

U.S. Department of Housing and Urban Development  
Office of Inspector General



# Semiannual Report to Congress



*April 1, 2008, through September 30, 2008*

# Profile of Performance

## Audit profile of performance for the period April 1, 2008, through September 30, 2008

Results	This reporting period	FY 08 totals
Recommendations that funds be put to better use	\$75,395,363	\$1,297,214,463
Recommended questioned costs	\$157,090,205	\$300,872,100
Collections from audits	\$59,634,565	\$81,386,829
Administrative sanctions	15	21

## Investigation profile of performance for the period April 1, 2008, through September 30, 2008

Results	This reporting period	FY 08 totals
Funds put to better use	\$39,111,188	\$69,667,391
Recoveries/receivables	\$60,621,689	\$81,182,624
Indictments/informations	578	1,180
Convictions/pleas/pretrial diversions	525	969
Civil actions	50	76
Administrative sanctions <sup>1</sup>	587	1,009
Personnel actions	20	46
Arrests <sup>2</sup>	770	1,524
Search warrants	22	119
Subpoenas issued	613	1,026

## Hotline profile of performance for the period April 1, 2008, through September 30, 2008

Results	This reporting period	FY 08 totals
Funds put to better use	\$2,695,138	\$5,051,806
Recoveries/receivables	\$123,784	\$254,864

<sup>1</sup> Personnel actions include reprimands, suspensions, demotions, or terminations of the employees of Federal, State, or local governments or of Federal contractors and grantees, as the result of Office of Inspector General (OIG) activities. In addition, this reporting category includes actions by Federal agencies to suspend, debar, or exclude parties from contracts, grants, loans, and other forms of financial or nonfinancial transactions with the government, based on findings produced by OIG.

<sup>2</sup> Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.

# Inspector General's Message



The U.S. Department of Housing and Urban Development Office of Inspector General (HUD OIG) is proud to present its Semiannual Report to the Congress for the second half of fiscal year 2008. I am very thankful to all the HUD OIG employees--auditors, agents, attorneys, and support staff--for their excellent production on behalf of the taxpayers of the United States. We have been deeply immersed in the issues, specifically activities affecting the housing industry. We at HUD OIG are grateful to the Congress for the passage of the new Housing and Economic Recovery Act (HERA) of 2008 that increased the penalties for fraud involving the Federal Housing Administration (FHA). We now have the tools to continue our pursuit of corrupt corporate executives, as well as failed and troubled lending institutions.

During this reporting period, we had \$67.9 million in funds put to better use, questioned costs of \$154.8 million, and \$60.5 million in recoveries and receivables while closing 584 cases. This exceptional work has had an impact on fraud and the misuse of taxpayer dollars, and it is with gratitude that I acknowledge the HUD OIG staff who worked so hard to achieve these results and their associated deterrent effect.

With the enormous expansion of the FHA mortgage limit in the new HERA of 2008, this essential program has expanded into urban markets that have not seen FHA activity, sometimes for decades. Another particular interest and concern is the expansion in the use of FHA's home equity conversion mortgages (HECM)--better known in the media as reverse mortgages--and the new opportunities that have arisen for fraud aimed at senior citizens. The expansion of HECM and the impact of the subprime mortgage situation on the overall health of FHA have drawn our investigative and audit resources to this issue. We continue to audit at-risk lenders, and we have expanded our participation in mortgage fraud task forces across the country.

The collapse of the subprime mortgage market and resultant increase in FHA loan activity have also impacted the Government National Mortgage Association (Ginnie Mae). Total outstanding Ginnie Mae mortgage-backed securities increased from \$428 to \$577 billion during fiscal year 2008. Due to the increased risk this poses to the Department, we have directed additional audit and investigative resources toward Ginnie Mae programs.

Our high-profile audits and investigations have once again paralleled the Department's strategic initiatives. HUD OIG staff continue to work with the Department to improve its effectiveness and as a result, have developed and implemented better and more effective audit recommendations. HUD OIG Office of Investigation agents have also enhanced their association with the Department as a new source or indicator for new investigative avenues.

During this reporting period, our audits recommended that HUD take appropriate actions to ensure that FHA-approved lenders comply with Federal requirements for FHA loans located in flood hazard areas. We recommended that HUD appropriately sanction violations of the Real Estates Settlement and Procedures Act and make referrals to the Mortgagee Review Board, making lenders pay back loans for which HUD underwriting



requirements were not followed. We further recommended that HUD develop and implement adequate oversight of and controls over the appraiser review process to address weaknesses, and we provided comments to HUD, requesting that it assess risk while implementing the FHASecure program, which is intended to assist subprime or high-risk borrowers harmed by questionable loan terms.

Our investigating agents have been hard at work as well. A cross-section of the types of cases pursued during the reporting period included uncovering and prosecuting a loan origination scam that caused more than \$2.3 million in losses to HUD, a civil case against an FHA lender that netted HUD \$4.6 million, and prosecuting a real estate scheme involving identity fraud and false Social Security numbers that caused HUD losses in excess of \$1.5 million in three States.

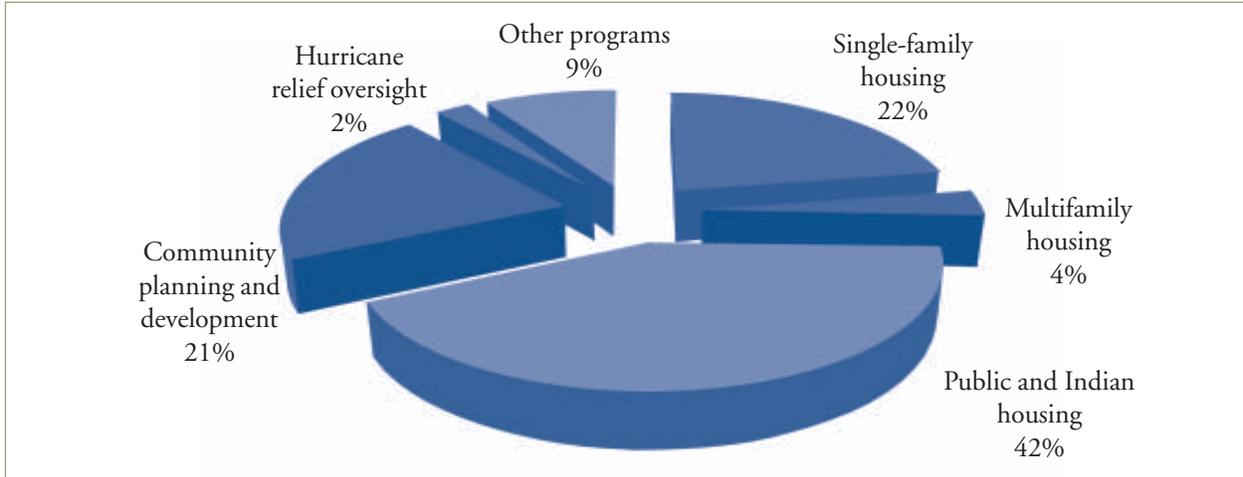
We do all of this while maintaining our vigilance in hurricane-related and flood-related disaster relief, post-September 11 redevelopment efforts, Section 8 rental subsidy fraud, and any activity involving waste or abuse in HUD programs or operations.

It is with obvious and justifiable pride that I thank the staff of HUD OIG for their tireless work.

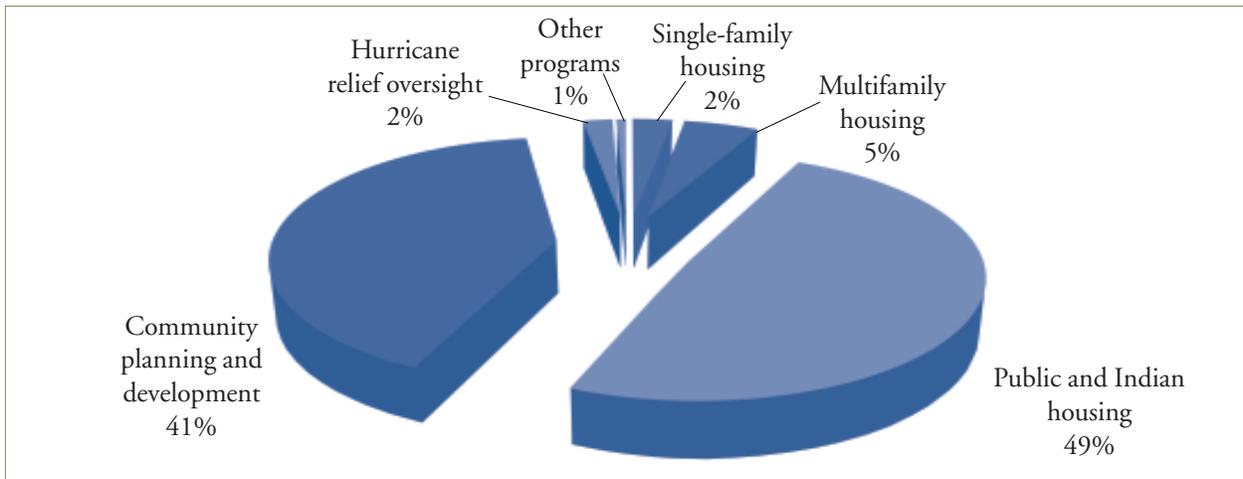


Kenneth M. Donohue  
Inspector General

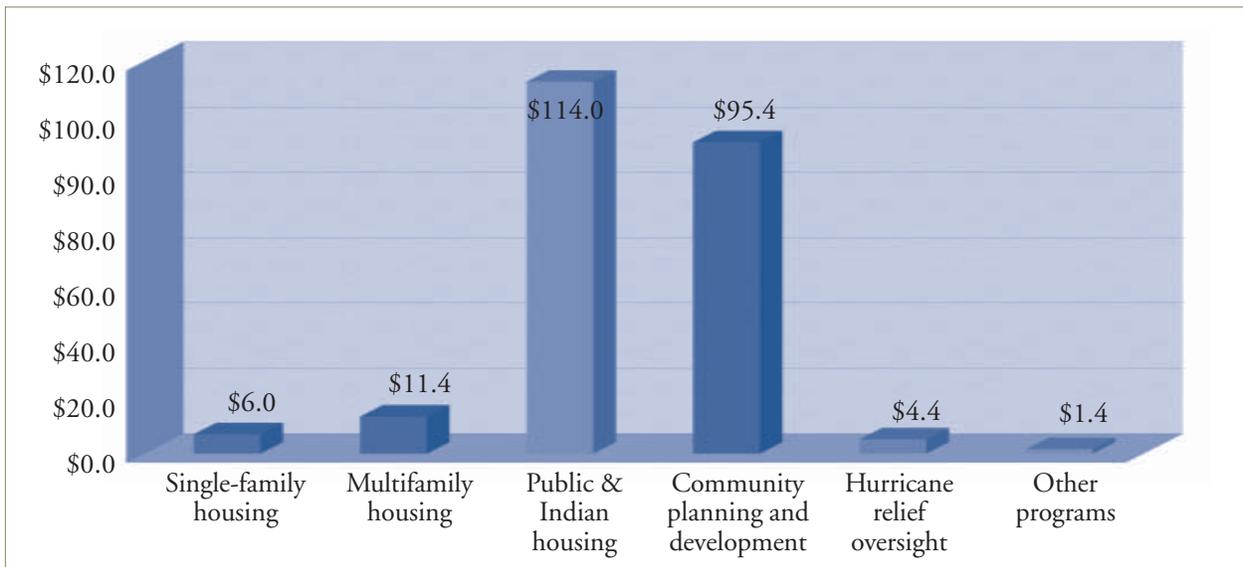
### Audit reports issued by program



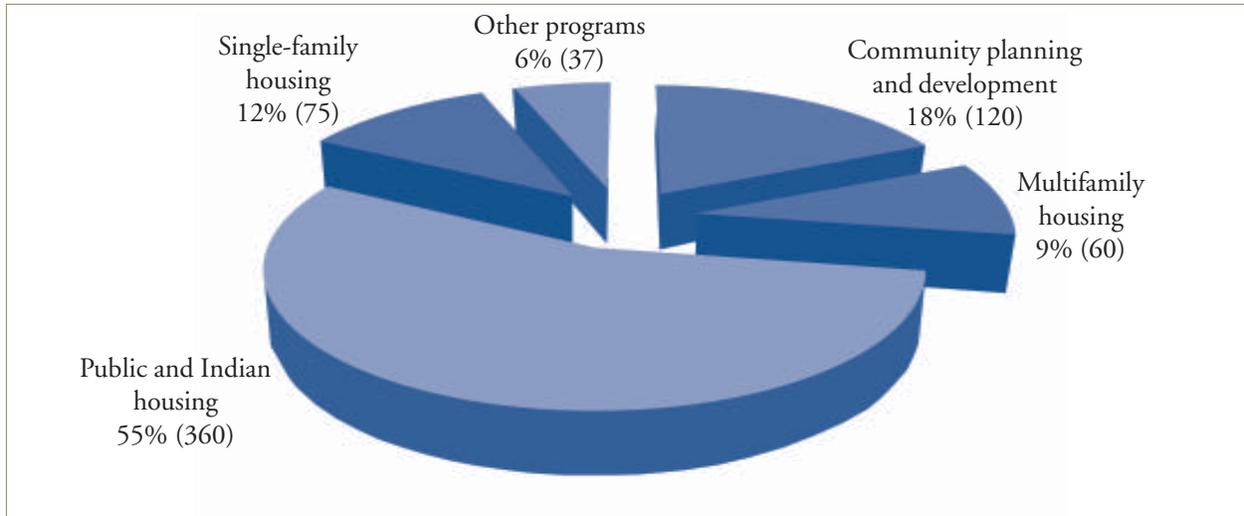
### Monetary benefits identified by program



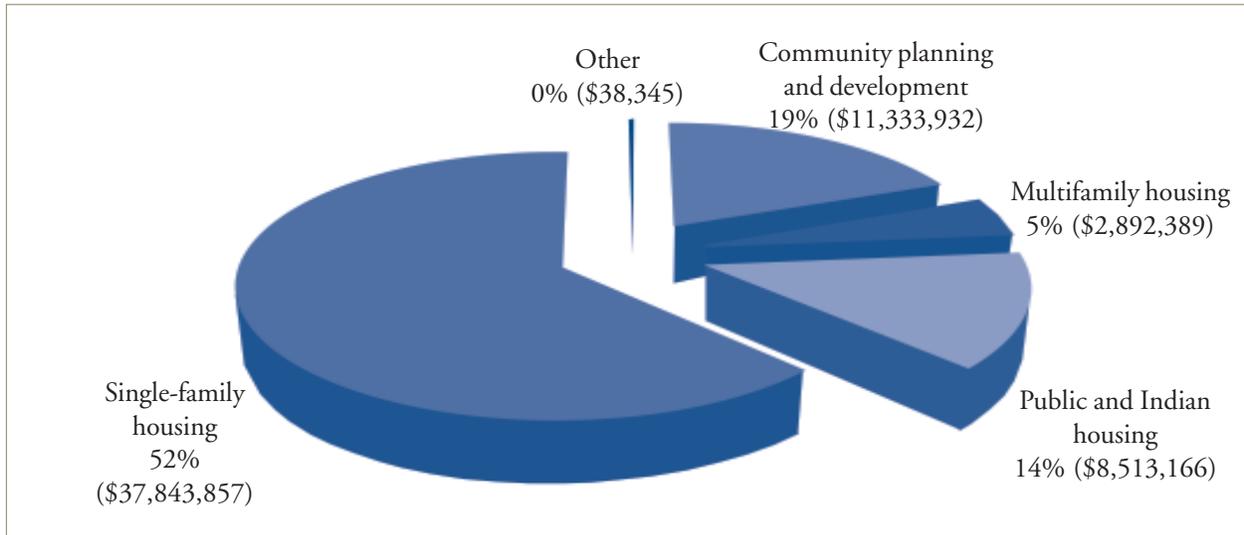
### Monetary benefits identified in millions of dollars



