathon McIntosh, a real estate investor, pled guilty to one count of mail fraud. McIntosh submitted false statements on conventional single family loan applications regarding income, source of down payment money, and his intention to keep as his principal residence, eight different houses. In return, he received \$5,000 per application from Kevin Mei who was previously convicted of money laundering.

Real estate investor Vivian Bond pled guilty to one count of mail fraud. Bond acted as a strawbuyer on six single family real estate mortgage loans and submitted false information concerning income, source of down payments, and intention to reside in the properties. Bond was paid \$3,000 by Kevin Mei each time Mei used her name and credit for purchases, and was promised a percent of future profits once the homes were sold. Mei has already been sentenced.

Juan Garcia was ordered to pay \$146,032 in restitution to the Bank of Yorba Linda, CA. Garcia was sentenced to 1 day in jail, 10 months home confinement, and 36 months probation.

Husband and wife Stacy and Terri Kline each pled guilty to one count of submitting false statements. The Klines admitted making false statements on a construction completion certificate submitted for a \$25,000 FHA insured Title I home improvement loan. They stated that they had not received any cash from the Title I contractor when, in fact, they had received over \$6,000 which they used for an automobile loan.

Jim Douglas Kinser, a former home improvement salesperson for BCM Builders and AA Quality Construction, pled guilty to mail fraud. Kinser obtained several HUD insured Title I home improvement loans, as well as several conventional single family mortgage loans, in his own name based on false

employment and income information. In addition, he assisted a number of borrowers in obtaining HUD insured Title I home improvement loans by providing them with false income verifications and by using loan proceeds to pay off overdue credit bills to “clean” their credit.

Homeowner Cecil Mann pled guilty to one count of submitting false statements to HUD. Mann conspired with the owners of a Title I home improvement contracting company, John McGrath and Alex McGrath, doing business as AA Quality Construction, and others in the loan fraud scheme. Mann obtained a \$17,500 HUD insured Title I loan based on false statements and then admitted that no rehabilitation work was ever performed. He also admitted that he received \$12,500 in cash kickbacks, and that the contractor paid his personal bills. The McGraths were previously indicted and pled guilty to federal money laundering charges.

Craig Garret, the owner of Klassic Hardwood Floors, pled guilty to one count of mail fraud in relation to his participation in the scheme.

A real estate mortgage broker was charged with one count of wire fraud for allegedly submitting false information on single family mortgage loan applications in order to obtain conventional mortgage loans.

In **Atlanta, GA**, Lupita Elena McCarthy, also known as Lupita McCatty, was sentenced on charges of conspiracy to launder money, conspiracy to commit bank fraud, mail fraud, wire fraud, and conspiracy to defraud HUD. She was sentenced to 3 years in federal prison and 3 years supervised release, and ordered to pay \$759,363 in restitution to one of her victims. McCarthy paid and induced others to be “straw sellers” and “straw borrowers” who would help her and her co-conspirators submit false documents, including counterfeit tax returns, W-2 forms, pay stubs, bank statements, and verifications of employment, deposit, and rent to banks, mortgage companies, and/or HUD in the purchase of over 100 properties in the Atlanta area. McCarthy recruited these “straw” or “flip” sellers to falsely claim current ownership of the properties, and to sign and submit the false documents to obtain mortgage loans and, on a few occasions, HUD mortgage insurance. McCarthy and her co-conspirators originated over \$20 million of loans in this scheme with estimated losses totaling between \$7 million and \$10 million. The case was investigated by the FBI and OIG.

Ralph Pena, a former loan officer for Main Street Mortgage Services in **Saddlebrook, NJ**, was sentenced in federal court to 6 months home confinement and 3 years probation, and ordered to pay \$565,686 in restitution to HUD. The sentencing was a result of Pena’s previous guilty plea to submitting false statements. This was an OIG investigation.

Denise Kerner, a former loan originator in **Evansville, IN**, pled guilty and was sentenced for her role in a fraud scheme. As part of the scheme, down payment funds provided by a real estate developer were falsely reported to have been gifts made by purchasers’ relatives. The scheme resulted in numerous defaults on FHA insured mortgage loans. Kerner was sentenced to 6 months home detention and 5 years probation, and was ordered to pay \$239,000 in restitution. The investigation was conducted by the OIG and the FBI.

In **Atlanta, GA**, Nathan Pasha, also known as Nathan Parker, had his federal probation revoked and was sentenced to serve 2 years remaining on a sentence for a previous conviction. Parker was arrested when a search warrant was served by OIG and Secret Service Agents on three locations that Pasha and his associates were using to prepare false documents. The documents were then presented to lending institutions to obtain both FHA insured loans and conventional financing on properties that were being flipped in the Atlanta area. Over 1,500 loan files were seized during the search. It is estimated that Pasha and his associates caused over \$50 million of fraudulent mortgages to be issued by various mortgage lenders.

In **Rome, GA**, Christopher Frix pled guilty to making false statements on an application for an FHA insured mortgage. Mary MacDonald and Becky Wilburn pled guilty to count one of a 29-count indictment. Count one involves a conspiracy to commit fraud against the government. MacDonald and Wilburn were involved in submitting loan packages for FHA insurance with forged and fraudulent documentation. They provided unauthorized down payment assistance to borrowers and inflated property values.

Wilburn and McDonald were each sentenced to 1 year confinement and 3 years probation. Frix was sentenced to 6 months home confinement and 5 years probation. All 3 were sentenced to their share in the restitution of \$93,500.

These individuals and others conspired to originate 43 fraudulent mortgages amounting to over \$3 million, causing a loss to HUD of over \$500,000. The individuals originated the fraudulent mortgages by providing the down payments to unqualified borrowers. These guilty pleas conclude a 2-year investigation by the OIG, FBI, IRS, and the U.S. Attorney's Office.

Two **Norfolk, VA** real estate developers, Matthew Davis and Richard Charles Fawcett, were sentenced to 3 years probation. Each previously paid \$61,033 in restitution to HUD. Fawcett was also fined \$5,000. Both men previously pled guilty to loan origination fraud involving 15 FHA insured property transactions. They admitted that they purchased numerous HUD owned properties, made minor repairs, and then resold the properties at substantially higher prices. They also admitted to providing prospective buyers, who otherwise would not have qualified for the mortgages, with funds for down payments and to pay off personal debts. They secured these funds with second mortgages that were never disclosed. As a condition of his probation, Davis was ordered to indemnify the government for any future losses that may incur relative to the 14 other FHA properties that they flipped. Based on a referral from OIG, the HUD Enforcement Center suspended Davis and Fawcett; debarment is pending. This was a joint OIG/FBI investigation.

Ronald Hite, vice president of U.S. Window and Supply Corporation in **Syracuse, NY**, was sentenced to 5 years probation, fined \$5,000, and ordered to pay \$55,320 in restitution and a \$100 assessment fee. Hite previously pled guilty to submitting false statements to HUD by submitting 23 falsified tax returns to Greentree Financial Corporation in order to obtain Title I loans. This was an OIG investigation.

Deborah Floyd, a New York State corrections officer in **Buffalo, NY**, was sentenced in federal court to 3 years probation and ordered to pay \$17,500 in restitution for falsely certifying to HUD that she would use a home purchased under the Officer Next Door Program as her primary residence for 3 years from the date of closing.

In a related case, Irvin Harrell Jr., a New York State Corrections Officer, pled guilty to one count of making a false statement to HUD. Harrell also falsely certified to HUD that he would live in his Officer Next Door Program home for 3 years, but instead rented out the property. He received an \$11,000 discount on the property. OIG and the FBI conducted these investigations.

In **San Diego, CA**, Michael J. Fanghella, the founder and director of PinnFund, USA, pled guilty to one count each of conspiracy to commit wire fraud, money laundering, and filing a false entry with HUD; and three counts of tax evasion. PinnFund was a sub-prime lender located in Carlsbad, CA, and a HUD approved direct endorsement lender.

Fanghella admitted that PinnFund was losing money from the mortgage business and that he concealed that fact from investors while soliciting new investor money. From 1997 through 2000, through various partnerships, Fanghella gave investors over \$200 million that he had falsely represented as earnings or a return of capital. This is known as a "Ponzi" scheme and is an investment swindle in which some early investors are paid off with money put up by later ones in order to encourage more and bigger risks.

Fanghella falsely reported to HUD that the funds used to support PinnFund's direct endorsement application were personal funds. In fact, Grafton Partners loaned the funds to PinnFund in 1998.

Fanghella evaded paying income tax for the years 1996-1998. His income over this period was \$13.9 million. He also transferred approximately \$17.3 million from PinnFund to Barbados for the eventual benefit of his girlfriend.

PinnFund was forced to close in March 2001 because of a civil enforcement action by the Securities and Exchange Commission. This enforcement action was considered to be part of one of the largest securities fraud cases in San Diego County history and involved issues closely related to the criminal case.

The wire fraud charge carries a maximum penalty of 5 years imprisonment and a \$250,000 fine. The money laundering charge carries a maximum penalty of 20 years imprisonment and a fine of twice the amount involved. The tax evasion charge carries a maximum penalty of 5 years imprisonment and a \$250,000 fine. The false entry to HUD carries a maximum penalty of 30 years imprisonment and a \$1 million fine. This was a joint investigation by the FBI, IRS Criminal Investigations Division, and the OIG.

Norfolk, VA real estate speculators Christopher and Vanessa Probst pled guilty to a federal charge of conspiracy to commit wire fraud, mail fraud, and bank fraud. The Probsts admitted to creating and submitting false employment and credit documentation, including verifications of employment, pay stubs, and W-2 forms, to lenders in order to qualify buyers for mortgages for properties the Probsts were selling. The mortgages included those insured by HUD and guaranteed by the Department of Veterans Affairs. The Probsts also

helped unindicted conspirators who used stolen identities to obtain mortgages to purchase their properties. Losses attributable to the scheme exceeded \$600,000, including approximately \$65,500 in losses to HUD. This was a joint investigation by the FBI and the HUD and Department of Veterans Affairs OIGs.

In **Las Vegas, NV**, Virginia Ly pled guilty in federal district court to count one of a criminal information charging her with mail fraud. Ly recruited a strawbuyer to obtain an FHA insured loan to purchase a property; she subsequently obtained two Title I loans and profited from the loan proceeds. Ly helped provide fraudulent income and employment information to the strawbuyer. In two other transactions, Ly assumed the identities of other individuals to obtain first and second loans on properties. This was an OIG investigation.

In **Cleveland, OH**, Al Rotiroti and Robert Coyle were found guilty on four counts each of submitting false statements. Rotiroti, the general contractor for Faith Housing, a HUD approved nonprofit, and Coyle, a 203(k) consultant, were found guilty of signing and submitting false certifications on 203(k) draws for work that was inflated in value, substandard, or not completed. Faith Housing defaulted on 14 properties in the Northern District of Ohio, with losses to HUD estimated at \$500,000. This was an OIG investigation.

In **Boise, ID**, Kevin J. Everson, a real estate broker/property developer/loan officer, pled guilty to two counts of wire fraud as part of a plea agreement with the U.S. Attorney's Office. Everson had previously been indicted on 87 counts of wire fraud, mail fraud, bank fraud, and conspiracy for his part in originating 59 fraudulent mortgages worth \$5.3 million.