Investigative cases opened by program area (total: 652)



Investigative recoveries by program area (total: \$60,621,689)





# Acronyms List

AFGE	American Federation of Government Employees
AIGA	Assistant Inspector General for Audit
AIGI	Assistant Inspector General for Investigation
ARIGA	Assistant Regional Inspector General for Audit
ASAC	Assistant Special Agent in Charge
CDBG	Community Development Block Grant
CPD	Office of Community Planning and Development
DHAP	Disaster Housing Assistance Program
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
EIV	Enterprise Income Verification
FEMA	Federal Emergency Management Agency
FFI	Fugitive Felon Initiative
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHAP	Fair Housing Assistance Program
FHEO	Office of Fair Housing and Equal Opportunity
FISMA	Federal Information Security Management Act
FSS	Family Self-Sufficiency
GAO	U.S. Government Accountability Office
Ginnie Mae	Government National Mortgage Association
GPRA	Government Performance Results Act
HECM	Home equity conversion mortgages
HERA	Housing and Economic Recovery Act (HERA) of 2008
HOME	HOME Investment Partnerships Program
HUD	U.S. Department of Housing and Urban Development
IAA	Interagency agreement
IG	Inspector General
IOI	Identity of interest
IRS	Internal Revenue Service
IT	Information technology
NAHASDA	Native American Housing Assistance and Self-Determination Act of 1996
NAHRO	National Association of Housing and Redevelopment Officials
NCDF	National Center for Disaster Fraud

OA	Office of Audit
OI	Office of Investigation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PFCRA	Program Fraud Civil Remedies Act
PHA	Public housing agency
PIH	Office of Public and Indian Housing
REAP	Resource Estimation and Allocation Process
RESPA	Real Estate Settlement Procedures Act
RIGA	Regional Inspector General for Audit
SA	Special Agent
SAC	Special Agent in Charge
SBA	Small Business Administration
SEMAP	Section Eight Management Assessment Program
SFA	Senior Forensic Auditor
SHP	Supportive Housing Program
SSA	Senior Special Agent
SSA	Social Security Administration
SSN	Social Security number
TEAM	Total Estimation and Allocation Mechanism
U.S.C.	United States Code
USMS	United States Marshals Service
USPS	United States Postal Service
VA	U.S. Department of Veterans Affairs



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# Reporting Requirements

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

<b>Source/Requirement</b>	<b>Pages</b>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	128
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-112, 128
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-112
Section 5(a)(3)-identification of each significant recommendation described in previous semiannual report on which corrective action has not been completed.	<i>Appendix 2, Table B</i>
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	7-112
Section 5(a)(5)-summary of reports made on instances in which information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	<i>No Instances</i>
Section 5(a)(6)-listing of each audit report completed during the reporting period and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	<i>Appendix 1</i>
Section 5(a)(7)-summary of each particularly significant report and the total dollar value of questioned and unsupported costs.	7-112
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	<i>Appendix 2, Table C</i>
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	<i>Appendix 2, Table D</i>
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	<i>Appendix 2, Table A</i>
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	<i>No Instances</i>
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	133
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	133

# Executive Highlights



# Strategic Initiative 1

## HUD Strategic Goal: Increase Homeownership Opportunities

### OIG Strategy: Contribute to the reduction of fraud in single-family insurance programs through

- Audits uncovering single-family and loan origination abuse
- Audits of the U.S. Department of Housing and Urban Development's (HUD) internal policies to determine whether controls are adequate
- Audits of lenders' origination activities under the FHASecure and Hope for Homeowners programs
- National strategy for single-family mortgage fraud task forces
- Inspections and evaluations of program areas
- Outreach to industry and consumer groups and the Department

### Highlights: Results or impact of significant OIG work

- Disclosed more than \$1.5 million in questioned costs and nearly \$2.9 million in recommendations that funds be put to better use *page 8*
- Recommended that HUD develop and implement adequate oversight of and controls over the appraiser review process to address identified weaknesses *page 9*
- Recommended that HUD take appropriate actions to ensure that Federal Housing Administration (FHA)-approved lenders comply with federal requirements for FHA loans located in flood hazard areas *page 10*
- Recommended that HUD take appropriate sanctions for Real Estate Settlement Procedures Act violations, make referrals to the Mortgagee Review Board, and require the lender to indemnify loans for which HUD underwriting requirements were not followed *page 11*
- Loan origination scam causes HUD more than \$2.3 million in losses *page 17*
- Identity fraud and false Social Security numbers cause HUD losses in excess of \$1.5 million in Colorado, New Jersey, and Texas *page 21*
- Civil settlement with direct endorsement lender nets HUD \$4.6 million *page 22*
- More than 300 mortgage and real estate professionals attend a mortgage fraud presentation in Michigan *page 115*
- Provided comments for HUD to assess risk while implementing the FHASecure program, which is intended to assist subprime or high-risk borrowers harmed by questionable loan terms *page 130*

### Emerging Issues: Areas of OIG interest

- FHASecure
- Hope for Homeowners program
- Home equity conversion mortgage program
- Licensing and certification of mortgage professionals

## Strategic Initiative 2

### HUD Strategic Goal: Promote Decent Affordable Housing

#### OIG Strategy: Contribute to the reduction of erroneous payments in rental assistance programs through

- Audits of Section 8 Housing Choice Voucher program activities
- Audits of the HUD's internal policies to determine whether controls are adequate
- Investigative initiatives involving corruption in the management of troubled public housing authorities and multifamily developments
- Section 8 fraud initiatives in each Office of Inspector General (OIG) region
- Public Housing Fugitive Felon and Sex Offender Initiatives - locate and remove
- Public and Department-wide outreach initiatives

#### Highlights: Results or impact of significant OIG work

- Disclosed nearly \$73 million in questioned costs and nearly \$40 million in recommendations that funds be put to better use *page 28*
- Recommended that HUD require a housing authority to reimburse more than \$27 million in restricted funds to the proper program and establish and implement adequate procedures and controls to ensure that no interprogram advances of restricted funds are made in the future *page 30*
- Identified excessive assistance payments due to payments for units not meeting minimum housing quality standards, errors in tenant files, and lack of controls *page 32*
- Recommended that HUD require housing authorities that failed to administer its Family Self-Sufficiency program to reimburse the applicable program from nonfederal funds *page 33*
- Recommended that housing authorities enhance their quality controls and implement policies and procedures to prevent improper payments *page 34*
- Housing authority executive director and others indicted in North Carolina *page 46*
- New York, Miami, and Las Vegas Section 8 landlords and tenants cause HUD losses of about \$800,000 *page 52*
- Fugitive felons residing in HUD-subsidized housing arrested in Illinois, Kansas, Missouri, Utah, and South Dakota *page 58*
- Multifamily management company owner indicted for embezzling more than \$500,000 in HUD funds *page 66*
- Loan officer charged in civil complaint after hospital defaults on a \$7 million HUD-insured mortgage *page 69*
- Public housing fraud schemes described for 475 National Association of Housing and Redevelopment officials in Massachusetts, New Jersey, California, Missouri, Arkansas, and Texas *page 120*

#### Emerging Issues: Areas of OIG interest

- FHA-insured nursing homes and nursing home equity skimming
- Public housing corruption and multifamily mismanagement
- Landlord fraud
- Implementation of Section 8 Management Assessment Program/ controls to ensure HUD's Section 8 housing stock is in material compliance with housing quality standards
- Evaluation of the Housing Authority of New Orleans in carrying out its public housing activities and Section 8, procurement, and financial functions

# Strategic Initiative 3

## HUD Strategic Goal: Strengthen Communities

### OIG Strategy:

- Promote integrity, efficiency, and effectiveness of programs
- Contribute to the reduction of fraud, waste, and abuse through
  - Audits of the Community Development Block Grant (CDBG), Supportive Housing Program, and HOME Investment Partnerships Program
  - Department liaison
  - Audits of Gulf Coast activities
  - Investigative initiative involving corruption in the administration of State or local community planning and development programs in each OIG region
  - Hurricane relief fraud in HUD CDBG-funded programs
  - Inspections and evaluations of program areas
  - Public dissemination of HUD OIG activities and outreach activities with State and local government agencies

### Highlights: Results or impact of significant OIG work

- Disclosed more than \$70 million in questioned costs and nearly \$25 million in recommendations that funds be put to better use. *page 72*
- Recommended that HUD require the States of New Mexico and Arizona repay more than \$8.4 million and ensure that the States comply with the Act in relation to set-asides for colonias. *page 73*
- The former executive director and treasurer of a youth-oriented nonprofit in Fairbanks, AK, sent to prison for embezzlement *page 82*
- The former treasurer of a HUD-funded nonprofit chose 30 days in prison in lieu of a public apology *page 82*
- Hurricane relief fraud involving CDBG funding for homeowners *page 95*
- HUD program director and contractor briefed on fraud prevention measures in the Disaster Housing Assistance program *page 100*
- Inspection of housing assistance overpayments to multifamily property owners after Hurricane Katrina *page 102*

### Emerging Issues: Areas of OIG interest

- Gulf Coast hurricane assistance fraud
- Neighborhood Stabilization Program
- Emergency Shelter and Homeless Grants
- Emergency supplementals for FY 2008 natural disasters

## Strategic Initiative 4

HUD Strategic Goal: Embrace High Standards of Ethics, Management, and Accountability

### OIG Strategy:

- Be a relevant and problem-solving advisor to the Department
- Contribute to improving HUD's execution and accountability of fiscal responsibilities through
  - Audits of HUD's financial statements
  - Audits of HUD's information systems and security management
  - Audits of Ginnie Mae activities
  - Implementation of U.S. Department of Justice Procurement Fraud Task Force at HUD
  - FedRent data match operation - identifying Federal employees who fraudulently receive housing assistance

### Highlights: Results or impact of significant OIG work

- HUD's Enterprise Income Verification System discovers U.S. Postal Service employees fleecing Chicago area housing authorities *page 55*
- Recommended that HUD take measures to enhance methods used to assess human resource needs *page 106*
- Recommended that HUD properly meet its information security responsibilities *page 107*

### Emerging Issues: Areas of OIG interest

- Issuer accountability in loan portfolio defaults in Government National Mortgage Association mortgage-backed securities program

*Chapter 1*

# HUD's Single-Family Housing Programs



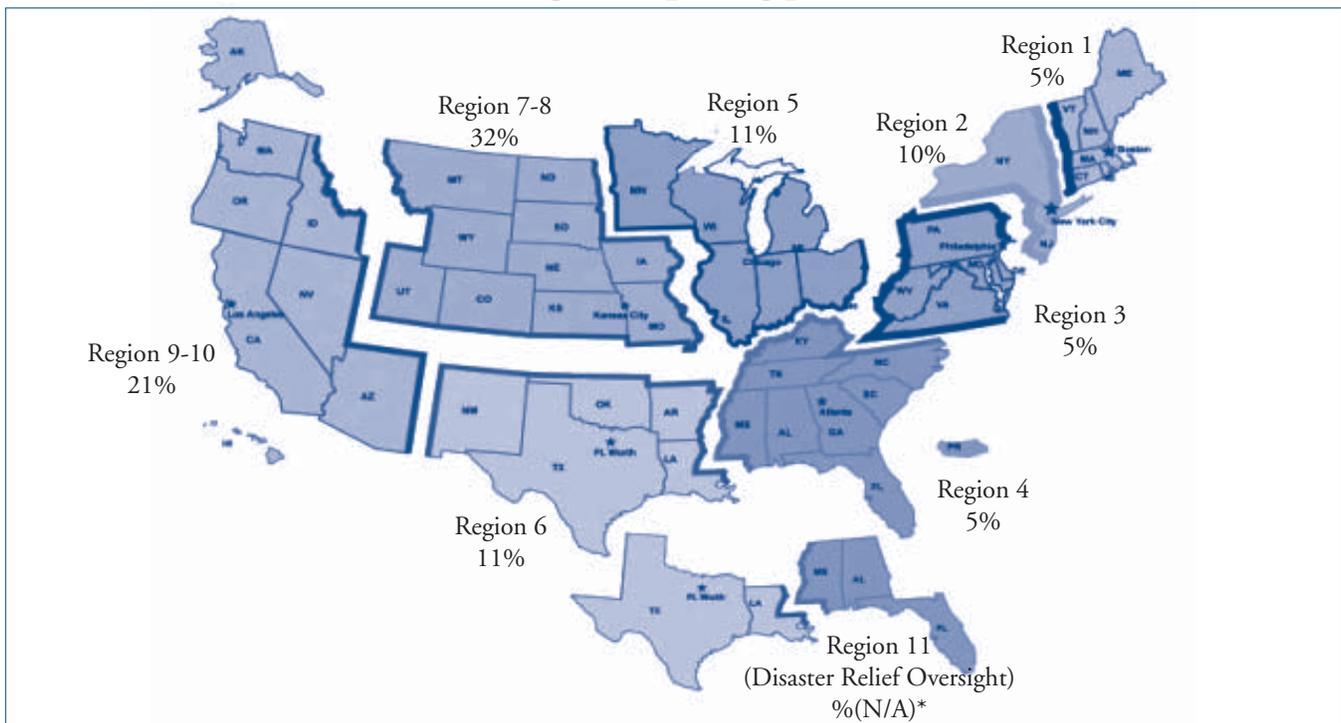
The Federal Housing Administration’s (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, or construct homes. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted numerous outreach efforts (see chapter 7, page 120).

## Audits

### Strategic Initiative 1: Contribute to the reduction of fraud in single-family insurance programs

Key program results		Questioned costs	Funds put to better use
Audit	20 audits	\$1.5 million	\$2.9 million
Our focus	Page 9	- HUD's Office of Single Family Housing's control structure	
	Page 9	- HUD's appraiser review process	
	Page 9	- HUD's oversight of the home equity conversion mortgages program	
	Page 10	- HUD's oversight of the underwriting for Federal Housing Administration loans located in flood hazard areas	
	Page 11	- Mortgagees, loan correspondents, and direct endorsement lenders	
	Page 15	- Review of Government National Mortgage Association-approved issuer	

Chart 1.1: Percentage of OIG single-family housing audit reports during this reporting period



\* This does not include hurricane relief audits. See chapter 5 for these reviews.



## *HUD's Office of Single Family Housing's Control Structure*

The U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) audited HUD's Office of Single Family Housing (Single Family) to determine whether it had implemented an internal control structure in accordance with U.S. Government Accountability Office (GAO) internal control standards and HUD requirements.

Single Family had not fully implemented an internal control structure in accordance with GAO internal control standards and HUD requirements. Specifically, it did not (1) perform a formal, systematic annual risk assessment of its programs and administrative functions, (2) plan and conduct ongoing management control reviews or alternative management control reviews of its programs, (3) establish an overall strategy regarding its risk-based monitoring of program activities and participants, or (4) identify corrective actions required to improve its management controls in a timely manner.

OIG recommended that HUD ensure that Single Family fully implements an acceptable internal control structure by preparing and implementing effective written policies and procedures that comply with GAO internal control standards and HUD requirements. (Audit Report: **2008-KC-0006**)

## *HUD's Appraiser Review Process*

HUD OIG audited HUD's appraiser review process to determine whether homeownership centers' appraiser review procedures and HUD's oversight of the appraiser review process were adequate to identify and remedy deficiencies associated with an appraiser and to assess the overall effectiveness of the appraiser review process.

HUD's appraiser review process was not adequate to reliably and consistently identify and remedy deficiencies associated with an appraiser, and HUD did not maintain information necessary to assess the effectiveness of its review process. Each major phase of the appraiser review process contained problems such as inadequate or incomplete HUD guidance, weak quality controls over implementation of review procedures, and inconsistent application of rating standards and sanctioning timeframes.

OIG recommended that HUD develop and implement adequate oversight of and controls over the appraiser review process to address the weaknesses identified and ensure that it continuously evaluates the efficiency and effectiveness of the process. (Audit Report: **2008-LA-0003**)

## *HUD's Oversight of the Home Equity Conversion Mortgages Program*

HUD OIG audited HUD's oversight of the Federal Housing Administration (FHA)-insured home equity conversion mortgages (HECM) program to assess elements of HUD's oversight of the program, focusing on lender notification of borrower deaths and payment of debenture interest.

HUD did not ensure that FHA lenders reported borrowers' deaths in accordance with Federal requirements. For the 31 loans reviewed, HUD's contractor failed to provide documentation to support that FHA lenders notified HUD of borrowers' deaths in writing. Further, the lenders failed to notify the contractor of borrowers' deaths for 11 of the loans and for 13 loans did not report in a timely manner the dates of borrowers' deaths. HUD also failed to pay debenture interest on HECM loans. For 13 of the 30 loans on



which HUD paid claims during the period March 1, 2006, through February 29, 2008, it did not pay debenture interest to the lenders in accordance with Federal requirements.

As a result, HUD could not be assured that FHA lenders appropriately met HUD's time requirements for initiating the foreclosure process or for recording the deeds-in-lieu to take possession of the property, which impacts the amount of the lenders' insurance claims. Additionally, as a result of HUD's failure to pay lenders debenture interest on HECM loans from the loans' due date to the claim payment date, it owes lenders debenture interest on these loans.

OIG recommended that HUD improve its existing procedures and controls to ensure that lenders follow its requirements for servicing HECM loans and implement adequate procedures and controls to ensure that it complies with Federal requirements in the administration of the HECM program, including the proper payment of claims, and curtail interest payments to the appropriate lenders for the loans identified that HUD determines failed to meet all of its time requirements. (Audit Report: 2008-CH-0001)

### *HUD's Oversight of the Underwriting for FHA Loans Located in Flood Hazard Areas*

HUD OIG audited HUD's oversight of the underwriting of FHA-insured loans for new construction properties located in the Federal Emergency Management Agency's (FEMA) designated special flood hazard areas to determine whether HUD had adequate oversight of the underwriting of the loans.

HUD did not always ensure that FHA-approved lenders complied with Federal requirements when they submitted 399 loans, totaling more than \$55 million in original mortgage amounts, to HUD for insurance endorsement. The loans were to finance the purchase of newly constructed properties located in FEMA's designated special flood hazard areas. However, the lenders failed to provide evidence of a letter of map revision/amendment or flood elevation certificate when the loans were submitted to HUD for insurance endorsement. For 195 loans, totaling nearly \$27 million in original mortgage amounts, the lenders did not ensure that borrowers' escrow accounts included payments for flood insurance at the time the loans closed. HUD also did not ensure that lenders servicing FHA-insured loans for 163 properties, totaling nearly \$22 million in original mortgage amounts, kept apprised of whether borrowers maintained required flood insurance. In addition, 30 FHA lenders incorrectly certified to the integrity of the data supporting the underwriting deficiencies and that the loans were eligible for HUD mortgage insurance for 242 loans.

As a result, HUD inappropriately approved loans for FHA mortgage insurance, and the lenders' failure to ensure that borrowers maintained flood insurance throughout the life of the loans could pose a significant risk in the event of a natural flood disaster.

We recommended that HUD (1) seek appropriate administrative action for the active loans if the lenders cannot provide documentation to show that the properties are not located in FEMA's designated special flood hazard areas or the required elevation certification showing that the properties meet elevation requirements and are covered by flood insurance, (2) require the applicable lenders to reimburse HUD for any future losses from claims paid if they cannot provide the required documentation, (3) require the lenders for the loans lacking flood insurance to provide evidence showing that the properties have flood insurance or are no longer located in FEMA's designated special flood hazard areas or seek appropriate administrative action, (4) and improve existing procedures and controls to ensure that lenders follow HUD's underwriting requirements for new construction properties located in FEMA's designated special flood hazard areas. These improved

procedures and controls should result in a potential savings to the FHA insurance fund of nearly \$261,000 over the next year. We also recommended that HUD determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act (PFCRA) against the lenders with incorrect certifications. (Audit Report: 2008-CH-0002)

### *Mortgagees, Loan Correspondents, and Direct Endorsement Lenders*

Audits to uncover single-family lenders and loan origination abuses continued to be a priority during this semiannual period. Lenders are targeted for audit through the use of data mining techniques, along with prioritizing audit requests from outside sources. During this period, HUD OIG reviewed 14 FHA single-family mortgage lenders. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the mortgage lender complied with HUD's regulations, procedures, and instructions for the underwriting of FHA loans and whether the mortgage lender's quality assurance plan met HUD's requirements. The following section illustrates the audits conducted in the single-family mortgage lender area.



HUD OIG audited Heartland Funding Corporation in **Springfield, MO**, and found that Heartland Funding violated the Real Estate Settlement Procedures Act (RESPA) and HUD requirements when processing FHA loans that involved downpayment assistance. In addition, it did not follow HUD requirements when it underwrote 27 FHA loans, implemented its quality control plan, or reported staff compensation.

OIG recommended that HUD (1) take appropriate sanctions against Heartland Funding for violating RESPA, (2) refer it to HUD's Mortgagee Review Board for review and appropriate actions, (3) require it to indemnify HUD on 27 loans for which it did not follow HUD underwriting requirements, and (4) verify that it fully implements a quality control program that complies with HUD requirements and has ceased improperly reporting staff compensation. (Audit Report: 2008-KC-1006)



HUD OIG audited Mortgage Access Corporation in **Morris Plains, NJ**, doing business as Weichert Financial Services, and found that Mortgage Access Corporation did not always comply with HUD regulations. Seven loans exhibited significant underwriting deficiencies such as inadequate credit analysis, inadequate verification of funds to close, minimum cash investment not met, and inadequate verification of income/employment. As a result, loans were approved for potentially ineligible borrowers, which caused FHA to incur an unnecessary insurance risk. In addition, one of these seven loans was approved for a property that was not eligible for FHA insurance. Mortgage Access Corporation also failed to ensure that its quality control plan was implemented in accordance with HUD's requirements. Consequently, the effectiveness of the plan, which was designed to ensure accuracy, validity, and completeness in its loan underwriting process, was lessened.

OIG recommended that HUD require Mortgage Access Corporation to reimburse it for one ineligible loan, indemnify it against future losses on six loans with significant underwriting deficiencies, and implement procedures to ensure compliance with HUD's and its own quality control requirements. (Audit Report: 2008-NY-1005)



HUD OIG audited the Wells Fargo Bank NA, **Rochester, NY**, Branch Office, a national bank and supervised lender, and found that Wells Fargo did not always comply with HUD underwriting requirements. Consequently, 16 of the 20 loans reviewed exhibited significant underwriting deficiencies such as minimum cash investment not met, inaccurate calculation of income, inadequate verification of debt, inadequate review of appraisals, and overinsured loans. In addition, 8 of the 16 loans contained origination deficiencies, such as inadequate gift fund verification, inadequate assets available to close, questionable clear title to the property, ineligible prior mortgage late payments, inadequate compensating factors, and various borrower credit issues. As a result, mortgage loans were approved for potentially ineligible borrowers, causing the FHA insurance fund to assume an unnecessary insurance risk. Wells Fargo also failed to ensure that its quality control plan was properly implemented in accordance with HUD's and its own quality control requirements.

OIG recommended that HUD (1) require Wells Fargo to reimburse HUD for the loss incurred on one loan with significant underwriting deficiencies, (2) indemnify HUD against future losses on 15 active loans with significant underwriting deficiencies, (3) establish procedures to ensure that HUD underwriting requirements are properly implemented and documented, and (4) implement procedures to ensure compliance with HUD's and its own quality control requirements. (Audit Report: **2008-NY-1010**)



HUD OIG reviewed 23 FHA loans underwritten by Peoples Bank of **Overland Park, KS**, and found that Peoples Bank did not follow HUD's requirements when underwriting nine FHA loans. In addition, its quality control program did not comply with HUD's requirements.

OIG recommended that HUD (1) require Peoples Bank to indemnify HUD for eight actively insured loans and reimburse HUD for one loan for which HUD incurred losses when it sold the property, (2) verify that Peoples Bank has implemented an adequate supervisory structure and adequately trained its underwriters regarding HUD requirements for FHA loans, and (3) ensure that Peoples Bank implements a quality control program that meets HUD requirements. (Audit Report: **2008-KC-1004**)



HUD OIG audited the **Newark, DE**, branch office of Wells Fargo Home Mortgage, which is mainly responsible for underwriting loans for 22 Wells Fargo sales branch offices in Pennsylvania. OIG found that the Wells Fargo branch office did not always comply with HUD requirements in the origination of FHA-insured single-family loans. Although it generally complied with HUD requirements in its quality control reviews of FHA loans, four of eight loans reviewed were not originated in accordance with HUD requirements. As a result, the FHA insurance fund was exposed to an unnecessarily increased risk.

OIG recommended that HUD require Wells Fargo to indemnify more than \$816,000 for four loans, which it issued contrary to HUD's loan origination requirements, and enforce its policies, procedures, and controls to ensure that its staff consistently follows HUD's requirements. (Audit Report: **2008-PH-1011**)



HUD OIG audited A Plus Mortgage, Inc., **Tukwila, WA**, and found that A Plus disregarded FHA requirements and provisions of RESPA and engaged in deceptive lending practices. Although it informed borrowers that they could receive a lower interest rate on their loans by paying up-front points and fees, A Plus charged loan discount fees to borrowers without reducing interest rates on the mortgages. This practice

allowed A Plus to generate high-rate loans for which its sponsor lenders paid it a yield spread premium when the loans closed escrow. As a result, borrowers paid excessive interest and fees for which they received no associated benefit. In addition, all 28 FHA-insured A Plus loans reviewed were originated by independent contractors, unapproved branches, or other non-FHA-approved mortgage broker firms.

OIG recommended that HUD require A Plus to (1) return unearned and excess yield spread premiums, loan discount fees, and other fees, totaling more than \$153,000, to the borrowers; (2) review and analyze all other FHA-insured loans generated by A Plus with loan discount points when no interest rate reduction occurred, report the results to the Mortgagee Review Board, and issue refunds to the borrowers; (3) discontinue charging loan discount fees when it receives yield spread premiums on a loan; (4) cease changing the names of fees from the initial disclosure to the final HUD-1 settlement statement; (5) instruct its loan officers to ensure that the borrowers clearly understand the nature of all charges associated with their loans; (6) return all loan origination fees, totaling more than \$32,000, to the borrowers on all loans that were originated by third-party independent contractors; (7) only submit loans for FHA insurance that were originated by A Plus employees; and (8) register all of its branch offices with FHA. (Audit Report: 2008-SE-1004)



HUD OIG audited Meridian Lending, Inc., **Monroe, GA**, an FHA-approved direct endorsement lender, and found that Meridian did not follow HUD requirements in originating two of the eight FHA-insured loans reviewed. As a result, it placed HUD's insurance fund at risk for nearly \$272,000. In addition, Meridian did not review its early defaulting loans. As a result, the lender adversely impacted the goals of HUD's quality control program, which is designed to protect the lender and HUD from unacceptable risk.

OIG recommended that HUD require Meridian to (1) indemnify HUD for the potential loss on the loan with a significant deficiency and reimburse HUD for the claim loss on the other loan and (2) conduct its quality reviews in a timely manner and review all early defaulting loans as required by HUD regulations. (Audit Report: 2008-AT-1010)



HUD OIG audited the **Milford, CT**, branch office of Countrywide Bank, FSB, a supervised national bank approved by HUD to originate, underwrite, and service FHA single-family insured loans. OIG expanded the audit to cover the **Madison, CT**, branch office, which used the same FHA identification number. OIG found that Countrywide's quality control plan and implementation were adequate. However, the lender did not fully comply with HUD regulations, procedures, and instructions in the origination of FHA-insured single-family mortgages. Specifically, Countrywide allowed some borrowers, using secondary financing from an agency acting as an instrumentality of government, to incorrectly receive cash back at closing in excess of their total cash deposit totaling nearly \$6,000. It also did not properly notify HUD upon the sale and/or transfer of FHA-insured loans.

OIG recommended that HUD require Countrywide to (1) pay down the principal for the five overinsured loans and implement controls to prevent cash back when secondary financing is used and (2) update its mortgages records in HUD's system to reflect the appropriate mortgage holder and implement procedures to ensure the timely submission of mortgage record changes for future loans assigned or sold. (Audit Report: 2008-BO-1007)



HUD OIG audited the mortgage origination and business practices of First Magnus Financial Corporation's corporate office in **Tucson, AZ**, and found that First Magnus violated RESPA when it paid quality incentives, also known as volume-based incentives, to brokers for originating and processing FHA mortgages. As a result, it paid brokers nearly \$59,000 in quality incentives to originate and process 169 FHA mortgages totaling more than \$24 million.

OIG recommended that HUD (1) require First Magnus to ensure that the practice of issuing incentive payments to brokers for originating and processing FHA mortgages is discontinued, (2) remove First Magnus' active status and approval to perform FHA business, and (3) pursue administrative actions against the principal owners and management of First Magnus for allowing the improper practice of issuing incentive payments to brokers for originating and processing FHA mortgages. (Audit Report: **2008-LA-1013**)



HUD OIG audited the mortgage origination and business practices of the First Magnus Financial Corporation corporate office in **Tucson, AZ**, and found that First Magnus violated RESPA when it paid for the referral of FHA mortgage business. As a result, it paid building and real estate companies more than \$32,000 in marketing fees and noncompetition fees in exchange for the exclusive referral of 236 FHA-insured mortgages totaling more than \$30 million.