Everson's personal assistant and office secretary, Eunice Maria Alexander, pled guilty to one count of misprision of a felony. The plea resulted from an agreement with the U.S. Attorney's Office in which Alexander admitted to her part in a scheme to provide down payments and falsify numerous documents on behalf of unqualified borrowers.

Denise Thornton, a title company officer, was sentenced to 2 years probation and 40 hours of community service and fined \$3,000 for her part in the scheme.

Michael Everson, who was also a broker and loan officer, pled guilty to falsifying loan documents. Of the 59 fraudulent mortgages involved in the scheme, worth \$5.3 million, 24 were insured by FHA. This was a joint OIG/FBI loan origination investigation.

In **Detroit, MI**, Cheryl Swain, the former vice president for marketing syndication of MCA Financial Corporation, pled guilty to one count of mail fraud. MCA operated a subsidiary, known as MCA Mortgage Corporation, which was an FHA approved lender.

Keith Pietila, chief financial officer of MCA Financial Corporation, pled guilty to one count of making false statements and one count of mail fraud. Both Swain and Pietila assisted in the perpetuation of a "Ponzi" scheme at MCA. This scheme involved the redirection of funds obtained from various warehouse lines and from the sale of assets MCA had sold into investor owned

land contract pools. In addition to making false statements to the Securities and Exchange Commission, MCA also provided fraudulent information to HUD in an effort to obtain and maintain its direct endorsement authority. This was an OIG/FBI investigation.

In **Buffalo, NY**, following a joint OIG/FBI investigation, William Roland Hayes, an Erie County youth services officer, pled guilty to one count of making a false statement to HUD. Hayes falsely certified that he would use a home purchased under the Officer Next Door Program as his primary residence for a period of 3 years from the date of closing. He received a \$7,000 discount on the property. Hayes sold the property to his brother, a New York State corrections officer, who rented the residence to a Section 8 tenant.

A federal grand jury indicted a **Phoenix, AZ** real estate broker from Julio and Associates, along with two of his employees, on 1 count of conspiracy, 12 counts of submitting false statements to HUD, and 5 counts of mail fraud. One of the employees is considered a fugitive based on a single count complaint that had been previously filed, and a warrant will be reissued for his arrest.

After the execution of two search warrants on the broker's offices, the investigation disclosed that the broker and his employees allegedly produced numerous W-2's, pay stubs, letters of credit, and verification of employment forms for the purchase of homes with FHA insured mortgages. Many of the 500 homes sold by the broker during the previous 5 years were sold to illegal aliens using false Social Security numbers. In addition, the broker allegedly stole thousands of dollars from the homebuyers, claiming additional funds were needed for closing. The indictment also alleges that, in one instance, the broker received \$20,130 from 1 homebuyer when the actual closing costs were only \$3,672. The three indicted were responsible for over \$22.2 million in fraudulent loans.

This investigation was initiated after an OIG audit revealed irregularities with loans that had been processed by the real estate broker. OIG conducted the investigation, with assistance from the FBI and Department of Veterans Affairs OIG.

In **Memphis, TN**, appraiser Ann Baker, real estate agent Lakine Cook, and investor Aaron Perkins entered into a plea agreement to one count each of conspiracy to commit mail fraud, wire fraud, and bank fraud. The charges relate to their participation in a property flipping scheme in which they conspired with others to direct strawbuyers to purchase duplex properties for fair market value. The strawbuyers then resold/flipped the properties to other conspirators at greatly inflated prices. As part of the scheme, the conspirators prepared and used fraudulent leases, appraisals, and settlement forms to conceal the true value of the properties as well as the fact that Baker, Cook, and the other conspirators received a substantial portion of the loan proceeds as "consulting fees." Baker and Cook received over \$660,000 and Perkins received over \$296,500 through their participation in 25 sales between January 1998 and May 1998. This investigation was conducted by the OIG, FBI, and the Postal Inspection Service.

OIG Agents, Postal Inspectors, and Pennsylvania Attorney General's Office Agents executed federal search warrants at two residences and four businesses in the **Pittsburgh, PA** area. Agents and Inspectors observed, in plain view, a vehicle that contained business records. Based on this observation, a search warrant for the vehicle was also obtained. These actions were taken as part of an investigation of predatory lending practices by several home improvement companies, a mortgage broker, and a real estate appraiser. OIG previously identified approximately 51 Title I insured loans originated by the one of the subject's home improvement companies wherein the homeowner defaulted and \$629,377 in claims were filed with HUD. The Pennsylvania Attorney General's Office has received more than 200 complaints from homeowners regarding the same home improvement companies, wherein they alleged that the companies secured loans for them, performed shoddy or incomplete work on their residences, and deceived them about the true cost of their loans and/or their financial responsibility with regard to the loans.

Pursuant to the search, approximately 110 boxes of business records were seized, including \$89,000 in cash found hidden at one of the residences. Also found at the same location were two handguns, four long guns, and ammunition.

A former loan officer for Main Street Mortgage Services was arrested in **Newark, NJ**, pursuant to a federal grand jury indictment. The former loan officer was charged with one count of making false statements to the government, six counts of mail fraud, and four counts of monetary transactions in criminally derived property. As part of the investigation, the OIG and the FBI also obtained a seizure warrant for a leased vehicle belonging to the arrestee. It was determined that this lease was purchased using funds obtained directly from the arrestee's illegal activities. The individual was later turned over to local authorities pursuant to an outstanding warrant.

A **Memphis, TN** a Police Officer was indicted for submitting false statements to HUD in connection with his participation in the Officer Next Door Program (ONDP). The two-count indictment alleges that in March 1999, the Officer purchased a property under the ONDP at a 50 percent discount. In June 2001, the Officer was required to verify his occupancy of the property. At that time, he allegedly falsely represented to HUD that he was occupying the property, when in fact, he was not. This indictment was the result of an investigation conducted by the OIG and the FBI.

A **Concord, NH** individual was indicted by a federal grand jury on one count of submitting false statements and one count of mail fraud. The defendant allegedly purchased a HUD foreclosed property as an owner/occupant in October 1999 and resold it the same day for a \$21,000 profit. The OIG arrested the individual the following day.

In **Reading, PA**, the U.S. Attorney's Office unsealed an eight-count federal grand jury indictment that charged two mortgage company officials and one investor with participating in a scheme to submit false documents to HUD to obtain FHA insured mortgages. The indictment alleges that the defendants were

responsible for HUD's insuring fraudulent loans valued at more than \$2 million. The indictment also notes that the Department has already paid \$500,000 in defaulted claims as a result of the fraudulent loans. The indictment stemmed from a 3-year joint OIG/FBI investigation, which disclosed that the defendants used 3 company names to purchase residential properties and then renovate them before reselling them to FHA insured buyers. The defendants substantially increased the sales prices of the 35 properties. The homebuyers were Hispanic, low-income, first time buyers. Some of the buyers were not even aware they had purchased properties but thought they were renters.

This investigation was particularly significant because one of the defendants was a former HUD employee who engaged in predatory lending practices. The unsuspecting buyers were supplied with fictitious loan origination documents, such as verifications of employment, credit histories, gift letters, and down payments, in order to give the appearance that they were qualified homebuyers. Without the bogus loan origination documentation, none of the buyers would have qualified for the mortgages.

The indictment was originally sealed because one of the defendants was out of the country and the U.S. Attorney's Office feared she might not return if she knew of her indictment. The OIG was instrumental in coordinating with international law enforcement authorities and was successful in getting the defendant to agree to surrender to federal authorities and be extradited back to the U.S.

As a result of information developed during this investigation, HUD withdrew the lender's HUD/FHA approval for 8 years and imposed a civil fine of \$192,000.

In **Seattle, WA**, 3 individuals were indicted on 21 counts of conspiracy, mail fraud, wire fraud, and bank fraud for their roles in a scheme to defraud HUD in the origination of FHA single family loans. The investigation involved 24 single family homes for which the subjects arranged sham sales to obtain the homes for their own personal benefit and/or to obtain a portion of the mortgage proceeds. The three allegedly used Spanish-speaking strawbuyers, who could read or speak very little or no English, to obtain the properties. After the closings, the homes were not occupied by the strawbuyers. In some cases, the subjects rented out the properties. The Hispanic victims were under the impression that the documents they signed were being used to improve their credit or to assist others in purchasing homes. The strawbuyers were unaware that they were actually signing documents to buy and or sell properties to new strawbuyers. Two of the three subjects are also being investigated in the Sacramento, CA area where they are believed to be involved in a similar single family loan fraud scheme. The third individual, who has a history of resisting arrest and possession of concealed weapons, was arrested during a felony vehicle stop by OIG Agents with assistance from the King County Sheriff's Office. This investigation was conducted by the OIG.

In **Birmingham, AL**, following a joint investigation by the HUD and Social Security Administration OIGs and the FBI, a mortgagor was indicted by a federal grand jury for making false statements to HUD and identity theft. The

mortgagor allegedly provided a falsified W-2 and an employee leave and earnings statement to a mortgage loan processor. The mortgagor further coaxed a friend into providing false information on a verification of employment form, which was also submitted to the loan processor. The false information resulted in the approval of an FHA insured mortgage. The mortgagor purchased a \$117,000 house and has made only 1 payment on the loan since January 2001.

A **St. Louis, MO** individual was indicted in federal district court on multiple federal charges, including submitting false statements about an FHA insured mortgage. In April 2000, the individual applied for and obtained an FHA insured loan from Prism Mortgage using a fraudulent Social Security number and false wage and bank account information. The individual was also charged with one count of false use of a Social Security number and three counts of bank fraud. The bank fraud charges entail knowingly depositing checks drawn on closed bank accounts and the withdrawal of funds, as well as knowingly depositing insufficient funds checks. This was a joint investigation by OIG and the FBI.

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 theft, embezzlement, mail fraud, money laundering, bribery, and conspiracy.

The Department of Justice (DOJ) entered into a settlement agreement in lieu of civil suit with the **Commonwealth of Pennsylvania** wherein both parties agree that, over approximately a 6-year period, the state Department of Community and Economic Development (DCED), formerly the Department of Community Affairs, claimed excessive administrative expenses totaling almost \$1.7 million against the HUD funded HOME Program, as administered by DCED. Pursuant to the Agreement, one half of the amount is payable to HUD on or before September 1, 2002; the remainder is payable on or before September 1, 2003.

An OIG investigation, conducted at the request of DOJ after a “qui tam” civil suit was filed by a former DCED employee, disclosed systemic weaknesses in the DCED billing system that were known to the agency but allowed to continue. In cases where DCED employees were assigned less than full time to the HOME Program, a computer program charged 100 percent of their salaries, benefits, and expenses to the HOME Program by default. There were also cases where employees who were not assigned to the HOME Program had all or a portion of their salary, benefits, etc., charged against the program at the direction of top management. The \$1.7 million represents approximately 10 percent of the total funding set aside for administrative expenses during the period in

question. There was no evidence that any DCED official or employee obtained unjust enrichment from the excessive billings.

Clark Dale Koerner, former low-income housing rehabilitation manager for the Valley of Imperial Development Alliance (VIDA) in **San Diego, CA**, was sentenced to 5 months imprisonment, 5 months in a halfway home, and 3 years probation. Koerner previously pled guilty to theft and misapplication of federal funds. As VIDA manager, Koerner provided several fraudulent claims for reimbursement of monies funded by HUD Community Development Block Grants (CDBG). As part of his scheme, Koerner's identity-of-interest construction company received approximately \$105,000 in HUD CDBG funds for work that was substandard or incomplete. Koerner also received approximately \$65,000 from various contractors for steering bids their way and approving fraudulent claims. This investigation was conducted by the OIG and FBI.