OIG recommended that HUD (1) require First Magnus, for any current or future FHA mortgage operations for which it may exercise management control, to ensure that the practice of paying marketing fees and noncompetition fees to real estate companies and builders for referrals of FHA mortgages is discontinued; (2) remove First Magnus' active status and approval to perform FHA business; and (3) pursue administrative actions against the principal owners and management of First Magnus for allowing the improper practice of paying marketing fees and noncompetition fees to real estate companies and builders in exchange for referrals of FHA mortgage business. (Audit Report: **2008-LA-1014**)



HUD OIG audited First National Bank of **Gillette, WY**, an FHA-approved direct endorsement lender, and found that First National Bank did not follow HUD regulations when originating and underwriting 18 FHA loans. In addition, it did not have a written quality control plan, and its third-party contractor, who performed the quality control reviews, did not perform all reviews in accordance with HUD requirements.

OIG recommended that HUD require that First National Bank bring its procedures for the origination and underwriting of insured loans into full compliance with HUD regulations and to develop and implement a written quality control plan. (Audit Report: **2008-DE-1004**)



HUD OIG audited Wells Fargo Mortgage, **Minneapolis, MN**, and found that Wells Fargo generally complied with HUD's reverse mortgage requirements. However, 3 of the 47 loans reviewed did not meet HUD's requirements. Wells Fargo originated one ineligible loan totaling more than \$86,000 for a home that was not the borrower's primary residence, one loan for nearly \$149,000 for a home that the borrower no longer occupied, and one loan for which the list of required repairs was not detailed enough to determine requirements. In addition, for the loan to the borrower who no longer occupied the home, the borrower did not complete repairs in an acceptable manner.

OIG recommended that HUD cancel the mortgage insurance on one loan, require Wells Fargo to complete foreclosure proceedings for one loan, and ensure that inspectors list repairs in sufficient detail to determine what repairs were required and ensure that the repairs are satisfactorily completed. (Audit Report: 2008-FW-1013)



HUD OIG reviewed Senior Reverse Mortgage Services, Incorporated, **Bedford, TX**, a HECM originator. Generally, the originator complied with HUD regulations when it originated HECM loans. However, it could have improved its service by consistently following requirements to (1) adequately disclose the financial aspects of the loans to borrowers, (2) counsel the borrowers on other available financing options, and (3) complete documents. Because the originator did not consistently follow these procedures, borrowers may not have been fully aware of the financial implications of the loans.

OIG recommended that HUD require the originator to implement procedures to ensure that it (1) provides at least two assumptions for at least two loan terms and two appreciation rates to borrowers, (2) provides a list of eligible counselors to the borrowers so that they can select their counselor, and (3) completes all loan documents. (Audit Report: 2008-FW-1010)



HUD OIG reviewed the quality control program of James B. Nutter and Company, **Kansas City, MO**, and found that for 6 months in 2007 and 2008, J.B. Nutter did not meet HUD's or its own quality control requirements regarding the number of loans to review.

OIG recommended that HUD ensure that J.B. Nutter follows HUD requirements regarding the minimum number of endorsed loans to be reviewed for quality control purposes. (Audit Report: 2008-KC-1005)

### *Review of Government National Mortgage Association-Approved Issuer*

HUD OIG audited Doral Bank Puerto Rico, **San Juan, PR**, an approved issuer for the Government National Mortgage Association (Ginnie Mae), to determine whether Doral complied with Ginnie Mae requirements associated with its mortgage-backed securities activities.

Doral did not fully comply with Ginnie Mae requirements because it maintained seven noninsured loans in Ginnie Mae pools. It also failed to ensure that data on its pooled loans were accurate. As a result, it retained defective loans with unpaid principal totaling more than \$448,000 in its Ginnie Mae pools and reported inaccurate information to Ginnie Mae and HUD.

OIG recommended that Ginnie Mae (1) require Doral to take corrective measures to ensure that the defective loans identified during the review are reinsured or removed from the Ginnie Mae pools and that the loans reflect complete and accurate mortgage information and (2) ensure that Doral establishes and implements adequate controls and procedures to periodically verify that all of its Ginnie Mae pooled loans are insured in accordance with Ginnie Mae requirements. (Audit Report: 2008-AT-1014)



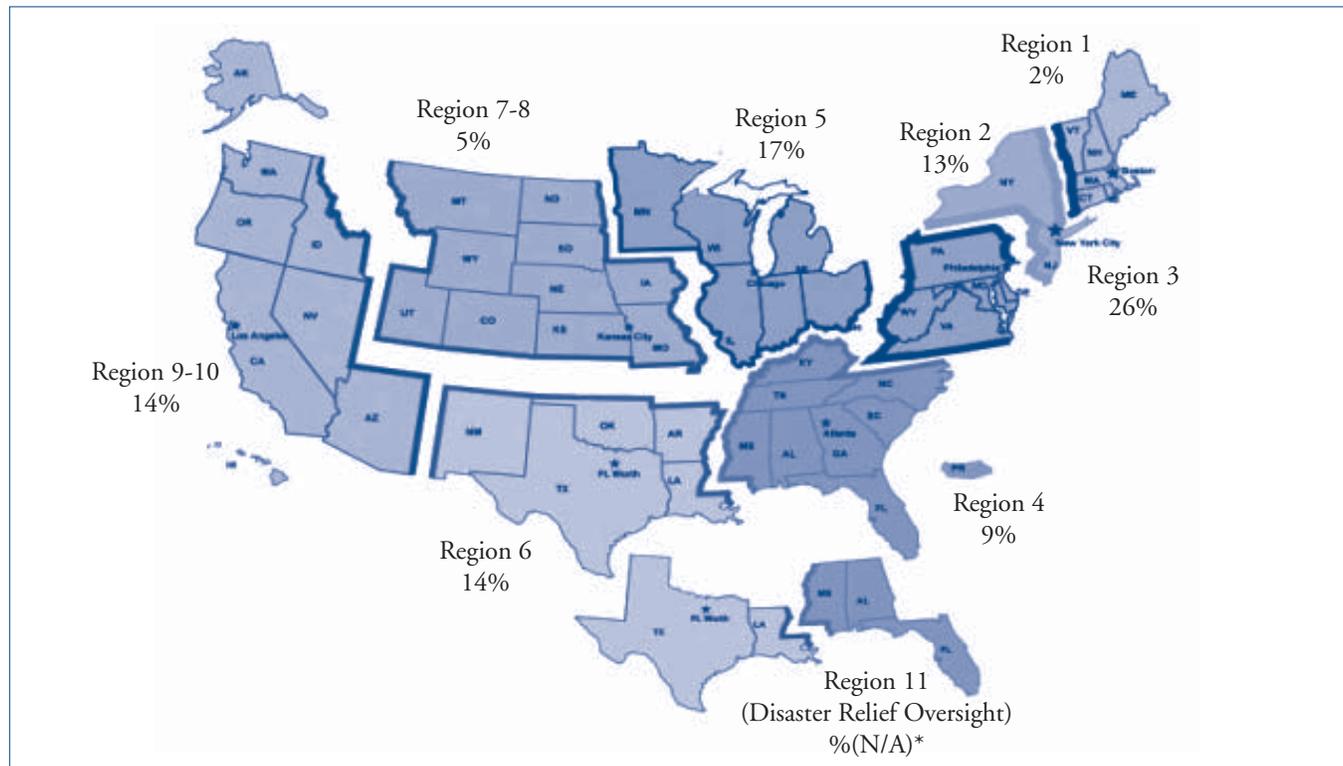
# Investigations

Some investigations discussed in this report were generated from leads provided by HUD single-family housing program staff or conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

## Strategic Initiative 1: Contribute to the reduction of fraud in single-family insurance programs

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	99	\$37,843,857	106	119
Our focus	Page 17	- Loan origination fraud		
	Page 21	- Identity fraud and false Social Security numbers		
	Page 22	- Civil and administrative actions		
	Page 24	- Other single-family fraud		

Chart 1.2: Percentage of OIG single-family housing closed investigation cases during this reporting period



\* This does not include hurricane relief cases. See chapter 5 for these cases.

## Loan Origination Fraud

Clifford Shaw, the owner of Shaw Properties, was sentenced in U.S. District Court, **Jacksonville, FL**, to 3 years incarceration (time served), 10 months home detention, and 3 years supervised release and ordered to pay restitution not yet determined and a \$30,000 fine for his earlier guilty plea to making false statements to HUD and conspiracy to commit bank and wire fraud. Shaw purchased, rehabilitated, and resold HUD real estate-owned properties and provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$2.9 million after 87 mortgages defaulted.



Gerald Carti, a former loan officer and an owner of US Mortgage Corporation; Amer Mir, a loan officer for United Home Mortgage Company; Frederick Ugwu, a controller for 253 East 33rd Street, LLC; and Renford Davis, a property manager for Renhops Management, LLC, were each arrested after their indictments in U.S. District Court, **Newark, NJ**, for allegedly committing wire fraud, money laundering, and conspiracy to commit wire fraud and money laundering. In addition, Maurice Bethea, the owner of Blu Financial Group, Inc., Urban Upliftment, Born Asiatic, and Greenfield Assets Holdings, and real estate brokers Norma, Maristane, and Mara Silva each pled guilty to committing mail fraud or conspiracy to commit mail fraud. The above defendants and others allegedly inflated home values through bogus appraisals, fabricated borrower deposit amounts, and caused the falsification of loan documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD realized losses of about \$2.3 million after 30 mortgages defaulted.



James Boyle, a former loan officer for RBC Mortgage; Marie Caltagerone, owner of Caltagerone Accounting; and Ray Talan, a former realtor for Remax Realty, were collectively sentenced in U.S. District Court, **Rockford, IL**, to 15 months incarceration, 8 months home confinement, and 11 years probation and ordered to pay HUD \$145,289 and other lenders \$84,905 in restitution for their earlier guilty pleas to committing conspiracy or mail fraud. Boyle, Caltagerone, Talan, and others created and provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$2 million after more than 50 mortgages defaulted.



Trudy Peters, a former escrow officer for Ticor Title Company; John Soto and Larry Smith, former service representatives for Wells Fargo Home Mortgage; Maria Felix, a Sahara Investments employee; and Tony Vasquez, a HUD-certified housing counselor for Chicanos Por La Causa, were collectively sentenced in U.S. District Court, **Phoenix, AZ**, to 120 days home confinement and 15 years probation and fined \$17,500 for their earlier guilty

### Real estate agent gets 15 months for wire fraud

ROCKFORD — Rockford real estate agent Raymond Talan was sentenced to 15 months in federal prison without parole Thursday on a count of wire fraud as part of a mortgage scam investigation.

According to the U.S. Department of Justice, Talan admitted that from June 2002 to March 2004 he conducted a scheme to defraud both the Department of Housing and Urban Development and commercial lenders by causing unqualified borrowers to receive both conventional and federally insured loans. Specifically, he misrepresented the amount of income the borrowers were earning and provided other false information to convince the lenders to give money to unqualified borrowers.

In addition to his prison sentence, Talan was ordered to pay \$162,526 in restitution to HUD and private lenders who were defrauded.

Talan was charged in a 10-count indictment in July and pleaded guilty in February.

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pleas to submitting false statements to HUD. The above defendants and previously convicted Edward Carrillo, the owner of Sahara Investments, submitted fraudulent appraisals and housing counseling certifications and concealed mortgage loans encumbering properties sold through the HUD preforeclosure program. In addition, Wells Fargo Bank and Ticor Title Agency of Arizona each entered into civil settlements and agreed to collectively pay HUD and the U.S. Department of Justice more than \$4.3 million. HUD realized losses in excess of \$2.1 million after 70 fraudulent claims for FHA-insurance benefits were submitted and paid.



LaDonna Mullins, the owner of LaDonna's Realty, and Linda Edwards, a real estate agent for Affable Realty, were each convicted in U.S. District Court, **Denver, CO**, of making false statements, providing false Social Security numbers (SSN), or committing wire fraud. In addition, Emmitt Cotton, a former loan officer for Mid-America Mortgage, Fast Trac Mortgage, and Mortgage Executives, was ordered to pay a \$1,000 fine for his earlier guilty plea to making false statements to HUD and aiding and abetting. Mullins, Edwards, Cotton, and others submitted or caused the submission of fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of about \$1.25 million after 25 mortgages defaulted.



Tracey Rangell, an assistant escrow officer for Benefit Escrow, was sentenced in U.S. District Court, **Los Angeles, CA**, to 6 months home detention and 36 months probation and ordered to pay HUD \$972,162 in restitution for her earlier guilty plea to making false statements and conspiracy. Rangell and others provided fraudulent information and falsified downpayment funds used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$972,162 after 21 mortgages defaulted.



Wendy Barker, a Dallas County Community College computer instructor; Gloria Matlock and Latona Bates, former loan officers for Supreme Lending; and Marlena Plesa-Pfeffer, a former real estate agent for Compass Real Estate, were collectively sentenced in U.S. District Court, **Dallas, TX**, to 86 months incarceration and 9 years supervised release and ordered to pay HUD more than \$1.3 million in restitution for their earlier guilty pleas to conspiracy to make false statements to a Federal agency. From March 2002 through September 2007, the above defendants and others electronically altered or created fraudulent income, employment, and other loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$666,085 after 17 mortgages defaulted.



## 2 agents guilty in mortgage fraud case

**Indicted along with others in 2005, the women could get five-year sentences.**

**By Tom McGhee**  
*The Denver Post*

A Denver jury has convicted a pair of real-estate agents of falsifying documents to qualify borrowers who couldn't otherwise get a mortgage.

LaDonna Mullins, 73, of Denver and Linda Edwards, 55, of Centennial were convicted of wire fraud, making false statements, false use of a Social Security number and other charges Friday in U.S. District Court in Denver.

Mullins did business as LaDonna's Realty and Management in Denver. Edwards worked out of Affable Realty in Aurora.

The two were originally indicted along with others in 2005.

"Everybody else in the indictment has pled guilty at some time or other, and these were the last two holdouts," Jeff Dorschner, a spokesman with the U.S. Attorney's Office in Denver, said Monday in a news release.

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Arvin Weiss, a real estate broker and president of Reserve Capital Funds (Reserve), was convicted in U.S. District Court, **Denver, CO**, of committing mail and wire fraud and witness tampering. In addition, Jesus Guevara, a real estate sales assistant for Reserve, pled guilty to committing mail and wire fraud and tampering with a witness. From June 1998 to February 2002, Weiss, Guevara, and others submitted fraudulent loan documents and provided downpayment funds used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of about \$852,000 after 18 mortgages defaulted.



David Paul, the president of DCP Investments Properties, LLC, and Diane Flannery, a former loan officer for Source Mortgage Company, each pled guilty in U.S. District Court, **Reading, PA**, to committing mail fraud and aiding and abetting. Paul provided fraudulent loan documents and downpayment funds used by unqualified borrowers to obtain FHA-insured mortgages, and Flannery originated FHA-insured mortgages for the unqualified borrowers knowing that Paul had provided the fraudulent loan documents and downpayment assistance. HUD realized losses of about \$280,000 after six mortgages defaulted.



Alberto Hernandez, the president of ASH Homes Investment Corporation, and his silent partner, John Fraga, were each indicted in U.S. District Court, **Miami, FL**, for allegedly making false statements and committing conspiracy and wire and mail fraud. Hernandez allegedly sold his properties and provided downpayment assistance or gift funds used by unqualified borrowers to obtain FHA-insured mortgages. Fraga and others allegedly converted the downpayment or gift funds provided by Hernandez into the financial instruments used by the unqualified borrowers. In addition, Fraga allegedly obtained an FHA-insured mortgage on a property that he purchased from Hernandez as an investment. HUD realized losses of \$232,060 after four mortgages defaulted.



FHA-insured mortgagor Heather Etuk pled guilty in Colorado District Court, **Denver, CO**, to committing forgery, and ABK Mortgage loan processor Jennifer Wolsey was sentenced to 8 years probation and ordered to perform 200 hours of community service for her earlier guilty plea to committing computer crimes involving mortgage fraud. In addition, Uto Essien, owner of Essien & Co. Realty, Ltd.; Scott Hinkley, a loan officer for ABK Mortgage; Etuk; Wolsey; and previously indicted FHA-insured mortgagor Idara Ekiko were each suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment actions. Essien, Hinkley, and Ekiko allegedly and Etuk and Wolsey admittedly provided fraudulent loan applications for themselves or other unqualified borrowers to obtain conventional and FHA-insured mortgages. HUD realized losses of \$153,814 after three FHA-insured mortgages defaulted.



**Real estate agent convicted of fraud.** Real estate agent Arvin Weiss of Englewood was found guilty last week of 16 counts of mortgage fraud and witness tampering.

From June 1998 through January 2002, Weiss devised a scheme to fraudulently obtain money and property from mortgage companies that funded federally insured loans.

Weiss, 58, acquired numerous single-family residences in metro Denver at low prices. Within a few months and after some improvements, he resold the properties at substantially higher prices to unsophisticated, low-income buyers. He targeted Latinos who knew little or no English.

The verdict came after a 13-day trial before Senior U.S. District Judge Lewis Babcock. Weiss is free on bond.

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Rene Ibarra, a real estate agent for Coldwell Banker, was sentenced in U.S. District Court, **Los Angeles, CA**, to 8 months home detention and 2 years probation and ordered to pay victims not yet identified \$175,287 in restitution for his earlier guilty plea to making false statements and committing conspiracy. Ibarra and others provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$128,496 after three mortgages defaulted.



Wander Colon was sentenced in U.S. District Court, **Memphis, TN**, to 1 year probation for his earlier guilty plea to making a false statement. Colon submitted fraudulent income and employment information to obtain an FHA-insured mortgage. HUD realized a loss of \$100,000 after his mortgage defaulted.



Felix Guzman, Sr., and Felix Guzman, Jr., former real estate agents for AVI Realty; Walter Guzman and Rodney Rhode, former loan officers for Dynasty Mortgage; Mary Vasquez, an escrow officer for Camelback Title; Andrew Benjamin and Christopher Pirwitz, the owner of and a loan officer for Family Home Lending; Carl Olson, the owner of Management Concepts; and home buyers Ana Valdez and Maria Guzman were each indicted in U.S. District Court, **Phoenix, AZ**, for allegedly committing wire fraud, conspiracy, money laundering, and aiding and abetting. The above defendants and others allegedly conspired and arranged 23 property sales at inflated values, obtained more than \$2 million in kickbacks without lender knowledge, falsified HUD settlement statements, and violated RESPA.

# Big Ariz. mortgage-fraud bust

36 in state among 406 indicted as part of U.S. crackdown

**By Catherine Reagor**  
THE ARIZONA REPUBLIC

Thirty-six people suspected of being responsible for \$100 million in illegal home loans have been indicted in the biggest crackdown on mortgage fraud in Arizona. Most of the defendants were involved in the Valley's real-estate and mortgage industries. All were part of six mortgage-fraud rings in metropolitan Phoenix, some of which have been under investigation since early 2007, according to the indictment. Federal, state and local agencies busted the rings through Operation Cash Back, part of a national mortgage-fraud investigation that involved 406 indictments and 144 cases. The FBI estimated the schemes resulted in more than \$1 billion in losses to lenders, homeowners and borrowers. As part of the national crackdown, called Operation Malicious Mortgage, two former Bear Stearns managers in New York were indicted on securities and wire-fraud charges. U.S. Attorney for Arizona Diane Humetewa said federal charges against those indicted in Arizona include money laundering; wire, bank and mail fraud; and conspiracy. Many of the charges are punishable by up to 30 years in prison and \$1 million in fines. Most of the six Arizona cases

**Key players**  
Two Bear Stearns managers are arrested on suspicion of conspiracy and fraud, the first criminal charges to arise from Wall Street's subprime mortgage debacle. **Business, D1**

See **INDICTMENTS** Page A16

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Dan Cimino, Ursula Gallucci, and Lisa Planche, current or former notary publics, were each charged in Adams County District Court, **Brighton, CO**, with official misconduct by a notary public or false reporting to authorities. Cimino and Gallucci allegedly notarized FHA-insured loan documents without witnessing the borrower's signatures, and Planche allegedly provided authorities false information relating to documents she notarized. HUD realized a loss of \$81,626 after one mortgage defaulted.



Willie Brown was sentenced in U.S. District Court, **Norfolk, VA**, to 4 months home detention and 3 years probation and ordered to pay HUD \$69,048 in restitution for his earlier guilty plea to committing mail fraud. Brown provided fraudulent information and loan documents used by an unqualified borrower to obtain an FHA-insured mortgage. HUD realized a loss of about \$80,000 after the mortgage defaulted.



FHA-insured mortgagor Leonel Miramontes Armendariz was sentenced in Adams County District Court, **Brighton, CO**, to 24 months probation for his earlier guilty plea to offering a false instrument for recording. Armendariz provided fraudulent loan documents to obtain and later defaulted on an FHA-insured mortgage. HUD realized a loss of \$59,736 after his mortgage defaulted.



Wayne Puff, the former owner of the now-defunct N.J. Affordable Homes (Affordable Homes), was arrested and charged in U.S. District Court, **Newark, NJ**, with an alleged conspiracy to commit mail fraud. In addition, Sydney Raposo, a former paralegal involved with real estate closings, pled guilty to making false statements to HUD. Puff and others allegedly and Raposo admittedly provided false information to lure investors or submitted fraudulent appraisals and other loan documents used by unqualified borrowers to obtain FHA-insured and conventional mortgages. HUD losses are not yet determined.

### *Identity Fraud and False Social Security Numbers*

Sonia, Doris, and Sylvia Toledo, former loan officers for Building and Loan Mortgage Company, were collectively sentenced in Johnson County District Court, **Olathe, KS**, to 24 months incarceration (16 months suspended) and 60 months probation, fined \$75,000, and ordered to surrender their mortgage broker or real estate licenses for their earlier guilty pleas to committing computer crimes or making false writings. From 2002 to 2005, the Toledos and others assisted undocumented immigrants who used false SSNs to obtain approximately \$5 million in FHA-insured mortgages. HUD realized losses of \$680,581 after 13 mortgages defaulted.



Asifali Mahomed, a real estate broker formerly doing business as Luxor Real Estate Investment, was charged in U.S. District Court, **Fort Worth, TX**, with an alleged conspiracy to make false entries to HUD. Mahomed allegedly provided fraudulent SSNs, inflated financial information, and provided downpayment funds used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$412,083 after 12 mortgages defaulted.



Straw buyers John Prados and Caridad Paz each pled guilty in U.S. District Court, **Newark, NJ**, to conspiracy to defraud HUD and using a false SSN to obtain an FHA-insured loan. Prados, Paz, and others used or supplied fraudulent employment, identity, and other loan documents for themselves or other unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses in excess of \$349,000 after 12 mortgages defaulted.



Seven FHA-insured borrowers were each indicted in Dallas County District Court, **Dallas, TX**, for allegedly securing execution of documents by deception. In addition, Alfredo and Judith De La Garza, Pascual Melendez Perez, and Salvador Fuerte were each sentenced to 2 years probation and collectively fined \$2,490 for their earlier guilty pleas to securing execution of documents by deception. The seven defendants allegedly and the remaining defendants admittedly used false SSNs and fraudulent loan documents to obtain and later defaulted on FHA-insured mortgages. HUD realized losses of \$217,281 after eight mortgages defaulted.



Derrick and Sheila Lewis were each indicted in Suffolk Circuit Court, **Suffolk, VA**, for allegedly committing identity fraud and obtaining money by false pretenses. Derrick and Sheila Lewis allegedly used false identifications and financial documents to obtain and later defaulted on an FHA-insured mortgage. HUD losses are not yet determined.



Michael Banks, Jr., also known as Richard Jones, an investor doing business as RJ Construction, was indicted in U.S. District Court, **Los Angeles, CA**, for allegedly committing bank fraud and aiding and abetting. Banks allegedly used a false identification when he purchased and fraudulently resold HUD-owned properties.

### *Civil and Administrative Actions*

National City Mortgage, Inc. (National), a HUD direct endorsement lender, entered into a civil settlement filed in U.S. District Court, **Detroit, MI**, and agreed to pay HUD \$4.6 million. From May 2002 through April 2004, National violated FHA regulations when it allegedly endorsed and submitted FHA-insured mortgages for insurance benefits after the loans became delinquent. HUD realized losses in excess of \$2.1 million after 58 mortgages defaulted.



Dynamic Financial Consultants, Inc. (Dynamic Financial), located in **Newark, NJ**, entered into a PFCRA settlement and agreed to pay HUD \$25,000. Dynamic Financial allegedly certified FHA-insured loan packages that contained false documents and submitted false claims for FHA-insurance benefits after the borrowers defaulted. HUD realized losses in excess of \$1.8 million after 39 mortgages defaulted.



Andy Pena, an owner of Crossmark Mortgage located in **Los Angeles, CA**, entered into a PFCRA settlement and agreed to pay HUD \$32,500. Pena, previously sentenced for his earlier guilty plea to committing wire fraud, provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$474,264 after 12 mortgages defaulted.



Delia Cervantes, an unlicensed realtor in **Los Angeles, CA**, entered into a PFCRA settlement and agreed to pay HUD \$57,353. Cervantes, previously sentenced for her earlier guilty plea to committing wire fraud,

purchased and provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$421,843 after seven mortgages defaulted.



Denise Baskerville, an administrative assistant for M.T. Real Estate Development, Inc., who previously pled guilty to conspiracy to make false statements in U.S. District Court, **Newark, NJ**, was suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. Baskerville and others created and provided fraudulent loan documents used by unqualified borrowers to obtain FHA-insured mortgages. HUD realized losses of \$242,981 after 16 mortgages defaulted.



Irwin Mortgage, located in **Indianapolis, IN**, entered into a PFCRA settlement and agreed to pay HUD \$150,000. Irwin Mortgage allegedly certified six fraudulent FHA-insured loan packages and submitted false claims for FHA-insurance benefits after the borrowers defaulted. HUD realized losses of \$239,218 after five mortgages defaulted.



Dwayne Jones, a former loan officer for the now-defunct First Funding Mortgage Bankers (First Funding), who previously pled guilty to committing conspiracy to defraud HUD in U.S. District Court, **West Hempstead, NY**, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 3 years. Jones submitted false statements to HUD and Countrywide Home Loans (Countrywide) when he fraudulently flipped his personal property to a straw borrower who obtained an FHA-insured mortgage from First Funding. The flipped property sale provided Jones more than \$51,000 in sale proceeds as well as a short payoff for his original FHA-insured mortgage, also serviced by Countrywide. Countrywide was unaware that the Jones property was flipped for \$75,000 more than the stated purchase amount and submitted a claim to HUD for more than \$85,000.



Ark Mortgage, Inc. (Ark), located in **Newark, NJ**, entered into a PFCRA settlement and agreed to pay HUD \$39,756. Laura Barlow, a former underwriter at Ark Mortgage, who was sentenced and debarred after her guilty plea to committing conspiracy to provide false statements, allegedly approved unqualified borrowers for FHA-insured mortgages in exchange for compensation. The fraudulent loan packages were submitted for FHA-insurance benefits after the borrowers defaulted. HUD realized losses of \$76,123 after six mortgages defaulted.



Wells Fargo Bank (Wells Fargo) entered into a PFCRA settlement and agreed to pay HUD \$49,000. Wells Fargo acquired Crossland Mortgage (Crossland) located in **Buffalo, NY**, including a legal responsibility for Crossland's false certifications. Crossland allegedly certified an FHA-insured loan package that contained false documents and submitted a false claim for FHA-insurance benefits after the borrower defaulted.



Michael Massimini, a real estate broker and president of Mortgage Pros of Tampa and First Home Realty, and James Cosentino, an appraiser and owner of Equitable Appraisal, Inc., each entered into PFCRA, False Claims, and Contract Dispute Act civil settlements filed in U.S. District Court, **Tampa, FL**. Massimini agreed to pay HUD \$1,500 in damages, and Massimini and Cosentino each agreed to collectively pay the U.S. Department of Justice \$14,500 in civil penalties. Massimini allegedly brokered two owner-occupant mortgage loans on a HUD-owned property through Mortgage Pros of Tampa for Cosentino, knowing that Cosentino did not occupy the property as required.



Kenneth Germain, the chief executive officer for EQ Investments, was indicted in Denver County District Court, **Denver, CO**, for allegedly committing theft, securities fraud, and Colorado Organized Crime Control Act violations and was suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment actions. Germain allegedly obtained about 60 HUD-owned properties and resold the properties to investors but failed to manage the properties or pay mortgage loans as promised. HUD realized no losses.

### *Other Single-Family Fraud*

Aubrey Terbrack, the owner of Marathon Mortgage (Marathon), and Denise Money, a manager for Marathon, each pled guilty in U.S. District Court, **Detroit, MI**, to committing wire fraud. From July 1998 to October 2007, Terbrack and Money failed to report 2,041 terminated or satisfied loans to Ginnie Mae and then fraudulently used the funds obtained from the terminated or satisfied mortgages for personal stock investments or to continue payments on the loans. Ginnie Mae realized losses of about \$20 million.



Jamen Wood, a registered agent for BK Properties, LLC, pled guilty in U.S. District Court, **Salt Lake City, UT**, to committing equity skimming and mail fraud. From July 2002 through December 2004, Wood and others identified properties surrendered to bankruptcy courts in Utah, Colorado, Idaho, Arizona, Wyoming, Minnesota, North Carolina, and Washington; posed as bankruptcy court or financial institution representatives and secured quit claim deeds from the property owners; and rented the properties and collected rents but failed to remit mortgage loan payments and used the rents collected for personal expenses. HUD realized losses in excess of \$1.5 million after 52 FHA-insured properties defaulted.



Debra Molina, a San Bernardino County probation officer and HUD Good Neighbor Next Door (Good Neighbor) program participant, reimbursed HUD \$67,500, pled guilty in U.S. District Court, **Riverside, CA**, to making false statements, and was sentenced to 6 months home detention. Molina obtained a HUD-owned property and received a \$67,500 discount but failed to reside in her Good Neighbor property or report her nonresidency on HUD certifications.