Jimi Dawn King, also known as Jimi Dawn Abernathy, a HUD Native American grant recipient in **Tulsa, OK**, pled guilty to one count of embezzlement and theft from an Indian Tribal Organization. The guilty plea is a result of a joint investigation by the HUD and Department of Interior OIGs which found that in November 1998, King received a \$26,000 grant from the HUD funded Miami Tribe Housing Authority as a result of false statements he submitted on a mortgage application. Sentencing is tentatively scheduled for summer 2002.

Three brothers associated with Estevez Monroe and Associates (EMA) and Estevez Monroe, Inc., were indicted in November 2001, along with another individual, on charges of mail fraud and money laundering. The individuals obtained a Rental Rehabilitation Program Loan (RRL) of \$260,320 from the City of **San Antonio, TX**, in the form of a Community Development Block Grant. An OIG investigation found that the individuals allegedly made false statements to the City indicating that they had the collateral and assets to pay for the loan and to rehabilitate Elmhurst Apartments for low-income housing. Under the RRL agreement, if the terms were met, the loan would be forgiven and the RRL would become a grant; however, the loan terms were not fulfilled, the funds were misspent, and the property was unlawfully sold in April 2000 without the rehabilitation ever having been completed.

In January 2002, a superseding indictment was issued against the four individuals, bringing additional charges of money laundering, aiding and abetting, mail fraud, and bank fraud. A joint investigation by the FBI, OIG, and IRS Criminal Investigation Division found that the defendants made false statements via the U.S. Postal Service to the City when they indicated they had the collateral and assets to pay for the RRL and to rehabilitate Elmhurst Apartments. In addition, the defendants allegedly provided false loan origination documents to secure FHA insured loans for residential real estate that was not only in poor condition but was overvalued; conducted financial transactions to disguise the proceeds of their unlawful activities; and committed bank fraud by providing false statements, thus causing the submission of a false loan application in the amount of \$584,000 to World Savings Bank for the purchase of a private residence by one of the defendants.

A federal grand jury indicted the mayor of the City of **Beaumont, TX**, and a former city councilman on 19 counts. The mayor was indicted on five counts of mail fraud, six counts of theft or bribery concerning federal program funds, one count of conspiracy, three counts of money laundering, and one count of conspiracy to commit money laundering. The former city councilman was indicted on five counts of mail fraud, three counts of theft or bribery concerning federal program funds, one count of conspiracy, two counts of money laundering, and one count of conspiracy to commit money laundering.

The indictment is the result of a joint investigation by OIG and the FBI which determined that the subjects conspired with Terry Samuel, owner of Simco Building Services in San Antonio, who was conducting business transactions with the City of Beaumont. The subjects allegedly accepted cash payments, checks, and other things of value. They also allegedly assisted Samuel in obtaining a \$100,000 loan from the Small Business Revolving Loan Fund (SBRLF) through the City of Beaumont to pay for housing renovation projects. SBRLF funding is administered by HUD through the Community Development Block Grant Program. Samuel also received federal funds from HUD through his business by participating in home construction programs administered by the City of Beaumont, including the Rental Rehabilitation Program and the Affordable Housing New Construction Program. In November 2001, Samuel was convicted during a jury trial on 24 counts of bribery.

As a result of an OIG investigation, the Mayor of **Paterson, NJ**, was charged in a 40-count indictment. Charges included fraudulently seeking reimbursement from the City's HUD sponsored HOME (Rental Rehabilitation) Program, stealing election campaign funds, fraudulently seeking reimbursement from the City for travel expenses, filing false tax returns, and making false statements to federal Agents.

Other Significant White Collar Investigations

During this reporting period, other significant white collar OIG investigations resulted in one sentencing, one indictment, and one suspension.

Daniel D. Asera, the former executive director of the Greater Nevada Fair Housing Council (the Council), a nonprofit organization in **Reno, NV**, was sentenced to 30 months incarceration and 3 years supervised release, and ordered to pay \$39,630 in restitution to be split between HUD, American Express, and Bank of America, and a \$100 special assessment. Asera previously pled guilty to theft of federal program funds. The Council operated under a \$252,863 grant from HUD. It served rural Nevada in providing support and information regarding both federal and state law prohibiting housing discrimination. From July 1998 to March 1999, Asera embezzled \$39,630 from the Council by making unauthorized charges to three credit cards he obtained in the name of the Council. He charged hotel rooms and meals in the Reno/Carson City area, took cash advances at local area casinos, and made charges for pornographic Internet sites. He also hosted two "retreats" at Squaw

Valley for his college fraternity and alumni from the University of California at Berkeley, and paid for the hotel rooms and meals with the charge cards. This was an OIG investigation.

In **Miami, FL**, a federal grand jury returned a 63-count indictment against the owner and controller of a Government National Mortgage Association (GNMA) approved lender/servicer charging the defendants with 2 counts of conspiracy to defraud HUD, 6 counts of mail fraud, 1 count of bank fraud, 27 counts of wire fraud, and 27 counts of making false statements to GNMA. The defendants were allegedly able to place 18 fictitious mortgages in GNMA pools, which resulted in a \$1.6 million loss to GNMA. In addition, the defendants kept the loan pay-off proceeds on 39 mortgages, amounting to \$3.2 million, and continued to make the monthly mortgage payments so that GNMA would not discover the fraudulent scheme. The total loss to GNMA was \$4.8 million. The loss to the Federal Deposit Insurance Corporation lender that provided the warehouse line of credit was over \$22 million. The investigation involved 15 bank accounts and over \$200 million in financial transactions. The controller was arrested by OIG Agents on March 11. This was an OIG investigation.

A HUD employee in the **Charleston, WV** Office was suspended for 10 days for violating the Standards of Conduct and for conduct prejudicial to the government after an OIG investigation disclosed that the employee had inappropriate sexual conduct with a tenant who is receiving HUD rental assistance at a development under the employee's responsibility. The employee and tenant acknowledged that they engaged in consensual sex in the tenant's apartment on one occasion. The investigation did not develop any evidence that the employee coerced or otherwise made any promises to the tenant as a condition of engaging in sexual activity, nor was any evidence developed of any additional improper conduct by the employee with regard to other HUD assisted developments under the employee's responsibility.

Violent Crime in Public and Assisted Housing

Since February 1994, OIG Special Agents have participated in investigations of violent crime and drug trafficking in public and assisted housing. These investigations began as part of an initiative known as Operation Safe Home (OSH). The investigations were 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 have been primary partners in OSH 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).

As previously stated, OIG is systematically phasing out OSH cases. The Congress funded OSH through FY 2002 to allow an orderly and responsible conclusion of the initiative, to cease complete operations by September 30, 2002. Thus, in accordance with the requirements of HUD's Fiscal Year 2002 Appropriations Act (Pub. Law 107-73, approved November 26, 2001), OIG is closing OSH violent crime investigations and re-deploying staff to focus on investigations involving single family fraud and property flipping.

Following are some of our recent significant investigative results in the violent crime area.

Undercover operations in various **Fort Worth, TX** public housing developments by OIG, DEA, and the Grand Prairie Police Department resulted in the sentencing of six individuals on narcotics charges. Patrick Remus Sneed and Dominique Lavelle were each sentenced to 120 months confinement and fined \$100. Douglas Bernard, Darrell Dixon, and Cassandra Robinson were sentenced to 262, 97, and 151 months in prison, respectively. In addition, each was ordered to serve 60 months probation and pay a \$100 fine. Sherwyn Nisel Cox was sentenced to 84 months confinement and 60 months probation, and fined \$100. All six defendants pled guilty to federal narcotics charges in October 2001.

Damion Teague, a convicted drug dealer, was sentenced to 2-1/2 to 5 years in prison after pleading guilty to attempted criminal sale of a controlled substance in the third degree. Jonathan Rivera, also a convicted drug dealer, was sentenced to 1-1/2 to 4-1/2 years in prison for the attempted criminal sale of a controlled substance in the third degree. Teague and Rivera were 2 of 46 individuals who controlled the sale of crack, heroin, cocaine, and marijuana in the Castle Hill public housing development in **New York, NY**. The sentencings resulted from a 4-month undercover operation conducted jointly by the New York City Police Department's (NYPD) Organized Crime Control Bureau, South Bronx Narcotics Initiative, and the OIG. Designated as "Operation Good Neighbor," this Safe Home initiative was organized at the request of the NYPD to identify gang members and the leadership structure controlling the sale of narcotics in the development, and to dismantle their operation. The initiative identified the subjects as controlling a \$1 million per year criminal enterprise in the Castle Hill development by using assigned "lieutenants," "enforcers," "steerers," "street dealers," "stash house operators," and "lookouts" who used hand-held radios and bicycles. The criminal enterprise divided the 14 buildings of the development into sections where specified drugs were sold. It was one of the most drug-plagued, violent crime-ridden public housing developments in New York City. During the investigation, contraband totaling 1,089 slabs, 2 grams, and 5 \$80 bags of crack, 116 glassines and 1 gram of heroin, 4 grams and 3 tins of cocaine, 62 bags of marijuana, and 2 firearms were seized.

In **Albuquerque, NM**, Juan Amores, a Cuban National, was sentenced to 211 months in prison and 5 years probation. Amores was convicted in June 2001 on 1 count of possession with intent to distribute over 50 grams of crack cocaine in public housing and 1 count of carrying a firearm during a drug trafficking crime. In the same case, Emad Al-Mosawi, an Iraqi National, was

sentenced to 106 months in prison and 6 years supervised probation. Al-Mosawi pled guilty in July 2001 to one count of distributing crack cocaine in public housing and one count of possessing a firearm in furtherance of a drug trafficking crime. These sentencing results resulted from initiatives by the Albuquerque Operation Safe Home Task Force which consists of OIG and the Albuquerque Police Department Westside Narcotics Unit.

Sandra Gonzales pled guilty to 12 counts of illegal distribution of narcotics around the Leyden Woods and Oak Courts public housing developments in **Greenfield, MA**. Two additional defendants, Jason Arnold and Jesse Berry, pled guilty to various narcotics charges. Two other individuals have scheduled plea hearings. The defendants involved in this criminal enterprise sold and distributed over 100 grams of cocaine to undercover federal Agents acting as drug traffickers. Illegal narcotics and money were stored at both housing developments. The DEA Mobile Enforcement Team, ATF, OIG, Greenfield and Montague Police Departments, Massachusetts State Police, and the U.S. Attorney's Office participated in this Organized Crime Drug Enforcement Task Force investigation.

Former HUD assisted resident Kristy Marie Davis pled guilty to conspiracy to distribute cocaine base. This plea is the result of a controlled buy of over 2 grams of crack cocaine by the Spokane Federal Drug Task Force, which is comprised of the OIG, DEA, IRS, and USCS. At the time of the controlled buy, Davis was receiving Section 8 assistance from the **Spokane, WA** Housing Authority. Her assistance has since been terminated.

An 8-month Task Force investigation culminated in the issuance of 27 federal indictments involving 29 defendants. Twenty-six of the defendants have been arrested; three are fugitives. To date, 17 have pled guilty and are awaiting sentencing. Four additional defendants charged in Rhode Island Superior Court with violating state narcotics laws were arrested. Charges included drug trafficking and distribution of crack cocaine and/or heroin. The indictments resulted from efforts to target and combat drug trafficking problems in the Chad Brown and Hartford Park public housing developments in **Providence, RI**, and the Morin Heights public housing development in **Woonsocket, RI**. This Task Force is made up of the OIG, DEA, and Providence and Woonsocket Police Departments.