Jason Lindsey, a former University of Kansas police officer and HUD Good Neighbor program participant, was charged in U.S. District Court, **Kansas City, MO**, with allegedly making false statements. Lindsey obtained a HUD-owned property and received a \$45,000 discount but allegedly failed to reside in the Good Neighbor property or report his nonresidency on HUD certifications.



Shannon Thelen, a teacher and HUD Good Neighbor program participant, was sentenced in U.S. District Court, **Grand Rapids, MI**, to 1 year probation and ordered to pay HUD \$31,250 for her earlier pretrial diversion agreement. Thelen obtained a HUD-owned property and received a \$31,250 discount but failed to reside in the Good Neighbor property or report her nonresidency on HUD certifications.



Eulalio Tordil, a U.S. Department of Homeland Security Federal Protective Service inspector and HUD Good Neighbor program participant in **Hyattsville, MD**, entered into a civil settlement and agreed to pay HUD \$15,900. Tordil obtained a HUD-owned property and received a \$26,500 discount but failed to reside in the Good Neighbor property or report his nonresidency on HUD certifications.



Arthur Canada, a teacher and HUD Officer/Teacher Next Door program participant, was charged in Oakland County Circuit Court, **Detroit, MI**, with allegedly committing false pretenses. Canada allegedly obtained HUD-owned property and received a \$12,150 discount but failed to reside in the property or report his nonresidency on HUD certifications.



Robert Brunt and Tracy Skullark, investors doing business as Genesis Investment Group, Inc.; Armani D'Aifallah, a loan officer for Evergreen Mortgage; John Farano, an attorney doing business as Big Dog Holdings; and appraisers Walter Jackson and Douglas Blanchard were each indicted in U.S. District Court, **Chicago, IL**, for allegedly committing mail and wire fraud. The above defendants allegedly recruited unqualified investors to purchase HUD-owned and other distressed properties and provided false loan documents and appraisals to complete the fraudulent real estate sales. HUD realized no losses.



Erica Davis-Wells was sentenced in U.S. District Court, **Chicago, IL**, to 9 months incarceration and 1 year probation and ordered to pay three conventional lenders \$440,517 in restitution for her earlier guilty plea to making false statements to HUD. Davis-Wells obtained a HUD-owned property but failed to reside in the property as required and resold the property to unqualified straw borrowers who obtained and later defaulted on conventional mortgages. HUD realized no losses.



Attorney Alan Mason was sentenced in U.S. District Court, **Worcester, MA**, to 9 years incarceration and 3 years probation and ordered to pay Stewart Title Guaranty Company more than \$6.6 million in restitution for

his earlier guilty plea to committing wire fraud and Federal income tax evasion. Mason failed to pay mortgage liens, including outstanding mortgages on three FHA-insured properties, and used the funds for personal expenditures. HUD realized no losses.



Lorraine Miller, a former mortgage broker for America's Mortgage Resource, pled guilty in U.S. District Court, **New Orleans, LA**, to submitting false documents. Miller provided false employment and financial documents used by unqualified borrowers to obtain conventional and FHA-insured mortgages. The fraudulent mortgages were later packaged and sold to Fannie Mae. HUD realized no losses.



Fabian and Anna Thorne, former loan officers for Prestige Mortgage, were collectively sentenced in U.S. District Court, **Richmond, VA**, to 42 months incarceration and 72 months supervised release and ordered to pay three FHA-insured homeowners and others \$592,228 in restitution for their earlier guilty pleas to conspiracy to commit wire fraud. From June 2005 through July 2006, Fabian and Anna Thorne and others fraudulently acquired distressed properties after they provided false representations to both homeowners and conventional mortgage lenders. HUD realized no losses.



Kweku Fortune, who failed to appear in Kings County State Court, **Brooklyn, NY**, for either his trial verdict, convicting him of committing grand larceny, or his sentencing, was arrested on an outstanding warrant. Fortune impersonated a HUD-approved real estate broker, attempted to sell HUD-owned and other properties, and fraudulently retained \$55,000 in downpayment funds from prospective buyers.



# Mason receives 9-year term

## Lawyer kept lenders' money

By Lee Hammel  
TELEGRAM & GAZETTE STAFF

WORCESTER — Judge F. Dennis Saylor IV looked across the courtroom at Alan Mason in U.S. District Court yesterday and clearly did not like what he saw.

The judge sentenced the 62-year-old disbarred lawyer to 9 years in prison, 10 months after Mr. Mason pleaded guilty to income tax evasion and two counts of wire fraud.

Mr. Mason also was ordered to pay \$6.8 million in restitution to Stewart Title Guaranty Co. The title company, for which he acted as an agent, had to make good on losses caused by Mr. Mason's pocketing money from lenders that was supposed to pay off lien holders of property being sold.

He was also ordered to cooperate with the Internal Revenue Service, which he owes \$5.9 million, while he is under 3-year post-release supervision.

And even though the prosecution was willing to give Mr. Mason the 45 days his lawyer asked for before he was to report to prison, Judge Saylor ordered the defendant taken into custody immediately.

**The sentence:** The 62-year-old disbarred lawyer received 9 years in prison after pleading guilty to income tax evasion and two counts of wire fraud.

**The quote:** I can't apologize enough for what I did. I hurt a lot of people, including my family.' — Alan Mason

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*Chapter 2*

# HUD's Public and Indian Housing Programs



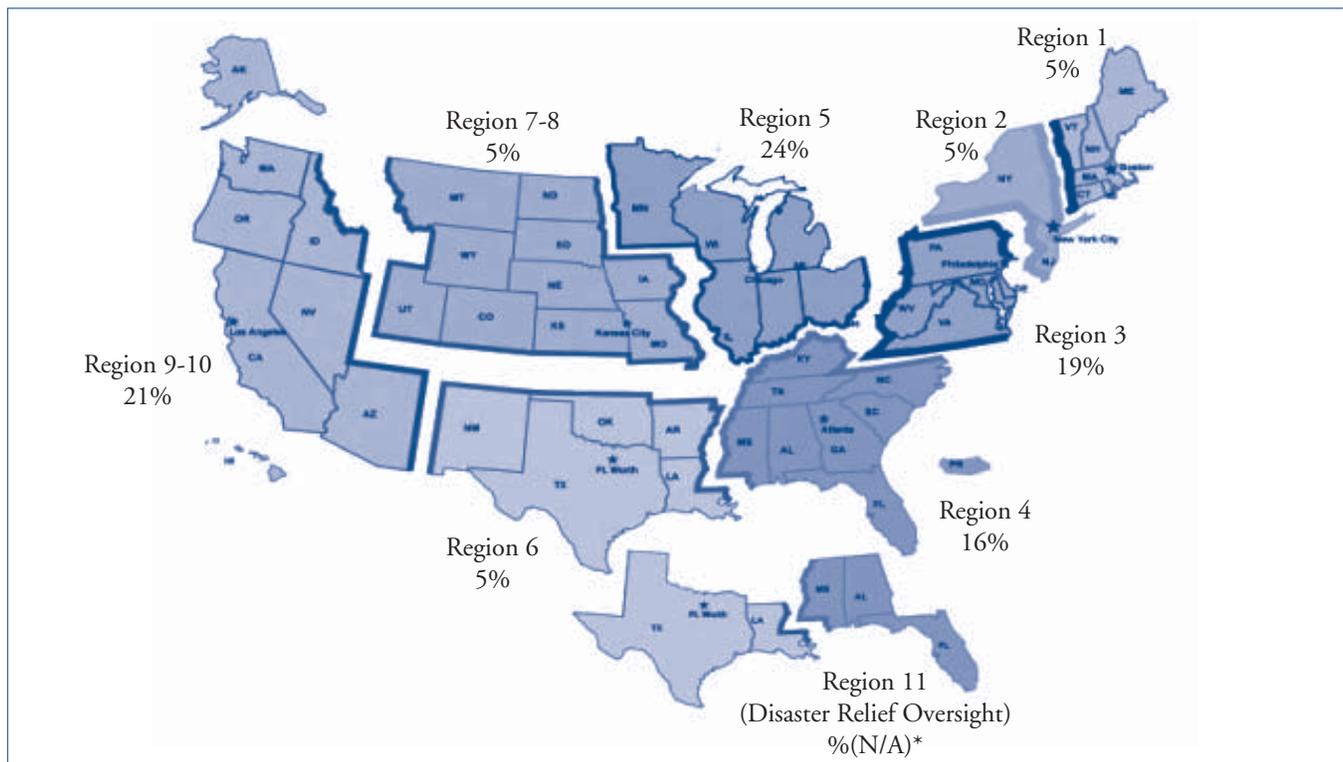
The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to 3,496 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair. In addition to the audits and investigations described in this chapter, the Office of Inspector General (OIG), has conducted numerous outreach efforts (see chapter 7, page 125).

## Audits

### Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results		Questioned costs	Funds put to better use
Audit	38 audits	\$73 million	\$40 million
Our focus	Page 29	- Housing stock in the Housing Choice Voucher program	
	Page 29	- HUD's Enterprise Income Verification system	
	Page 30	- Section 8 Housing Choice Voucher and Leased Housing Program activities at public housing agencies	
	Page 39	- Public housing program activities	
	Page 44	- Native American program activities	

Chart 2.1: Percentage of OIG public and Indian housing audit reports during this reporting period



\* This does not include hurricane relief audits. See chapter 5 for these reviews.



During this reporting period, the Office of Inspector General (OIG) reviewed HUD's controls over the physical condition of housing stock in the Housing Choice Voucher program and HUD's Enterprise Income Verification (EIV) system. In addition, OIG reviewed Section 8 Housing Choice Voucher and leased housing program activities, public housing activities, and Native American program activities.

### *Housing Stock in the Housing Choice Voucher Program*

HUD OIG audited HUD's controls over the physical condition of housing stock in the Housing Choice Voucher program and found that HUD did not have adequate controls to ensure that its Section 8 housing stock was in material compliance with housing quality standards. It had not fully implemented the Section Eight Management Assessment Program (SEMAP) and, therefore, could not ensure that the primary mission of the Section 8 program, paying rental subsidies so that eligible families can afford decent, safe, and sanitary housing, was met. In addition, HUD's lack of knowledge regarding the condition of its Section 8 housing stock resulted in public housing agencies being reported as high performers when a significant percentage of the units they administered were in material noncompliance with housing quality standards. HUD was revising its Section 8 regulations to include developing a physical inspection system to help ensure that HUD's Section 8 housing stock is in material compliance with housing quality standards.

OIG recommended that HUD (1) complete the departmental clearance process of the proposed revised Section 8 regulations by the end of the fiscal year (FY) 2008, (2) allow the proposed revisions to SEMAP and housing quality standards to go through the proper process and carefully consider all questions and comments made by the affected parties before publishing the final rule, and (3) fully develop and implement a physical inspection system for the tenant-based Housing Choice Voucher program within 3 years. (Audit Report: 2008-AT-0003)

### *HUD's Enterprise Income Verification System*

HUD OIG audited HUD's EIV system, used by public housing authorities to identify and reduce tenant income and subsidy errors within the Section 8 and public housing programs, to determine whether HUD provided adequate guidance and training to its EIV coordinators and housing authority users.

HUD provided adequate guidance and training to its EIV coordinators and housing authority users. However, EIV users did not always take advantage of this training and guidance. Since use of EIV is not yet mandatory, HUD did not require housing authorities to ensure that their users received EIV training before granting them access to the system. As a result, housing authority users may not fully understand EIV's capabilities and their responsibilities when using the system.

OIG recommended that HUD consider enhancing existing requirements to require housing authorities to certify that their EIV users have received EIV training before granting access to the system. The housing authorities would keep the certifications on file and have them available for review. (Audit Report: 2008-KC-0003)



## *Section 8 Housing Choice Voucher and Leased Housing Program Activities at Public Housing Agencies*

Audits of the Section 8 Housing Choice Voucher program were a priority during this semiannual reporting period. PHAs were selected for audit based on risk analysis and/or hotline complaints. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the units met housing quality standards, whether the PHA managed the program according to HUD requirements, and whether the eligibility of the tenants was correctly determined. The following section illustrates the audits conducted in the Section 8 Housing Choice Voucher program area.



HUD OIG audited the financial transactions of the Section 8 Housing Choice Voucher program at the Housing Authority of the City of **Los Angeles, CA**. During the audit, OIG expanded the scope to include a review of the Authority's other HUD programs to determine the extent of its inappropriate interprogram fund transfers.

The Authority could not show that it used program funds in accordance with its consolidated annual contributions contracts, executed grant agreements, or HUD rules and regulations. Without the required HUD approval, the Authority's accounting records showed that it improperly advanced and expended more than \$27 million in restricted funds to cover its operating losses for its other programs.

OIG recommended that HUD require the Authority to reimburse the restricted funds to the proper programs and establish and implement adequate procedures and accounting controls to ensure that no interprogram advances of restricted funds are made in the future. (Audit Report: **2008-LA-1015**)



HUD OIG audited the Housing Choice Voucher program of the Dallas Housing Authority in **Dallas, TX**.

The Authority acknowledged its longstanding weaknesses and had made a commitment to improve its operations. However, although it had reorganized its leased housing department and made other changes, it failed to correct systemic weaknesses and continued to mismanage its voucher program. Further, it spent almost \$20 million in questionable costs in 2006 and 2007. This amount included payments for clients that it did not report to HUD; payments for clients after they left its voucher program; duplicate payments to landlords; and payments for clients who, based on their reported Social Security numbers, were deceased. In addition, the Authority backdated 22 and 45 percent of the examinations it reported to HUD in 2006 and 2007, respectively.

OIG recommended that HUD require the Authority to (1) establish and implement policies and procedures to address its systemic weaknesses, an effective quality control process, and an effective accountability process and (2) support or repay nearly \$20 million. (Audit Report: **2008-FW-1011**)



HUD OIG audited the Section 8 Housing Choice Voucher program at the Indianapolis Housing Agency in **Indianapolis, IN**, and found that the Agency's program administration regarding housing unit conditions,

housing assistance payment calculations, and documentation to support the calculation of households' housing assistance payments was inadequate. Of the 65 housing units inspected, 52 did not meet HUD's housing quality standards and the Health and Hospital Corporation of Marion County, IN's housing standards, and 38 had 402 violations that existed at the time of the Agency's previous inspections.

The Agency also failed to properly calculate housing assistance payments, ensure that its household files contained required documentation to support its payment of housing assistance, and consistently use HUD's EIV system. Of the 67 files reviewed, the Agency incorrectly calculated housing assistance payments for 63, and 59 did not contain the documentation required by HUD and/or the Agency's program administrative plan. The Agency overpaid more than \$131,000 and underpaid more than \$13,000 in housing assistance and utility allowances and was unable to support more than \$587,000 in housing assistance and utility allowance payments. Further, it did not adequately use HUD's EIV system to determine that its reported zero-income households had reported income, resulting in more than \$47,000 in improper housing assistance payments.

OIG recommended that HUD require the Agency to reimburse its program from nonfederal funds for the improper use of more than \$291,000 in program funds, provide documentation or reimburse its program from nonfederal funds for the unsupported housing assistance payments, and implement adequate procedures and controls to address the findings cited to prevent nearly \$10 million from being spent on units with material housing quality standards violations and excessive housing assistance and utility allowance payments over the next year. (Audit Report: 2008-CH-1006)



HUD OIG audited the Section 8 Housing Choice Voucher program at the Cincinnati Metropolitan Housing Authority, **Cincinnati, OH**, and found that the Authority's program administration regarding housing unit conditions was inadequate. Of 65 housing units inspected, 56 did not meet HUD's housing quality standards, and 50 had 284 violations that existed at the time of the Authority's previous inspections. The 50 units had between 1 and 15 preexisting violations per unit.

OIG recommended that HUD require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$35,000 in program funds and implement adequate procedures and controls to address the findings cited to prevent more than \$5.8 million from being spent on units with material housing quality standards violations over the next year. (Audit Report: 2008-CH-1012)



HUD OIG audited the Housing Authority of the City of **Fort Wayne, IN**'s Section 8 Housing Choice Voucher program and found that the Authority's program administration regarding housing assistance payment calculations, documentation to support households' eligibility for housing assistance, monitoring of reported zero-income households, administration of the Family Self-Sufficiency (FSS) program, and voucher use were inadequate. The Authority incorrectly calculated households' payments, resulting in more than \$73,000 in overpayments and nearly \$7,000 in underpayments. It also did not ensure that its households' files contained the required documentation to support its housing assistance and utility allowances. Of the 67 files reviewed, 30 did not contain documentation required by HUD and the Authority's program administrative plan to support nearly \$195,000 in housing assistance and utility allowances. Further, the Authority did not perform periodic reviews to determine that reported zero-income households had unreported income, resulting in more than \$28,000 in improper housing assistance and utility allowances.

The Authority failed to administer its FSS program according to Federal requirements. As a result, it over/underfunded participants' escrow accounts by more than \$8,000 and nearly \$4,000, respectively, had nearly \$15,000 in escrow funds that should have been reimbursed to the program, could not support more than \$151,000 in program funds, and failed to support nearly \$890,000 that it determined was to be forfeited from escrow accounts. Although the Authority had nearly \$6.2 million in program funds, which could be used to house additional eligible households, its program was significantly underleased. As a result, eligible participants were denied the opportunity to seek decent, safe, and sanitary housing under the program.

OIG recommended that HUD require the Authority to reimburse the applicable program from nonfederal funds for the improper use of more than \$135,000 in funds, provide documentation or reimburse the applicable program nearly \$1.3 million from nonfederal funds for the unsupported payments identified, and implement adequate procedures and controls to address the findings cited to prevent more than \$1 million in program funds from being spent on excessive housing assistance and utility allowances and more than \$3 million not being used to provide decent, safe, and sanitary housing to eligible households. (Audit Report: 2008-CH-1007)



HUD OIG audited the Richmond Redevelopment and Housing Authority in **Richmond, VA**, and found that the Authority's Housing Choice Voucher program was significantly underleased, resulting in approximately 674 families not being housed when the Authority had \$7.6 million in excess program funds. The Authority also failed to operate its FSS program according to the United States Code, HUD requirements, and its FSS action plan. As a result, it inappropriately paid more than \$84,000 to program participants when it could not be determined that the participants had successfully met the applicable requirements.

OIG recommended that HUD require the Authority to implement adequate controls and procedures to house as many eligible participants as possible, thereby using approximately \$3.4 million more in program funds to house families. OIG also recommended that the Authority provide support or reimburse its program more than \$346,000 from nonfederal funds for the unsupported housing assistance payments, reimburse its FSS program from nonfederal funds for its improper use of contract and program funds, and implement adequate procedures and controls to address the findings cited. (Audit Report: 2008-PH-1006)



HUD OIG audited the Housing Authority of Baltimore City, **Baltimore, MD**, regarding the administration of its leased housing under its Moving to Work Demonstration program to determine whether the Authority ensured that its program units met housing quality standards.

The Authority failed to ensure that its program units met housing quality standards. Of 59 housing units inspected, 57 did not meet HUD's housing quality standards. Moreover, 41 of the units had health and safety

**Housing authority rebuked by audit**

Millions go unspent while unqualified clients collect

BY DAN STOCKMAN  
*The Journal Gazette*

Fort Wayne Housing Authority, which has a waiting list for help paying rent with more than 2,000 families on it, had millions of dollars it failed to spend on the program, a new audit shows.

The U.S. Department of Housing and Urban Development, which contracts with Fort Wayne Housing Authority to run federal programs to ensure the poor have safe, affordable housing, released an audit showing significant problems. The audit was one of many that HUD's inspector general has performed on housing authorities in Indiana in the past three years, all of which found major problems (see related story).

Among the failures discovered in Fort Wayne were in the Housing Choice Voucher program, formerly called Section 8, which subsidizes rent for those who cannot afford housing.

HUD found more than 1,000 households could have been helped with the \$6.2 million the agency failed to use.

**SEE ALSO**

Other agencies in Indiana doing HUD work have a host of problems  
**Page 9A**

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violations that the Authority's inspectors neglected to report during their last inspection and/or repair based on the outcome of their most recent inspection. The Authority spent nearly \$48,000 in program and administrative funds for these 41 units.

OIG recommended that HUD require the Authority to (1) ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards, (2) reimburse its program for the improper use of program funds for units that materially failed to meet HUD's housing quality standards, and (3) implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards to prevent an estimated \$3.5 million from being spent annually on units that materially fail to meet HUD's housing quality standards. (Audit Report: 2008-PH-1013)



HUD OIG audited the State of Connecticut Department of Social Services (agency), **Hartford, CT**, and found that the agency did not adequately use its Section 8 vouchers. As a result, (1) approximately 770 households in calendar year 2007 were not served, (2) the agency did not ensure that its contractor had adequate controls over fraud recoveries and related interest income, and (3) the agency could not support the allocation of more than \$1.6 million in salary and benefits to the program and charged more than \$14,000 to the program for costs related to the State-funded housing program.

OIG recommended that HUD require the agency to (1) implement adequate procedures and controls to ensure that it is adequately leased up to at least the 95 percent threshold required by HUD and provide additional housing assistance to eligible households; (2) recover more than \$1 million from the contractor and account for, report, and use the funds in accordance with HUD requirements; and (3) provide support to show that more than \$1.6 million in direct and indirect salaries was properly chargeable to the program or repay any ineligible costs. (Audit Report: 2008-BO-1008)



HUD OIG audited the Housing Choice Voucher program of the Housing Authority of the City of Allentown, **Allentown, PA**, and found that the Authority did not adequately administer its inspection program to ensure that its program units met housing quality standards as required. Of 57 housing units inspected, 51 did not meet HUD's housing quality standards, and 47 of the units had exigent health and safety violations that the Authority's inspectors neglected to report during their last inspection. The Authority spent more than \$80,000 in program and administrative funds for these 47 units. It also did not properly abate rents when units failed its housing quality standards inspections. The Authority should have abated housing assistance payments for 13 of 30 program units that did not pass its housing quality standards inspections. However, it failed to abate the program rents or terminate the contracts for these units, resulting in improper payments of nearly \$9,000 in housing assistance.

OIG recommended that HUD require the Authority to (1) ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards; (2) reimburse its program for the improper use of program funds for units that materially failed to meet HUD's housing quality standards; (3) implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards to prevent an estimated \$1.2 million from being spent annually on units that materially fail to meet HUD's housing quality standards; (4) reimburse its program for the 13 units for which it did not abate assistance payments; and (5) develop and implement management controls to ensure that employees comply with HUD

policies and procedures concerning abatements, thereby preventing an estimated \$34,000 from being spent annually on units that should have had assistance payments abated. (Audit Report: 2008-PH-1009)



HUD OIG audited the Section 8 Housing Choice Voucher program at the Delaware County Housing Authority in **Woodlyn, PA**, and found that the Authority did not adequately administer its housing assistance payments in compliance with HUD requirements and its own administrative plan. It incorrectly calculated housing assistance and utility allowance payments and failed to execute housing assistance contracts in a timely manner, resulting in nearly \$59,000 in ineligible payments and more than \$3,000 in tenant underpayments. It also could not support nearly \$27,000 in housing assistance and utility allowance payments.

OIG recommended that HUD require the Authority to reimburse the program from nonfederal funds for ineligible payments, reimburse the appropriate tenants or households for the underpayment of housing assistance and utility allowances, provide documentation or reimburse the program from nonfederal funds for unsupported payments, and implement sufficient controls or procedures to prevent ineligible payments of more than \$926,000 in program funds over the next year. (Audit Report: 2008-PH-1012)



HUD OIG audited the administration of the housing quality standards inspection program for the Section 8 Housing Choice Voucher program at the Harrisburg Housing Authority in **Harrisburg, PA**, and found that the Authority did not adequately administer its inspection program to ensure that its program units met housing quality standards as required. Of the 52 housing units inspected, 37 did not meet HUD's housing quality standards, and 35 of the units had exigent health and safety violations that the Authority's inspectors neglected to report during their last inspection. The Authority spent more than \$34,000 in program and administrative funds for these 35 units. In addition, it did not abate rents for units that failed its housing quality standards inspections. For 11 units reviewed, the Authority failed to abate the program rents or terminate the contracts, resulting in an improper payment of nearly \$11,000 in housing assistance and administrative fees.

OIG recommended that HUD require the Authority to (1) ensure that housing units inspected during the audit are repaired to meet HUD's housing quality standards; (2) reimburse its program from nonfederal funds for the improper use of program funds for units that materially failed to meet HUD's housing quality standards; (3) implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards to prevent nearly \$885,000 from being spent annually for units with material housing quality standards violations; (4) reimburse its program from nonfederal funds for the 11 units for which it did not abate payment or terminate the assistance contract in a timely manner; and (5) develop and



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implement management controls to ensure that employees comply with its policies and procedures concerning abatements. (Audit Report: 2008-PH-1007)



HUD OIG audited the Housing Choice Voucher program of the City of **Phoenix, AZ**, Housing Department and found that the Housing Department did not ensure that tenant eligibility and associated housing assistance payment amounts were properly supported. As a result, it paid unsupported and ineligible housing assistance.

OIG recommended that HUD require the Housing Department to (1) support or reimburse more than \$371,000 in unsupported housing assistance payments, (2) reimburse nearly \$13,000 in ineligible housing assistance payments, (3) establish and implement an adequate training program to ensure that its staff has the capability to perform tenant eligibility and housing assistance payment determinations in accordance with HUD requirements, and (4) take appropriate action to ensure that a sufficient number of staff are available to administer its Housing Choice Voucher program. (Audit Report: 2008-LA-1011)



HUD OIG audited the Housing Choice Voucher and public housing programs at the Woonsocket Housing Authority in **Woonsocket, RI** and found that the Authority generally administered its programs in compliance with its annual contributions contract and HUD regulations. In addition, HUD's Regional Counsel rendered an opinion that the Authority's board members did not violate conflict-of-interest provisions of section 19(A) of the contract. However, OIG identified several deficiencies, including more than \$663,000 in unsupported costs and more than \$241,000 in opportunities for funds to be put to better use because the Authority (1) improperly used Federal funds to subsidize the development activities of an affiliated nonprofit entity, (2) did not establish an adequate cost allocation plan for administrative and indirect costs and improperly advanced and used funds between its public housing and Housing Choice Voucher programs, (3) did not always comply with HUD procurement regulations and its own procurement policy, (4) did not establish a reasonable policy for travel per diem rates charged to Federal programs and ensure that board members always submitted travel expense vouchers, and (5) did not always follow its HUD-approved waiting list procedures.

OIG recommended that HUD require the Authority to (1) cease the practice of improperly using Federal funds to pay nonprogram costs and repay nearly \$3,000 in unreimbursed funds, (2) provide support for \$587,000 in salary expenses and nearly \$68,000 in indirect costs charged to the Housing Choice Voucher program or reimburse these costs and cease the practice of advancing and using funds between its Federal programs, (3) comply with HUD procurement regulations and its own procurement policy, (4) establish a reasonable policy for travel per diem rates charged to Federal programs and ensure that board members always submit travel expense vouchers, and (5) obtain HUD approval on all actions that are contrary to its waiting list procedures.

OIG also recommended that Authority establish controls to ensure that all interprogram transactions are recorded and reconciled monthly, thereby eliminating the average daily balance of more than \$241,000 that was owed between Federal programs. Further, OIG recommended that HUD consider sanctions as appropriate against the responsible parties for the improper use of Federal funds used to pay nonprogram costs of an affiliated nonprofit entity. (Audit Report: 2008-BO-1006)



HUD OIG audited the Housing Choice Voucher program of **Union County, NJ**, and found that of 58 Section 8 units inspected, 42 (72 percent) did not meet minimum housing quality standards. Of the 42 units, 21 were in material noncompliance with standards. As a result, HUD made housing assistance payments for units that did not meet housing quality standards. In addition, the County's financial and program controls were inadequate. As a result, more than \$83,000 in transfers of funds and salary costs charged are questioned pending an eligibility determination by HUD, while another nearly \$22,000 in transfers and salary costs is ineligible.

OIG recommended that HUD instruct the County to develop and implement procedures (1) to ensure that units meet housing quality standards to prevent an estimated \$762,000 from being spent on units that are in material noncompliance, (2) for allocating and charging costs to the Housing Choice Voucher program to include developing a cost allocation plan for salaries, and (3) to ensure that transfers from the Housing Choice Voucher program to other programs are in accordance with regulations. (Audit Report: 2008-NY-1009)



HUD OIG audited the controls of the District of Columbia Housing Authority in **Washington, DC**, over its leased housing under its Moving to Work Demonstration program to determine whether the Authority implemented adequate controls to prevent overhousing, ensured that it made assistance payments only for the period when families resided in units, and effectively implemented an FSS program.

The Authority had not implemented adequate controls to prevent overhousing and prevent it from making assistance payments for vacant units and had not effectively implemented an FSS program. It paid for 194 families to live in larger housing units than its policy allowed. As a result, it made ineligible housing assistance payments totaling nearly \$43,000 monthly. In addition, it made ineligible housing assistance payments totaling more than \$322,000 for vacant units. During the audit, the Authority recovered nearly \$279,000 of the more than \$322,000 in ineligible payments. It needs to recover the remaining \$44,000 in housing assistance payments related to these units. Further, the Authority did not operate its FSS program according to HUD requirements. As a result, it made ineligible and unsupported payments to participants' escrow accounts totaling nearly \$45,000 and did not make contributions of nearly \$9,000 to the escrow account for one participant.