A federal grand jury indicted 10 individuals from the District of Columbia, the State of New York, the State of Maryland, and the Commonwealth of Virginia on 29 counts of conspiracy to distribute and possession with intent to distribute heroin and cocaine and various firearms violations within the **District of Columbia**. The two leaders of the conspiracy were charged with operating a continuing criminal enterprise. Three of the defendants were also charged with overt acts of money laundering in their attempts to hide the financial proceeds from their illegal activities. The U.S. Attorney's Office, OIG, the FBI, the Metropolitan Police Department, the Organized Crime Drug Enforcement Task Force, and the Weed and Seed Task Force initiated this investigation into a major heroin distribution organization operating in the

Langston Terrace public housing area. The indicted individuals were involved in the distribution of more than 100 kilograms of 90 percent pure heroin, and more than 1,000 kilograms of composted heroin throughout the DC metropolitan area.

An individual who, in the past, has supplied large quantities of illegal narcotics to various public housing developments in **Pittsburgh, PA**, was charged in federal court with 14 counts of distributing heroin and cocaine. The defendant, who is presently awaiting state trial for allegedly ordering the “contract killing” in 1977 of a potential witness against him, was arrested by the OIG, USMS, and Allegheny County Police Officers and was denied bail after it was determined that he was a potential danger to the community. The Assistant U.S. Attorney advised that the defendant has been a target of federal law enforcement for over 20 years, and he praised OIG and Allegheny County for their efforts leading to the indictment.

As a result of “Operation Isolation,” a joint effort by the Kansas Bureau of Investigation, **Topeka, KS** Police Department, FBI, OIG, USMS, and the Kansas National Guard Counter Drug Operations Unit, 21 drug traffickers were identified in the Deer Creek and Pine Ridge public housing developments and the Highland Park assisted housing development. A major trafficker was arrested for distributing over 563 grams of methamphetamine with a street value of \$56,343. In addition, six individuals were issued restraining orders barring and banning them from Topeka public housing developments.

Operations by the **San Francisco, CA** Narcotics Task Force resulted in the arrest of 29 individuals on various drug and violent crime charges. During 1 initiative, Task Force members arrested 21 people for selling crack cocaine to undercover Police Officers and 1 person on an outstanding arrest warrant for prior drug sales. The arrests stemmed from community complaints of drug sales at the Valencia Gardens, Bernal Dwellings, Protereo Annex, Hunters View, Hayes Valley, Mission Delores, Bayview Hunters Point, and Alemany public housing developments and the All Hallows Garden, Bayview Apartments, Diamond View, Fredrick Douglas Haynes, Mission Bart Apartments, and Golden Gate Apartments low-income complexes. Four of the arrests stemmed from an operation that focused on members of the *Big Block* gang who are responsible for many of the narcotics related homicides in the Bayview Hunters Point development. OIG and the San Francisco Police Department conducted these operations.

The *Gangster Disciples* street gang purportedly oversees drug and gang activity for the north side of **Chicago, IL**, specifically the Cabrini Green and Ogden Courts public housing developments. The OIG, ATF, USMS, and Task Force Agents from the High Intensity Drug Trafficking Area Task Force, along with Officers from the Chicago Police Department, arrested 15 gang members in these housing developments, 1 of whom is a reputed high ranking member of the gang. During the investigation, undercover OIG Agents purchased crack cocaine and heroin from gang members.

The **New Haven, CT** Task Force, made up of OIG, the Connecticut State Police, and the New Haven Police Department, arrested 10 people. As part of one initiative, the Task Force arrested one person who was making narcotics deliveries to several public housing developments. The arrestee was charged with sale of narcotics and sale of narcotics within 1,000 feet of a school. A search warrant was also executed at a local hotel room that was used as a stash house to store drugs. The search netted 158 grams of crack cocaine worth approximately \$5,200, packaging materials, cutting devices, 1 electronic scale, several identification cards, hotel receipts, and \$30,200 in cash.

Chapter 5

Joint Efforts

Joint Efforts

Many successful OIG investigation cases have had the involvement of both Criminal Investigators (Special Agents) and Auditors. In a joint effort, Investigators bring to a case a knowledge of criminal statutes, administrative regulations, necessary evidence to prove the crime, interviewing techniques of potential witnesses and the subject(s), procedures for obtaining written statements and evidence, and a general working knowledge of the judicial process. Auditors provide the education, background, and training to conduct the review of accounting records and documents that is often required. Also, based on their expertise, Auditors can be considered witnesses should a case go to trial. Further, when considered appropriate, Auditors can accompany Investigators on certain key witness/target interviews. Their in-depth knowledge of financial books, records, and accounting procedures can be extremely valuable.

The joint effort is an effective means to completing an investigation. To make a case successful, Auditors and Investigators communicate their plans, status, and the level of assistance needed to their counterparts. This way, each one understands their scope and limitations. The joint effort is often the only way to put together the necessary pieces of an investigation case. The OIG has had considerable success in conducting joint investigation cases. Some of these cases are conducted strictly by the OIG; some involve participation by other federal, state, or local law enforcement agencies. Following are the results of successful joint efforts conducted by the OIG Offices of Investigation and Audit during this reporting period.

Juan Irizzary Valentin, a supervisory public housing specialist in the HUD Caribbean Office, was sentenced in **San Juan, PR**, to 33 months in prison and 36 months supervised release, and ordered to pay \$169,000 in restitution. He pled guilty in June 2001 to bribery, theft of government funds, and extortion. Valentin, who was responsible for monitoring Puerto Rico Public Housing Authority privatization contracts, was charged along with his half brother, Samuel Valentin Toro, and a management agent. Toro, a former employee of the management agent, was sentenced to 4 months home detention and 36 months supervised release, and ordered to pay \$28,000 in restitution. He previously pled guilty to bribery, theft of government funds, and extortion. The management agent is scheduled for trial. The defendants participated in a kickback scheme involving over \$28.5 million in public housing contracts. Valentin received over \$195,000 in kickbacks, through Toro, from the management agent between April 1999 and January 2001. He purchased a 306-acre farm and a four-wheel drive vehicle with the kickback money. The FBI also participated in this investigation.

In **San Juan, PR**, Freddy Valentin, a former Senator for the Commonwealth of Puerto Rico, pled guilty in federal court to a two-count criminal information charging him with conspiracy to commit extortion (Hobbs Act Violation) and conspiracy to commit money laundering. Valentin received \$129,700 in kickbacks for using his influence as a Senator to cause a contract

to be awarded to Centrex, a property management company. Valentin was a silent partner in Centrex and conspired with Fernando Vigil Fernandez, Jose M. Cobian Guzman, and 2 other individuals to approve a \$4.8 million contract for Centrex to manage public housing developments for the Puerto Rico Public Housing Authority. Cobian and Vigil have already pled guilty. In addition, Valentin pled guilty to conspiring with Vigil, Cobian, and a third individual to commit money laundering. Valentin admitted that he conspired with the others to disguise the sources of the kickbacks by issuing checks to a third party and cashing the checks. The FBI also participated in this investigation.

In **Miami, FL**, Mark Cohen, an investor and an unlicensed mortgage broker, was sentenced to 32 months imprisonment and 36 months supervised release, and ordered to pay \$265,897 in restitution. Cohen pled guilty to conspiracy to commit wire fraud, HUD fraud, mail fraud, and money laundering. Also, closing attorney Bruce Hollander was found guilty of 13 counts of conspiracy to commit HUD fraud, wire fraud, mail fraud, and money laundering. Cohen and Hollander, along with an employee of a real estate investment company, were three of the seven members of an organization who were previously charged in this case. From 1996 to 1999, the defendants 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. The average loss on the properties is over \$30,000, and the total loss to HUD is expected to be over \$1.7 million. The defendants included closing attorneys, real estate brokers, mortgage brokers, loan officers, loan processors, title company employees, and the owner of a printing company, who created the false documentation. The FBI also participated in this investigation.

Luis Guillermo Rodriguez-Cardona and Violeta Rodriguez-Vasquez were each sentenced in **San Juan, PR**, to 12 months home confinement with electronic monitoring and 60 months supervised release. Rodriguez-Cardona was ordered to pay \$394,874 in restitution to HUD, while Rodriguez-Vasquez was ordered to pay \$130,000 in restitution to HUD. Both previously pled guilty to conspiracy to defraud HUD. Rodriguez-Cardona was the owner of C.A.E.R., a company doing business with the Puerto Rico Public Housing Authority (PRPHA). Rodriguez-Cardona and Rodriguez-Vasquez were two of seven defendants who were previously indicted and charged with conspiracy, bribery, money laundering, and theft of PRPHA funds totaling over \$1.4 million. C.A.E.R. was contracted by the PRPHA to train PRPHA residents in the establishment of small businesses. As part of the scheme, C.A.E.R. submitted claims to the PRPHA and received over \$1.4 million from the PRPHA for services they did not provide. C.A.E.R. submitted false claims, forged documents, and duplicate supporting documentation. In addition, Rodriguez-Cardona conspired with three employees of the PRPHA and paid each of them kickbacks, including cash,

real estate, and vehicles, in exchange for their approving the false invoices submitted by C.A.E.R. Six of the seven defendants have pled guilty. The FBI also participated in this investigation.

The U.S. Attorney for the Western District of New York announced that a civil False Claims Act and administrative settlement was reached between the United States and the mortgage lender formerly known as PNC Mortgage Corporation of America. The settlement involves a single cash payment to the United States in the amount of \$1,487,283. This settlement also includes indemnification of 27 FHA insured loans and resolves allegations that PNC Mortgage submitted false claims to HUD relating to inflated appraisals and gift letters. A joint investigation by the OIG Offices of Audit and Investigation, the FBI, and the U.S. Attorney's Office, initiated based on a referral from HUD's Quality Assurance Division, disclosed that PNC Mortgage underwrote a significant number of foreclosed FHA insured mortgages in the City of **Buffalo, NY**; these homes were owned or sold by the corporate entities of Frank Parlato, Sr. HUD debarred Parlato's related corporate entities, including Franklin Enterprises, Inc., Ellicott Enterprises, and Erie Development, Inc., as well as Frank Parlato, Sr., on three separate occasions. PNC Mortgage certified to HUD that it exercised due diligence in the loan origination and appraisal process, which it did not.

In **San Juan, PR**, Ruben Monroig-Almodovar, a former employee of the Puerto Rico Public Housing Authority (PRPHA), was sentenced to 12 months at a half-way house, 4 months home detention, and 3 years supervised release. He was also ordered to pay \$121,000 in restitution. Monroig-Almodovar previously pled guilty to one count of embezzlement. He is the last of three defendants to be sentenced for their participation a scheme to defraud HUD. Monroig-Almodovar approved unauthorized checks to a private management agent that managed PRPHA developments. The other conspirators intercepted the checks and deposited them in the bank accounts they had set up in the name of the management agent. The amount embezzled totaled \$1,034,733. In addition to the OIG Offices of Investigation and Audit, this investigation was conducted by the FBI and the Comptroller of Puerto Rico.

Developer Jose Luis Diaz was sentenced to 3 months in a halfway house and 5 years supervised release, and ordered to pay \$120,000 in restitution. Juan Mayol-Alicea, a contractor doing business with the Puerto Rico Public Housing Authority, was sentenced to 24 months in prison and 36 months supervised release, and fined \$60,000. Diaz previously pled guilty to a criminal information charging him and Mayol-Alicea with conspiracy to interfere with commerce by extortion. The information charged the 2 with paying \$96,000 in kickbacks to a former Senator from the **Commonwealth of Puerto Rico**. Diaz and Mayol-Alicea paid the Senator over \$20,000 in kickbacks for the Senator's promise to resolve difficulties involving a contractor's efforts to purchase the Extension Los Robles property for the Office of Assets of the Puerto Rico Urban Renewal Authority, and over \$75,000 in exchange for the Senator's promise to resolve additional difficulties with the contractor's efforts to purchase the Tropical Acres Project and remodel/sell low-income housing units.

In the same case, Richard Casillas, a former official at the Puerto Rico Public Housing Authority, was sentenced to 37 months imprisonment and 3 years supervised release, and ordered to pay \$134,582 in restitution. Casillas previously pled guilty to extortion, aiding and abetting, and unlawfully obstructing, delaying, and attempting to obstruct, delay, and affect commerce by extortion. Casillas was indicted in December 2000 on charges of money laundering and extortion. Other defendants included three former employees of the Department of Liquidation for CRUV (OLACRUV), the predecessor of the Puerto Rico Public Housing Authority, and two contractors. All five defendants have pled guilty. The individuals conspired to pay more than \$500,000 in kickbacks in exchange for OLACRUV contracts. The OLACRUV employees used their influence to award contracts for the renovation and construction of housing units at the Puerto Rico Public Housing Authority. The FBI participated in this investigation.

An administrative settlement was reached with John Quinlan, the general partner/management agent of Meadow Green Housing Corporation in **Houston, TX**. Quinlan deposited \$249,644 from the corporation's shareholders into a corporate account associated with a HUD insured multifamily apartment complex. The settlement is the result of an investigation which determined that Quinlan made distributions to shareholders over the surplus cash ceiling during a 3-year period. Despite Quinlan's contention that the disbursements did not exceed the amount of a HUD approved mortgage refinance, it was HUD's position that the excess loan proceeds, which had been deposited in the project operating account, were depleted at the end of the first year due to the project's operating deficit.

Maria McDonald, also known as Esperanza Guizar, a real estate agent doing business as Maria's Real Estate in **Houston, TX**, was sentenced to 9 months supervised release and 48 hours of community service, and ordered to pay \$6,200 in restitution and a \$100 special assessment. Prior to sentencing, McDonald pled guilty to submitting false statements and paid \$92,803 in restitution. The sentencing is the result of an investigation which disclosed that McDonald engaged in a property flipping scheme using strawbuyers to misrepresent their intention to be owner/occupants in the purchase of HUD owned properties. She provided the strawbuyers with earnest money and paid some of them a fee of \$500. McDonald exploited predominately Spanish speaking clientele by getting the strawbuyers to transfer the properties to her name and then selling the homes to legitimate homebuyers at inflated prices on the same day.

In **Utica, NY**, Robert C. Munson, Jr., was sentenced to 1 year and 1 day incarceration and 3 years supervised release, ordered to undergo mental health treatment and counseling, and ordered to pay \$113,964 in restitution to HUD and a \$100 court assessment. Munson pled guilty in December 2001 to one count of theft or bribery concerning programs receiving federal funds. An investigation disclosed that Munson, former director of housing for the City of Utica's Department of Urban and Economic Development, embezzled \$113,964. As part of his responsibilities as director, he managed the City's

housing rehabilitation program. As such, he solicited construction proposals from contractors. The contractors were required to submit, along with their proposals, a bid security deposit in the amount of 5 percent of the total construction cost. Munson stole the bid security deposits, cashed them, and used the funds for his personal benefit. To conceal the theft, he forged City of Utica Community Development Block Grant Program payment vouchers for the return of the bid securities to the contractors. Munson also produced fictitious vouchers showing that renovation work was completed, when in fact no construction work was performed. The FBI also participated in this investigation.

Bertha Gilkey Bonds pled guilty to a federal charge of embezzling and converting public money. Bonds embezzled/converted the funds in her position as chairman of the board of Cochran Gardens Tenant Management Corporation in **St. Louis, MO**. She admitted using the funds to pay for business travel expenses that she incurred in connection with her work as a consultant for Urban Women, Inc., a business owned and operated by Bonds. Urban Women, Inc., provided consulting services to other tenant management organizations throughout the country, including Abbottsford Homes Tenant Management Corporation in Philadelphia, PA, Hudson Gardens Resident Management Corporation in Poughkeepsie, NY, Harriet Tubman Resident Management Corporation in Chattanooga, TN, and 1230 North Burling Resident Management Corporation in Chicago, IL. Bonds caused the Cochran Gardens Tenant Management Corporation to spend \$28,586 on travel expenses for Urban Women, Inc. A portion of the loss has been repaid, resulting in a loss for restitution purposes of \$19,020. The FBI also participated in this investigation.

Joni Lynn Estrada-Pena, who pled guilty to 1 count of theft of federal program funds in September 2001, was sentenced to 15 months imprisonment and 3 years supervised probation, and ordered to pay \$86,393 in restitution (\$17,529 to the **Aurora, CO** Housing Authority and \$68,864 to the **Littleton, CO** Housing Authority). Estrada-Pena was the Section 8 coordinator for both Housing Authorities.

In **San Juan, PR**, Fernando Vigil, Jr., president of Ingenieros Y Proyectistas, a contractor doing business with management agents hired by the Puerto Rico Public Housing Authority (PRPHA) to manage public housing developments in Puerto Rico, was sentenced to 5 months home detention and 36 months supervised release and ordered to pay \$85,000 in restitution. Vigil previously pled guilty to 2 counts of bribery for paying \$36,000 in kickbacks to officials at Central Housing Corporation (CHC) and \$40,000 to officials at the Inter Island Corporation (IIC). Both CHC and IIC are management agents contracted by the PRPHA to manage PRPHA developments. The FBI also participated in this investigation.

A federal grand jury returned a two-count indictment charging the owner of a mortgage company in **Ft. Lauderdale, FL**, with bank fraud in connection with false statements he made to originate fraudulent FHA insured mortgages

and have them entered into Government National Mortgage Association pools. Allegedly, the defendant fraudulently originated Section 203(k) Rehabilitation Home Mortgage Insurance Program mortgages for over 80 properties, with \$4.5 million in mortgages, by not making the required down payments.

Dennis Stewart, the closing attorney in this case, was sentenced to 33 months in prison and 36 months supervised release, and ordered to pay \$81,421 in restitution. Stewart previously pled guilty to one count of making false statements to obtain FHA insured mortgages.

Maxine Holley, the former chairperson of the board of directors for the **Benson, NC** Housing Authority and a public housing tenant, pled guilty to one count of making false statements to HUD. Holley conspired with the Authority's former executive director to underreport her income as a North Carolina State Magistrate, as well as the Sergeant at Arms for the North Carolina State Legislature. The total loss to HUD was over \$48,000.

The U.S. Attorney's Office in **Philadelphia, PA**, announced the unsealing of a 39-count indictment charging the owner/general manager (owner) of Arco Redevelopment Corporation and an alleged associate of a local organized crime boss with 18 counts of wire fraud, 13 counts of false statements to obtain HUD insured loans, and 8 counts of money laundering. The indictment stemmed from a multi-year joint investigation by the OIG Offices of Investigation and Audit, the IRS Criminal Investigation Division, and the FBI which focused on the Title I predatory lending practices of the owner. For approximately 2 years, the owner operated Arco as a Title I contractor/dealer in the Philadelphia market. During the time he was in business, he derived more than \$150,490 in income as a result of his fraudulent Title I loan transactions. The investigation disclosed that the owner allegedly altered homeowner loan applications, gave homeowners illegal cash kickbacks (but inflated the loans to account for the kickbacks), and paid off homeowners'/borrowers' delinquent consumer debts as an inducement to selecting him to do the rehabilitation work. The investigation also disclosed that to further the fraud scheme, the owner created fictitious employment information to give the appearance that several of the homeowners/borrowers had additional income. Eight Title I loans and three conventional loans were the basis for the false statement charges. Of the eight Title I loans, HUD has paid a claim for one \$14,000 defaulted loan. Much of the work performed by Arco was substandard. However, despite the quality of the workmanship, the homeowners have liens on their properties until their loan obligations have been satisfied.

Agents arrested the owner the same day the indictment was unsealed. Prior to making the arrest, the OIG conducted 2 weeks of surveillance and planning to ensure a successful arrest. This was the largest and most successful Title I investigation to date in the Eastern District of Pennsylvania.

In **Baton Rouge, LA**, Streuby L. Drumm was sentenced to 21 months in federal prison for skimming money from a HUD insured housing development. He was also ordered to pay \$468,955 in restitution and a \$600 fine. In an August 2000 plea agreement, Drumm pled guilty to three counts of mail fraud and three counts of equity skimming. He admitted diverting funds from the

Sharlo Apartments apartment complex. The OIG Offices of Investigation and Audit, the FBI, and Louisiana State Police conducted this investigation.

The former board chairman for the **Parrish, AL** Housing Authority was indicted on one count of misusing the Authority's American Express credit card. She allegedly charged unauthorized expenses from 1997 until 2000. In 1998 alone, she allegedly charged \$7,555. The former board chairman originally agreed to repay the unauthorized amounts, but after a short time stopped making the repayments.

A HUD **Seattle, WA** Office employee was terminated from employment following an investigation into allegations the employee misused government owned vehicles, used a government issued credit card for personal expenses, and made false claims to HUD and the OIG to seek a relocation from Seattle to Portland, OR, for personal benefit. The investigation confirmed that the former employee drove a government owned vehicle 16,222 miles in 11 weeks while assigned as a campaign representative to the Combined Federal Campaign. Gas receipts indicated that a good portion of the mileage was outside the commuting area and/or to places at which the employee did not have official business. Some of the mileage was also accumulated on weekends or when the employee was on leave. Over 6,200 miles were traveled in 14 days when the employee worked no official duty hours. The investigation also confirmed misuse of a government issued credit card and false claims to seek relocation.

Chapter 6

*Legislation, Regulations,
Notices, 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 117 regulations, funding notices, and other HUD directives and proposals. This Chapter highlights some of the resultant OIG recommendations.

Legislation

HUD Access to Information in the National Directory of New Hires

This proposed legislation would amend Section 653(j) of the Social Security Act (42 United States Code 653(j)) to authorize HUD and its intermediaries to have controlled access to information in the National Directory of New Hires database. This database, maintained by the Department of Health and Human Services, facilitates accurate income verification for applicants and tenants of HUD public and assisted housing.

We nonconcur with this proposed legislation because it would not specifically authorize the HUD OIG to have access to the directory of new hires data. Access to this information is necessary for the OIG to perform audit tests to verify the accuracy and appropriateness of payments made under various HUD assistance programs. We recommended revisions to authorize HUD OIG access to the directory of new hires data.

The Department revised the language of the proposed amendment to specifically allow disclosure of information in the National Directory of New Hires database to the Inspector General of HUD. We lifted our nonconurrence based on those revisions.

Regulations

FHA Appraiser Watch Initiative

This proposed rule would establish regulations for the Federal Housing Administration (FHA) Appraiser Watch Initiative, provide a fully computerized Appraiser Watch monitoring system, and establish a performance standard that appraisers would be required to meet to maintain their status on the Appraiser Roster. Appraisers would be removed from the Roster if the rate of defaults and claims on closed mortgages linked to their appraisals exceed the rate established in this rule.

We nonconcur with this proposed rule because we did not agree with removing an appraiser from FHA programs based solely on the default/claim rate of loans that the appraiser was involved in processing. This may, inappropriately, hold the appraiser responsible for defaults that are the result of poor underwriting practices by the lender. We recommended, instead, a closer examination of the work performed by appraisers on loans with high default/claim rates. Also, the standard of over 200 percent of the default and claim rate appears to be a high standard for triggering action, considering the problems being experienced in the program. We recommended a standard that

would be more inclusive of poorly performing appraisers, such as 50 percent above the norm for the area.

In order to seek additional public comment, the Department intends to publish the Appraiser Watch Initiative as an Advanced Notice of Proposed Rulemaking instead of a proposed rule. This regulation had not been issued at the close of the semiannual reporting period.

***Housing Assistance for
Native Hawaiian
Housing Block Grant
Program and Loan
Guarantee for Native
Hawaiian Housing***

This proposed rule would implement Office of Public and Indian Housing's (PIH) procedures for two new programs to address the housing needs of Native Hawaiians. The Native Hawaiian Housing Block Grant Program will provide housing assistance block grants to fund affordable housing. The Section 184A Loan Guarantees for Native Hawaiian Housing Program will provide Native Hawaiian families with greater access to private mortgage resources by guaranteeing loans for one-to-four-family housing located on Hawaiian Homelands.

We nonconcur with this proposed rule because PIH had not completed a front-end risk analysis. This analysis is performed for new and substantially revised programs to help the Department identify management control risks associated with the program, and reduce those risks to an acceptable level. Also, the rule was not clear on procedures for allocating project development costs between assisted and non-assisted units in multi-unit projects. Additionally, the proposed rule was inconsistent in defining required affordability periods for HUD assisted dwelling units.

The proposed rule had not been issued at the close of the semiannual reporting period.

Notices of Funding Availability (NOFAs)

***Community
Development Block
Grant Program for
Indian Tribes and
Alaska Native Villages***

This SuperNotice of Funding Availability (SuperNOFA) would announce the availability of funds for developing viable Indian and Alaska Native communities. This grant program would, primarily, benefit persons with low and moderate income by creating decent housing, sustainable living environments, and economic opportunities.

We nonconcur with this SuperNOFA because it would allow land appraisals to be supported with only a written opinion from a real estate agent. We recommended that any land valuations prepared by real estate agents be supported by additional objective evidence, such as recent sales, recent appraisals for the property or similar properties in the same area, or detailed estimates prepared using reputable property appraisal guides. The Office of Public and Indian Housing revised the SuperNOFA to require that real estate agent estimates be supported by additional objective data, such as recent appraisals or sales of similar properties.

The SuperNOFA was published on March 26, 2002.

***University and College
Partnership Programs***

This SuperNOFA would assist institutions of higher education expand their role and effectiveness in addressing community development needs in their localities, including neighborhood revitalization, housing, and economic development.

We nonconcurrent with this SuperNOFA because, even though the University and College Partnership Programs have the same authorizing legislation and similar purposes, HUD operates separate and distinct programs for the Alaska Native/Native Hawaiian Institutions Assisting Communities Program, the Hispanic-Serving Institutions Assisting Communities Program, and the Historically Black Colleges and Universities Program. Contrary to the intent of the SuperNOFA process, HUD issued separate NOFAs for each of those programs. We addressed this issue in comments made in prior years, and in 1999 wrote the former Deputy Secretary and recommended that the University Assistance Programs be placed in a single office.

The Department did not agree that the NOFAs could be combined because of differences in the focus, size, and level of maturity of the various programs. However, the Department made several revisions to make the language, requirements, and rating factors more consistent, and placed the University Assistance Programs in a single office. Based on those changes, we lifted our nonconcurrency. We support continued efforts to consolidate the programs in a single NOFA.

The SuperNOFA was published on March 26, 2002.

Mortgagee Letter

FHA Connection (FHAC) Business-to- Business (B2B) Specification

This Mortgagee Letter would allow lenders to transmit data directly from their loan processing systems to FHA's systems without re-keying the data into the FHA Connection.

We nonconcurrent with this proposed Mortgagee Letter because it did not discuss security procedures, and did not include an assessment of security risks. Also, it was unclear whether implementation of the B2B specifications would be mandatory or optional for lenders.

The Mortgagee Letter had not been issued at the close of the semiannual reporting period.

Chapter 7

*Audit
Resolution*

In the audit resolution process, the OIG and HUD management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant pending issues where resolution action is delayed or where a management decision is 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 3/31/02," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/02."

Delayed Actions

Audits of HUD's FY 1991 through 2001 Financial Statements

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 11 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 2001, we were able to express an unqualified opinion on HUD's principal financial statements.

The results of our FY 2001 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; (2) ensure that subsidies are based on correct tenant income; and (3) improve monitoring of housing subsidy determinations. In addition to the weaknesses that continue to exist from prior years, our report also includes two material weaknesses about the need to: (1) enhance FHA's information technology systems to more effectively support its business processes; and (2) improve FHA's controls over budget execution and funds control. Corrective action plans to resolve these issues have continued to change over the last decade.

Audits of FHA's FY 1991 through 2001 Financial Statements

First issued March 27, 1992. FHA has been preparing financial statements for 11 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2001 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes; (2) place more emphasis on early warning and loss prevention for single family insured mortgages; and (3) 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. This weakness was expanded in FYs 1999 and 2000 to include improvements needed in FHA's data

integrity. FHA did resolve a material weakness in FY 2000 and part or all of three reportable conditions. In addition, the FY 2001 audit identified a material weakness in internal controls relating to the need to improve FHA's controls over budget execution and funds control.

FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The FY 2002 financial statement audit will assess FHA's accomplishments in correcting these conditions.

***HUD's Oversight of the
Empowerment Zone
Program***

Issued March 30, 1999. HUD did not have an adequate system of oversight and control for the Empowerment Zone Program. Specifically, HUD did not effectively assess the progress and status of empowerment zones, confirm whether the use of empowerment zone funds was appropriate or complied with cities' strategic plans, or ensure the accuracy of performance reviews submitted by cities. As a result, HUD did not detect inefficient and ineffective uses of empowerment zone resources and empowerment zone benefit achievements were overstated. In 1999, HUD agreed to develop procedures to improve the oversight and control of the Empowerment Zone Program by March 2000.

HUD did not meet the March 2000 completion date because the former empowerment zone coordinator did not take action on the recommendations. Based on the OIG's discussions with the Office of Community Planning and Development (CPD), the CPD Comptroller started taking action on the recommendations in February 2001. In March 2001, the Comptroller estimated that the outstanding recommendations would be closed by July 2001. CPD's decision to obtain the services of a contractor has further delayed completion of final action. The Comptroller advised that CPD completed a statement of work to obtain outside services in drafting the recommended procedures and controls. The Comptroller expected that all actions would be completed by March 31, 2002; however, as of March 1, 2002, HUD was still addressing three outstanding issues. They are: (1) establishing monitoring procedures to be used for on-site visits; (2) establishing a standardized monitoring review checklist; and (3) developing an Empowerment Zone Handbook. HUD anticipates achieving closure on these issues by September 30, 2002. (Report No. 1999-CH-0001)

***Empowerment Zone
Program, Cities of
Chicago, Philadelphia,
and Atlanta***

Issued September 28, 1998, September 30, 1998, and October 15, 1998. Audits of the Cities of Chicago, IL, Philadelphia, PA, and Atlanta, GA, found that the Cities used empowerment zone funds inappropriately. The questioned amounts total over \$2 million for the three Cities. The unique nature of the Empowerment Zone Program, authorized by the Omnibus Budget Reconciliation Act of 1993, provided HUD the authority to oversee the program, but provided funding through tax credits and Social Services Block Grant funds from the Department of Health and Human Services (HHS). HHS has responsibilities for resolving questions concerning the permissible use of zone funds.

In 1999, HUD management agreed with our findings and promised to have the Cities repay, by June 2000, program funds spent inappropriately. HUD, however, did not take corrective actions timely. In February 2000, HUD's CPD Comptroller started taking corrective actions and planned to have the outstanding recommendations closed by July 2001. In July 2001, the CPD Comptroller requested that HHS decide whether the Cities' use of Zone funds to provide services to non-zone residents was an eligible use of funds. If HHS decides that

the Cities used Zone funds improperly, HUD plans to execute a repayment agreement with the Cities requiring repayment within 2 to 3 years. In spite of the CPD Comptroller's repeated verbal requests for a determination, HHS has not responded to HUD's request. HUD's CPD Comptroller advised that, in April 2002, CPD plans to have HUD's Deputy Secretary contact high-level HHS officials to follow up on HUD's request for an eligibility determination. (Report Nos. 1998-CH-1005, 1998-CH-1006, and 1999-CH-1002)

***City of Lynwood, CA,
Community
Development Block
Grant (CDBG) Program***

Issued August 19, 1999. The City of Lynwood could not demonstrate its compliance with CDBG requirements for activities administered by subgrantees. The subgrantees operated a community based program which provided business training and incubator space for the benefit of low- and moderate-income residents. The training component included businesses outside of the grantee's City limits. However, the City could not provide documentation to support the number of jobs for low- and moderate-income persons created or retained, or document future benefits accruing to its residents. We recommended that HUD require the grantee to submit documentation of job creation and retention activities or return to its letter of credit, from non-federal funds, the amount the grantee is unable to support. In December 1999, the Los Angeles Office of CPD agreed with our recommendations and agreed to complete actions by October 31, 2000.

In November 2000, the Los Angeles Office of CPD requested revised management decisions. The local office agreed that the City could not support job creation/retention and area benefit activities. However, they concluded that the City's program benefited low- and moderate-income persons. Therefore, it would not be necessary for the City to repay the program. The basis for the local office's decision was that a legitimate business training activity occurred and businesses that received CDBG assistance obtained their business licenses in the City. Further, the businesses were located in an area with 57 percent low-income households and jobs created were primarily low-paying jobs.

We disagreed with the Los Angeles Office of CPD and referred the matter to the Acting General Deputy Assistant Secretary for CPD for decision in February 2001.

In July 2001, the CPD Comptroller agreed with OIG's position and the Los Angeles Office of CPD advised the City to reimburse about \$732,000 to its line of credit. The City offered CPD another resolution of this matter, which HUD rejected. CPD sent the City a second request for payment in February 2002. CPD advised the City that failure to repay the amount disallowed may result in a reduction of its FY 2002 CDBG entitlement grant, or of a future year's grant. The Los Angeles Office of CPD instructed the City that repayment, or a repayment plan, must be received by March 2002. The City's reply to CPD included a request that the City's liability be reduced; however, CPD plans to reject this offer. CPD plans to instruct the City to either repay the total amount in question, or request an administrative hearing. Due to the ongoing negotiations between CPD and the City, HUD was unable to provide a target date for resolving this matter. (Report No. 1999-SF-1003)

***CDBG Program, City of
St. Louis, MO***

Issued September 28, 1999. A special economic development activity totaling approximately \$700,000 did not meet a national objective of the

Housing and Community Development Act. The project was intended to meet the national objective of “benefiting low- and moderate-income persons with an eligible activity of job creation.” The audit found that the City created no jobs for low- and moderate-income persons. In January 2000, HUD agreed with our recommendation and indicated that the City would need to demonstrate that the activity met another national objective or repay the amount of ineligible assistance. Actions were to be completed by January 2001.

Subsequent to the audit, the City changed the national objective to “an activity to aid in the prevention or elimination of slums or blight.” However, the City did not produce documentation to support that the area of the activity was deteriorating, declared a slum or blighted area, or that there were conditions existing in the building that would qualify it as “spot blight.” Nonetheless, in March 2001, the Office of CPD advised that they considered the project to meet the national objective of prevention or elimination of slums or blight. For over 1 year, the Office of CPD provided OIG with documentation in an attempt to support the national objective of “an activity to aid in the prevention or elimination of slums or blight.” At a January 2002 meeting with the Assistant Secretary for CPD, and subsequent to the meeting, additional documentation was provided. CPD believes that a national objective has been adequately supported. In March 2002, the OIG advised the Assistant Secretary for CPD that the information presented did not support CPD’s position.

The OIG believes it is inappropriate to change a national objective once an objective has been selected and funds expended. A St. Louis Development Corporation Resolution stated that the purpose of the grant was to reimburse the Union Pacific Railroad for past expenditures. Since this was a reimbursement for past expenditures, the City should have known whether or not jobs were actually created for low- and moderate-income employees and, therefore, whether the national objective was met. Because agreement could not be reached on an appropriate course of action, the matter was referred to the Deputy Secretary, as the Department’s Audit Resolution Official, for a final decision in March 2002. (Report No. 1999-KC-1002)

Revised Management Decision

Section 5(a)11 of the Inspector General Act, as amended, requires that the OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the current reporting period, there was one significant revised management decision.

Housing Subsidy Payments, Office of Housing

Issued September 29, 2000. 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 a result, TRACS provides no assurances about controls over assistance payments or data accuracy. New plans for TRACS extend its use to contract administrators in much the same manner as the Department currently uses it.

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. In February 2001, the Office of Housing agreed to implement the following corrective actions:

- The Financial Management Center (FMC) will develop an automated system to compare current tenant information in TRACS to the amount shown on the voucher.
- The FMC will identify missing certifications in TRACS and institute a series of notices to owners to supply the incomplete data.
- A contractor will complete an ongoing comprehensive study of the Section 8 payment process, with a focus on identified problems, and develop proposed solutions for needed improvements and changes in the areas of procedures, systems, and organization.

At that time, HUD expected that the study would be completed by March 2001, with full implementation of solutions by December 2001.

On March 4, 2002, HUD revised the management decision and corrective actions to allow for a more comprehensive strategy than planned in the original management decision and to incorporate the benefits of e-government in a reengineered payment process. HUD agreed to complete all actions by September 30, 2005. We will conduct a follow-up to determine HUD's progress in developing and testing the new system and implementing other proposed solutions. (Report No. 00-KC-0002)

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 the Office of Management and Budget's (OMB) concurrence if more time is needed. FFMIA requires us to report, in our Semiannual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of FY 2001, the Department reported that 17 systems were not in substantial compliance with FFMIA. The number of reported non-conforming systems was increased from the 11 reported at the end of FY 2000 because 9 systems that were previously assessed as conforming were reclassified as non-conforming systems. HUD also discontinued two systems and the Department corrected deficiencies in one non-conforming system. Our audit of HUD's FY 2001 financial statements cites additional financial management system weaknesses, which we reported as reasons for the Department's FFMIA noncompliance. These include noncompliance with: (1) federal financial management systems requirements; (2)

federal accounting standards; and (3) the standard general ledger at the transaction level. HUD has submitted plans to OMB to correct material system weaknesses with a target completion date of December 31, 2005.

Appendices

APPENDIX 1 - AUDIT REPORTS ISSUED

for the period
October 1, 2001 through March 31, 2002

Internal Reports

Housing

Audit Reports

2002-FO-0002 Federal Housing Administration, Audit of Fiscal Years 2000 and 2001 Financial Statements, 2/22/02.

Single Family

2002-DE-0001 Nationwide Review of HUD's Loss Mitigation Program (Follow-up), 2/28/02.
2002-NY-0001 Nationwide Audit-Asset Control Area Program, Single Family Housing, 2/25/02.
2002-SF-0001 Nonprofit Participation, HUD Single Family Program, 11/05/01.

Miscellaneous

2002-FO-0001 Audit of GinnieMae's Fiscal Years 2000 and 2001 Financial Statements, 2/20/02.
2002-FO-0003 Audit of HUD's Fiscal Years 2000 and 2001 Financial Statements, 2/27/02. Better Use: \$514,000,000.
2002-FO-0004 Report on HUD's Fiscal Year 2001 Detail Accounting Submission Report, 3/13/02.
2002-KC-0001 Oversight of the Audit Resolution Process, Office of the Chief Financial Officer, 11/13/01.

Single Family

Audit-Related Memoranda

2002-DE-0802 Rocky Mountain District Review of the Officer/Teacher Next Door Program, 3/12/02.

Multifamily

2002-DE-0801 Review of Alleged Violations of the Anti-Deficiency Act and the HUD Reform Act by the Office of Multifamily Housing Assistance Restructuring, 3/22/02.

External Reports

Multifamily

Audit Reports

2002-DE-1001 Review of Mitchell Management, Multifamily Management Agent, 3/15/02.
 2002-KC-1001 Dutchtown Care Center, St. Louis, MO, Review of Project Disbursements, 3/29/02.

PIH

2002-BO-1002 Concord, NH Housing Authority, Administration of Public Housing and Section 8 Programs, 3/29/02. Questioned: \$64,268; Unsupported: \$58,160.
 2002-CH-1001 Ypsilanti, MI Housing Commission, Safeguarding Monetary Assets and Inventory, 3/26/02. Questioned: \$119,074; Unsupported: \$17,281.
 2002-CH-1002 Alton, IL Housing Authority, Low-Income and Public Housing Drug Elimination Programs, 3/29/02. Questioned: \$190,225.
 2002-SE-1001 Nampa, ID Housing Authority, Housing Program Administration and Operations, 1/10/02. Questioned: \$3,871; Unsupported: \$3,871.

CPD

2002-BO-1001 City of Worcester, MA, Community Development Block Grant Program, 3/27/02. Questioned: \$901,347; Unsupported: \$569,961.
 2002-FW-1001 Houston/Harris County, TX, Coalition for Homeless, Continuum of Care Program, 1/11/02.
 2002-NY-1001 City of Ithaca, NY, Community Planning and Development Programs, 3/21/02. Questioned: \$581,222; Unsupported: \$504,736.
 2002-PH-1001 City of Williamsport, PA, Community Development Block Grant and HOME Investment Partnership Programs, 3/19/02. Questioned: \$2,638,370; Unsupported: \$576,190.

Single Family

Audit-Related Memoranda

2002-DE-1801 American Union Mortgage, Sandy, UT, Single Family Loan Origination, 3/12/02.

External Reports - continued

Multifamily

Audit-Related Memoranda - continued

2002-AT-1807 Jardines de Valencia Housing Cooperative, Rio Piedras, PR, 3/20/02. Questioned: \$25,562.
 2002-PH-1802 D.B. Frye and Associates, Norfolk, VA, Management Agent Activities, 3/26/02. Questioned: \$1,098,672; Unsupported: \$1,098,672.
 2002-SF-1802 Limited Review-Lorenz Hotel, Redding, CA, Property Disposition Program, 3/25/02. Questioned: \$53,484.

PIH

2002-AT-1801 West Palm Beach, FL Housing Authority, 10/30/01.
 2002-AT-1803 Mowa Choctaw Housing Authority, Mt. Vernon, AL, 11/09/01.
 2002-AT-1804 Waverly, TN Housing Authority, 12/17/01. Questioned: \$165,630.
 2002-AT-1805 San Juan, PR Public Housing Administration, Martinal Property, Inc., 1/11/02.
 2002-BO-1801 South Kingston, RI Housing Authority, 12/20/01.
 2002-CH-1801 City of Evansville, IN Housing Authority, 1/29/02. Questioned: \$936,133.
 2002-FW-1801 Lockhart, TX Housing Authority, 12/04/01. Questioned: \$120,864; Unsupported: \$120,864.
 2002-PH-1803 Philadelphia, PA Housing Authority, Limited Personnel Review, 3/26/02. Questioned: \$203,388; Unsupported: \$6,017.

CPD

2002-AT-1802 Macon-Bibb County, GA Economic Opportunity Council, Inc., Supportive Housing Program, 11/09/01. Questioned: \$5,333; Unsupported: \$185.
 2002-AT-1806 Chattanooga, TN Neighborhood Enterprise, Inc., 1/16/02. Questioned: \$15,900.
 2002-CH-1802 Partners for Community Development, Inc., Home Buyers-Lease Purchase and HOME Homeowner Rehabilitation and Accessibility Programs, Sheboygan, WI, 1/31/02. Questioned: \$24,855.
 2002-KC-1801 Review of Enhanced Enterprise Community Funding, Kansas City, KS, 2/25/02.
 2002-NY-1801 City of Utica, NY, CDBG, HOME and Section 8 Existing Housing Programs, 12/03/01. Questioned: \$1,335,580; Unsupported: \$1,167,713; Better Use: \$43,234.
 2002-PH-1801 City of Baltimore, MD HOME Program, 12/21/01. Questioned: \$146,114.
 2002-SF-1801 Mayor's Office of Housing and Nonprofit Developers, Use of Various HUD Funds to Replace Geneva Towers, San Francisco, CA, 3/25/02.

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH
NO MANAGEMENT DECISION AT 03/31/02

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
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Nothing to report.

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 03/31/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
1992TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 1
1992PH1009	Huntington, WV Community Development Block Grant Program	07/10/92	11/07/92	04/30/02
1993SF1014	Tucson, AZ Health Care Limited Partnership, Multifamily Operations	09/23/93	01/21/94	Note 1
1995SF0001	Multi-district Audit of Section 236 Program, Excess Rental Income Collections	12/21/94	03/31/96	09/30/02
1995CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
1996FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	Note 1
1996SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	Note 1
1996FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	08/19/96	10/17/96	Note 1
1997PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 1
1997FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
1997CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Ins. Prog., Livonia, MI	09/17/97	01/06/98	Note 1
1998HQ0801	Review of HUD's 2020 Management Reform Plan	11/25/97	07/14/99	Note 1
1998AT1005	Housing Authority of the City of Tampa, FL	04/23/98	10/21/98	06/01/02
1998CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 1
1998CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 1
1998DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	09/29/99	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
1999NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 1
1999FO0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/99	09/30/99	09/30/02
1999CH0001	HUD's Oversight of the Empowerment Zone Program	03/30/99	09/17/99	Note 1
1999PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	07/31/03
1999SF1003	City of Lynwood, CA, CDBG and HOME Programs	08/19/99	12/16/99	Note 1
1999SF1803	Northern Pueblos Housing Authority, Limited Review of Operations, Santa Fe, NM	09/08/99	11/09/99	Note 1
1999CH1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	Note 1
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 1
1999KC1002	Community Development Block Grant Program, St. Louis, MO	09/28/99	01/21/00	Note 1
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	Note 2
2000AT1001	Mego Mortgage Corporation, Title I Approved Lender, Atlanta, GA	10/04/99	02/09/00	Note 1
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99	09/19/01	10/31/04
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	Note 2
2000FW1001	New Orleans, LA Housing Authority, Executive Monitor Contract with Moten & Associates	01/19/00	09/29/00	Note 2
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	12/31/05
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	09/30/02
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00	09/28/01	12/31/02
2000AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00	09/28/01	12/31/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	Note 2
2000SF0001	Single Family Production	03/30/00	01/19/01	12/31/02
2000AO0001	Nationwide Audit of Storefront Operations	03/31/00	09/08/00	Note 1
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	Note 2
2000FW1003	Pope & Booth, P.C. Closing Agent Contract, Austin, TX	05/24/00	07/24/01	07/23/02
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	Note 2
2000DE1004	Chippewa Cree Housing Authority, Housing Activities and Related Mgmt. Controls, Rocky Boy, MT	09/21/00	01/19/01	10/15/02
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	Note 2
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	Note 2
2000CH0801	HUD's Settlement Agreement, Associated Estates Realty Corp., Office of Multifamily Housing	09/28/00	03/30/01	Note 2
2000DP0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/00	03/30/01	Note 2
2000FO0802	Survey of HUD's Contract Award Process	09/29/00	01/31/01	Note 2
2000KC0002	Housing Subsidy Payments	09/29/00	02/21/01	09/30/05
2000SE0003	Nationwide Audit, Use and Disposition of Residual Receipts	09/29/00	08/15/01	12/30/03
2001AT1001	Housing Authority of the City of Miami Beach, FL	10/20/00	02/13/01	Note 2
2001CH1001	City of Ironton, OH Community Development Block Grant Program	11/16/00	03/21/01	Note 2
2001NY1001	Bay Towers, Far Rockaway, NY, Multifamily Mortgagor Operations	12/07/00	04/20/01	04/19/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001FW1002	City of Dallas, TX Continuum of Care Program	12/13/00	06/26/01	10/15/02
2001BO1002	Waller, Smith and Palmer PC – HUD Closing Agent, New London, CT	01/05/01	05/16/01	05/15/02
2001SF1802	HUD Earthquake Loan Program Funds, Woodland Hills, CA	02/08/01	06/14/01	07/31/02
2001DP0801	Review of the Department’s Internet Privacy Status	02/21/01	04/23/01	Note 2
2001FO0002	FHA Audit of Fiscal Year 2000 Financial Statements	03/01/01	07/24/01	12/21/06
2001FO0003	Audit of HUD’s Fiscal Year 2000 Financial Statements	03/01/01	07/18/01	12/31/02
2001CH1004	Youngstown, OH Metropolitan Housing Authority	03/09/01	07/09/01	07/09/02
2001CH1005	London, OH Metropolitan Housing Authority, Safeguarding of Monetary Assets and Inventory	03/22/01	07/18/01	07/17/02
2001SF1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/01	07/24/01	04/30/02
2001FO0004	HUD’s Internal Controls over Fiscal Year 1999 Annual Performance Data	03/28/01	07/24/01	06/30/03
2001PH1003	Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs	03/28/01	09/10/01	08/31/02
2001AT1005	San Juan, PR Public Housing Administration, HOPE VI, Comprehensive Grant, and Economic Development & Support Services Programs	03/30/01	09/28/01	08/06/02
2001NY0001	Canal Corridor Initiative, HUD Administered Small Cities CDBG Section 108 Loan Guarantee Program	03/30/01	05/29/01	05/28/02
2001NY1002	Belmax Management Corporation (Management Agent), Brooklyn, NY	04/17/01	07/13/01	07/12/02
2001PH1005	Housing Authority of the City of Pittsburgh, PA	05/03/01	02/06/02	12/31/02
2001SF1804	Supportive Housing Program Grant, County of Orange, Santa Ana, CA	05/09/01	09/26/01	04/30/02
2001FW0001	New Orleans, LA Housing Authority	05/11/01	11/02/01	10/15/03
2001KC1002	One McKnight Place, Review of Project Disbursements, St. Louis, MO	05/11/01	08/10/01	05/01/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001CH1007	Detroit, MI Housing Commission, Hope VI Program	05/16/01	09/13/01	03/31/03
2001FW0002	HUD's Compliance with the Government Performance and Results Act	05/31/01	11/02/01	09/30/02
2001PH0803	Philadelphia, PA Homeownership Center, Single Family Disposition Activities	06/14/01	06/14/01	06/13/02
2001AT0001	Nationwide Audit on the Officer/Teacher Next Door Program	06/29/01	01/29/02	12/31/02
2001PH1006	Philadelphia, PA, CDBG and Section 108 Funding, Urban Education Development Research and Retreat Center Rehabilitation Project	08/01/01	11/21/01	07/15/02
2001SE0002	Nationwide Audit of Implementation of the Native American Housing Assistance and Self-Determination Act of 1996	08/02/01	12/11/01	12/31/02
2001SE1001	City of Seattle, WA Supportive Housing Program Grants, Continuum of Care	08/15/01	12/13/01	06/30/02
2001AT0002	Troubled Agency Recovery Center, Memphis, TN	08/17/01	12/06/01	04/30/02
2001FW1807	Community Housing Fund, Irving, TX, Nonprofit Participation in FHA Single Family Insurance Program	08/17/01	01/30/02	12/03/02
2001AT1006	City of Hattiesburg, MS, Community Planning and Development Programs	08/27/01	12/21/01	06/30/02
2001FW1005	Harmony House, Inc., Harrison, AR, Supportive Housing Program	08/27/01	12/21/01	10/31/02
2001AO0003	Drug Elimination Funds Used for Creative Wellness Program	08/29/01	01/22/02	07/31/02
2001BO1006	State of Connecticut, Home Investment Partnership Program, Hartford, CT	08/29/01	11/09/01	08/30/02
2001SE0802	Nationwide Audit of Rent Reasonableness for Section 8 Tenant-based Units	08/29/01	11/28/01	07/31/02
2001DP0802	Annual Evaluation of HUD's Security Program and Practices	09/06/01	01/16/02	12/31/02
2001FW1006	Dallas Homeless Consortium, Dallas, TX, Continuum of Care Program	09/21/01	12/18/01	05/01/02

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001AT1807	Family Home Providers, Inc., Cumming, GA, Non-Profit Participation in FHA Single Family Insurance Program	09/25/01	01/25/02	07/01/02
2001FW1809	Jefferson Parish, LA Housing Authority, Limited Procurement Review	09/25/01	11/07/01	10/31/02
2001SF1805	Los Coyotes Band of Mission Indians, Warner Springs, CA	09/25/01	12/14/01	06/28/02
2001AT1808	Autographed Book Give-Away for Inner-City Youths, Inc., Orlando, FL, Non-Profit Participation in FHA Single Family Insurance Program	09/27/01	01/24/02	07/01/02
2001DE1002	Brothers Redevelopment, Inc., Denver, CO, Review of Housing Activities in FHA Single Family Insurance Programs	09/28/01	01/16/02	01/16/03
2001DE1003	Foster and Associates, Whitefish, MT, Review of Management Activities for Projects Clark Fork Manor and Whitefish Manor	09/28/01	01/16/02	09/30/03
2001DP0003	Real Estate Management System	09/28/01	01/30/02	09/30/02
2001KC1005	First Community Resources, Inc., St. Louis, MO, Section 203(b) Home Mortgage Insurance Program	09/28/01	01/17/02	08/01/02
2001KC1803	Review of Oak Tree Park Apartments, Overland, MO	09/28/01	11/30/01	11/29/02

AUDITS EXCLUDED:

- 21 audits under repayment plans
- 22 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.

TABLE C

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 03/31/02 (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	17	\$35,076	\$31,274
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	8	\$29,084	\$14,708
A3 For which additional costs were added to reports in beginning inventory	-	\$936	\$75
A4 For which costs were added to non-cost reports	4	\$2,041	\$4
B1 Which were issued during the reporting period	19	\$8,630 ¹	\$4,124
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	48	\$75,767	\$50,185
C For which a management decision was made during the reporting period	28 ²	\$40,119	\$32,901
(1) Dollar value of disallowed costs:			
• Due HUD	10 ³	\$8,087 ¹	\$6,641
• Due Program Participants	16	\$5,525	\$2,995
(2) Dollar value of costs not disallowed	11 ⁴	\$26,507	\$23,265
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	\$28,808	\$14,449
E For which no management decision had been made by the end of the reporting period	13 <29> ⁵	\$6,840 <\$6,838> ⁵	\$2,835 <\$2,832> ⁵

1 The Office of Investigation is claiming \$113,967 of this amount as a criminal prosecution recovery.

2 1 audit report also contains recommendations with funds to be put to better use.

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

4 7 audits reports also contain recommendations with funds agreed to by management.

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

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 03/31/02
(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	0	\$7,757
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	3	0
A3 For which additional costs were added to reports in beginning inventory	-	0
A4 For which costs were added to non-cost reports	0	0
B1 Which were issued during the reporting period	2	\$514,043 ¹
Subtotals (A + B)	5	\$521,800
C For which a management decision was made during the reporting period	1 ²	\$43
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	0	0
• Due Program Participants	1	\$43
(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	3	\$7,757
E For which no management decision had been made by the end of the reporting period	1 <0> ³	\$514,000 <\$0> ³

1 \$514 million of this amount included in our annual Financial Statement Audit. For a detailed description, see Explanations of Tables C and D.

2 1 audit report also contains recommendations with questioned costs.

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

EXPLANATIONS OF TABLES C AND D

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

Footnote 1 for Table D:

This amount includes \$514 million attributable to our Audit of HUD’s Financial Statements for Fiscal Years 2001 and 2000 (Report Number 2002-FO-0003, dated 02/27/02) relating to control weaknesses first reported in fiscal year 1999. The amounts reported include:

- \$19 million in excess Section 8 project-based funds potentially available for recapture, and
- \$495 million in modernization/capital funds that, in our view, are not in compliance with the expenditure and obligation requirements of the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998. Including:
 - \$161 million in unexpended 1997 and prior year public housing and modernization funds;
 - \$19 million in unobligated 1998 and prior year public housing funds; and
 - \$315 million in fiscal year 2001 capital funds awarded Housing Authorities that were in violation of the Act which should be redistributed to other Housing Authorities.

These amounts relate to fiscal year 2001. Amounts associated with these conditions for previous fiscal years were not previously reported in semiannual statistical tables.

PROFILE OF PERFORMANCE

for the period
October 1, 2001 through March 31, 2002

Audit and Investigation Results	Audit	Investigation	Combined
Recommendations That Funds Be Put to Better Use	\$514,043,234		\$514,043,234
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$43,234		\$43,234
Questioned Costs	\$11,493,186 ¹		\$11,493,186
Management Decisions on Audits with Questioned Costs	\$40,004,521 ¹		\$40,004,521
Indictments		236	236
Successful Prosecutions		202	202
Years of Prison Sentences		633	633
Investigative Recoveries		\$3,684,943	\$3,684,943
Collections From Audits and Investigations	\$6,945,593	\$29,333,205	\$36,278,798
Arrests		451	451
Search Warrants		102	102
Value of Drugs Seized		\$278,135	\$278,135
Weapons Seized		32	32
Administrative Sanctions	2	237	239
Subpoenas Issued	8	164	172

¹ Amount reduced by \$113,967 from that shown on Appendix 2, Table C, because it has been included in Investigative Recoveries due to a criminal prosecution.