OIG recommended that HUD require the Authority to (1) reimburse the applicable programs for its improper use of more than \$80,000 in funds, (2) provide documentation or reimburse the applicable program more than \$51,000 for the unsupported payments identified, and (3) implement adequate procedures and controls to address the findings identified to prevent the Authority from spending more than \$426,000 in program funds for overhoused tenants. OIG also recommended that HUD verify that the Authority contributed nearly \$9,000 to the FSS escrow account for one participant. (Audit Report: 2008-PH-1010)



HUD OIG audited the Housing Choice Voucher program of the Portage Metropolitan Housing Authority, **Ravenna, OH**, and found that the Authority (1) incorrectly calculated households' payments, resulting in more than \$26,000 in overpayments and nearly \$600 in underpayments; (2) did not ensure that its households' files contained the required documentation to support more than \$48,000 in housing assistance and utility allowances; (3) had inadequate income verifications and calculations for households reporting zero income, resulting in more than \$27,000 in improper housing assistance and utility allowance payments; and (4) failed to properly reinspect, abate, and terminate assistance for program units that failed housing quality

standards inspections, thereby overpaying more than \$12,000 in housing assistance and utility allowances and allowing tenants to reside in units that were not decent, safe, and sanitary.

OIG recommended that HUD require the Authority to (1) reimburse its program from nonfederal funds for the improper use of more than \$90,000 in funds; (2) provide documentation or reimburse its program more than \$51,000 from nonfederal funds for the unsupported payments identified; and (3) implement adequate policies, procedures, and controls to address the findings cited to prevent more than \$606,000 in program funds from being spent on excessive housing assistance and utility allowance payments. (Audit Report: 2008-CH-1011)



HUD OIG audited the Section 8 Housing Choice Voucher program at the Springfield Housing Authority, **Springfield, IL**, and found that the Authority's program administration regarding housing unit conditions and timeliness of annual housing unit inspections was inadequate. Of 55 housing units inspected, 43 did not meet HUD's housing quality standards, and 18 had exigent health and safety violations that existed at the time of the Authority's previous inspections. In addition, 10 housing units had 55 health and safety violations that existed at the time of the Authority's previous inspections. The Authority also failed to ensure that its housing unit inspections were conducted in a timely manner. Of 65 household files reviewed, 25 indicated that inspections were not conducted within the required 1 year of the previous inspections. The number of days late ranged from 16 to 373.

OIG recommended that HUD require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$50,000 in program funds and implement adequate procedures and controls to address the findings cited. These procedures and controls should help to ensure that nearly \$600,000 in program funds is spent on housing units that meet HUD's requirements. (Audit Report: 2008-CH-1016)



HUD OIG audited the Section 8 Housing Choice Voucher program at the Peoria Housing Authority in **Peoria, IL**, and found that the Authority's program administration regarding housing assistance payment calculations, the FSS program, and zero-income households was inadequate. The Authority overpaid more than \$52,000 and underpaid nearly \$1,000 in housing assistance and utility allowances due to calculation errors. It failed to administer its FSS program according to the United States Code, HUD's requirements, and its FSS action plan. As a result, it received more than \$72,000 in grant funds but did not ensure that its FSS program was managed effectively and efficiently, over/underfunded its participants' escrow accounts by nearly \$18,000, and inappropriately paid more than \$14,000 in final escrow payments. Further, the Authority failed to comply with its program administrative plan regarding zero-income household reviews. It did not effectively use HUD's EIV system or other third-party verification methods to determine whether households reporting zero income had unreported income. As a result, it unnecessarily paid housing assistance totaling nearly \$75,000 for households that were required to meet their rental obligations.

OIG recommended that HUD require the Authority to reimburse its program from nonfederal funds for the improper use of nearly \$185,000 in program funds, provide documentation or reimburse its program more than \$72,000, and implement adequate procedures and controls to address the findings cited. These procedures and controls should help ensure that more than \$296,000 in program funds is spent on program administration that meets HUD's requirements over the next year. (Audit Report: 2008-CH-1005)



HUD OIG audited the Housing Choice Voucher program of the Des Moines Municipal Housing Agency in **Des Moines, IA**, and found that the Agency allowed 59 of the 148 households reviewed to have units that were larger than permitted by regular subsidy standards. It also improperly processed 16 of the households reviewed with indications of unreported income.

OIG recommended that HUD require the Agency to (1) reimburse its program more than \$78,000 from administrative fee reserves and pursue collection of nearly \$21,000 from tenants with unreported income and (2) develop and implement procedures and controls to ensure that each tenant receives the proper voucher size and to ensure the proper correction for unreported income. (Audit Report: **2008-KC-1003**)



HUD OIG audited the Chicago Housing Authority, **Chicago, IL**, regarding its Section 8 Housing Choice Voucher program under its Moving to Work Demonstration program.

The Authority's program administration regarding housing assistance payment calculations, documentation to support households' eligibility and calculations for housing assistance, and the recovery of overpayments of housing assistance and utility allowances for deceased individuals was inadequate. The Authority incorrectly calculated households' payments, resulting in more than \$60,000 in overpayments and nearly \$5,800 in underpayments for the period January 1, 2006, through August 31, 2007. It also did not ensure that its households' files contained the required documentation to support its housing assistance and utility allowances. Of 71 files reviewed, 42 did not contain documentation required by HUD and the Authority's program administrative plan to support nearly \$157,000 in housing assistance and utility allowance payments. Further, the Authority did not effectively recover more than \$36,000 in housing assistance and utility allowance overpayments for deceased individuals.

OIG recommended that HUD require the Authority to (1) reimburse its program from nonfederal funds for the improper use of more than \$113,000 in program funds, (2) provide documentation or reimburse its program nearly \$164,000 from nonfederal funds for the unsupported payments, and (3) implement adequate procedures and controls to address the findings cited. Audit Report: **2008-CH-1017**)



HUD OIG audited the Section 8 Housing Choice Voucher program of the Shreveport Housing Authority in **Shreveport, LA**.

The Authority's contracted Section 8 program administrator, Pendleton Development Corporation, made errors in 96 of 107 tenant files reviewed, including incorrectly calculating family income, paying assistance after families vacated units, using incorrect payment standards, miscalculating utility allowances, and making other errors that resulted in incorrect assistance payments. Pendleton also made errors that did not affect assistance payments but needed corrective action. As a result, the Authority paid nearly \$19,000 in excess assistance and overcharged families nearly \$2,000, made excess assistance payments of more than \$320,000, and had inaccurate SEMAP scores for FY 2006.

OIG recommended that HUD require the Authority to (1) recertify within the next 6 months all families receiving assistance, review their files for any errors occurring within the previous 12 months, and repay its Section 8 program or the families as appropriate for any assistance payment errors for the 12 months; (2) repay from nonfederal funds its Section 8 program for overpayments and reimburse families for underpayments

identified in the audit; and (3) implement adequate procedures and controls regarding its Section 8 program to ensure that tenant eligibility and assistance payments are supported and determined in accordance with HUD requirements to avoid paying more than \$153,000 in excess assistance during the next 12 months. OIG also recommended that HUD increase oversight of the Authority by entering into a memorandum of agreement with the Authority, reduce the Authority's FY 2006 SEMAP scores, and ensure that the Authority submits accurate SEMAP scores in the future. (Audit Report: 2008-FW-1009)



HUD OIG audited the Housing Authority of the City of Pittsburgh, **Pittsburgh, PA**, regarding the administration of its housing assistance payments for leased housing under its Moving to Work Demonstration program agreement to determine whether the Authority properly maintained documentation to support housing assistance payments and accurately calculated them.

The Authority did not properly maintain documentation to support housing assistance payments and did not always accurately calculate housing assistance payments for its leased housing. There were deficiencies in 28 of 30 tenant files reviewed. The Authority did not maintain complete documents required by HUD and its own administrative plan, resulting in unsupported housing assistance payments of more than \$58,000. It also made ineligible housing assistance payments totaling more than \$12,000 because it did not execute housing assistance payments contracts within 60 days of the beginning of the lease term, and it made housing assistance payments before the effective date of the related housing assistance payments contract. Also, the Authority inaccurately calculated housing assistance payments, resulting in nearly \$5,000 in overpayments and nearly \$2,000 in underpayments.

OIG recommended that HUD require the Authority to (1) correct the errors in the tenant files, (2) provide documentation to support housing assistance payments or reimburse its leased housing program for the payments that it cannot support, (3) reimburse its leased housing program for the ineligible payments and overpayments, and (4) reimburse applicable tenants for the housing assistance underpayments. (Audit Report: 2008-PH-1014)

### *Public Housing Program Activities*

HUD OIG audited the capital fund program at the Miami Dade Housing Agency in **Miami, FL**, to determine whether the Agency had adequate controls to ensure that contracts were awarded in accordance with regulations and HUD requirements.

The Agency did not have adequate controls to ensure that contracts were awarded in accordance with regulations and HUD requirements. It did not maintain documentation supporting that contracts were awarded with full and open competition. As a result, it could not ensure that funds for contract payments were awarded through full and open competition and that the costs were reasonable. In addition, the Agency did not properly support multiple drawdowns of capital funds. It drew down capital funds from HUD to reimburse itself for expenses associated with 2003 and 2004 capital fund program grants. It then transferred these expenses to close out a 2002 capital fund program grant and drew down additional capital funds from HUD using these same expenses as justification. It could not provide documentation to support that HUD was reimbursed for the excess funds used to close out the grant.



HUD approval. In May 2006, the Commission inappropriately and unconditionally guaranteed the obligations of the Partnership's general partner, the Oliver Gardens Limited Liability Company, in a guaranty agreement. The Commission executed another guaranty agreement in September 2006, unconditionally and irrevocably guaranteeing the full and punctual payment of a loan entered into by the Corporation. As of February 29, 2008, the Commission had placed \$1.4 million in Federal assets at risk by entering into the guaranty agreements, which made it responsible for all operating deficits and potential judgments of the Corporation and Partnership. The Commission also inappropriately used more than \$745,000 in public housing funds for two nonfederal developments, Oliver Gardens and the Abigail. In addition, the Commission managed and provided Section 8 housing assistance to Oliver Gardens, a 30-unit senior housing project that the Partnership owns, and performed unit inspections of the project's units, thus creating a conflict of interest.

OIG recommended that HUD require the Commission to (1) amend the guaranty agreements regarding the Corporation and the Partnership to remove the Commission's pledging of its Federal assets, (2) submit the amended guaranty agreements to HUD for review and approval to ensure that they comply with its contract with HUD, (3) reimburse the applicable programs for the improper use of public housing funds and its receipt of Section 8 administrative fees related to Oliver Gardens, (4) contract with an independent third party to perform housing quality standards inspections of Oliver Gardens as required by HUD, and (5) implement procedures and controls to address the findings cited. OIG also recommended that HUD take appropriate action against the Commission for its substantial default of its contract. (Audit Report: 2008-CH-1008)



HUD OIG audited the Housing Authority of the City of Calexico, **Calexico, CA**, to determine whether the Authority complied with HUD's rules and regulations with respect to its public housing program.

The Authority improperly used Section 5(h) program funds for the acquisition and operation of the Second Street Apartments. In addition, it (1) did not provide replacement housing for the 37 Section 5(h) units it sold, (2) incorrectly reported three of the five grants reviewed as fully obligated in HUD's electronic Line of Credit Control System, (3) undertook force account activity without HUD's written approval, and (4) undertook five inappropriate procurement actions.

OIG recommended that HUD require the Authority to (1) repay its Section 5(h) program more than \$174,000 from nonfederal sources for the inappropriate acquisition and operation of the Second Street Apartments; (2) create and implement a new timeline for replacement of the Section 5(h) units and if the Authority does not follow this new timeline, recapture the \$1.2 million available in its program bank account as of January 2008; (3) recapture more than \$247,000 in grant funds that the Authority did not fully obligate by the required deadline for grant years 2001, 2003, and 2005; (4) provide supporting documentation for nearly \$828,000 in unsupported procurement actions or repay HUD from nonfederal sources; and (5) repay HUD nearly \$185,000 from nonfederal sources for ineligible force account labor costs. (Audit Report: 2008-LA-1012)



HUD OIG audited the Housing Authority of the City of Eloy, **Eloy, AZ**, because HUD had rated the Authority as troubled for five years. In 2007, the Authority had significant financial problems and terminated its executive director. It did not have adequate internal controls to safeguard assets and reasonably ensure that HUD funds were used in accordance with program requirements. Because it did not fully implement

corrective actions required by HUD, it was not in compliance with HUD rules and regulations and Office of Management and Budget circulars. As a result, more than \$2 million in Federal funds was placed at risk, and the Authority incurred unnecessary expenses and struggled to meet its operating expenses.

OIG recommended that HUD require the Authority to immediately develop and implement effective policies and procedures that include sound internal controls for its operations in all areas and to immediately direct the Authority to negotiate with the Internal Revenue Service (IRS) to abate nearly \$82,000 in interest and penalties on employee withholding taxes owed. OIG further recommended that HUD closely monitor the Authority and its board of commissioners until management weaknesses have been resolved, issue proposed notices of the Authority's default of its public housing and Section 8 contracts, and take appropriate actions that will result in better use of more than \$700,000 in Federal funds. (Audit Report: 2008-LA-1009)



HUD OIG audited the Housing Authority of the City of **San Buenaventura, CA**, to determine whether the Authority's financial activities, operations, and controls complied with HUD requirements.

The Authority did not use program funds in accordance with the requirements of its annual contributions contract and HUD requirements. It (1) disregarded its payment-in-lieu-of-taxes obligations to the City for FY 2005 and 2006, (2) used more than \$496,000 in low-rent public housing program funds to purchase nonfederal housing without City or HUD approval, and (3) overspent its Section 8 Housing Choice Voucher program funding for FY 2007 and used nearly \$166,000 of its low-rent public housing program funds to cover the deficit in violation of HUD requirements, placing both programs at risk.

OIG recommended that HUD require the Authority to (1) comply with the annual contributions contract and the cooperation agreement with the City by settling its payment-in-lieu-of-taxes obligations to the City, (2) reimburse the low-rent program from nonfederal funds for FY 2005 and 2006 funds paid to the ineligible activity, (3) cease all transfers of payment-in-lieu-of-taxes obligated funds to the ineligible activity and demonstrate that calendar year 2007 funding in the amount of more than \$243,000 has not been transferred to the housing trust fund or return the funds to the low-rent public housing program from nonfederal funds, and (4) implement written procedures and controls to ensure that sufficient and appropriate program funds are available before use and to prevent the use of low-rent public housing and Housing Choice Voucher program funds to cover the expenditures of other programs. (Audit Report: 2008-LA-1010)



HUD OIG audited the public housing program of the Highland Park Housing Commission, **Highland Park, MI**, to determine whether the Commission effectively maintained its program units in accordance with HUD's requirements and appropriately used its program operating subsidies.

The Commission did not maintain 45 of 46 program units inspected in good repair, order, and condition. There were 705 deficiencies in the 45 units including 43 hazards that HUD requires to be corrected within 24 hours. The Commission lacked an effective maintenance process to ensure that program unit deficiencies were identified and repaired in a timely manner. It did not have an approved maintenance policy, failed to implement a preventive maintenance program, did not complete work orders in accordance with HUD's requirements and or/its maintenance policy, and failed to turn around program units in a timely manner. In addition, it inappropriately received more than \$29,000 in excess program operating subsidies for seven units that were vacant for more than 12 months.

OIG recommended that HUD require the Commission to (1) reimburse its program from nonfederal funds for the improper use of funds, (2) provide support or reimburse its program from nonfederal funds for the unsupported payments, and (3) implement adequate procedures and controls to address the findings cited. These procedures and controls should help to ensure that nearly \$400,000 in program funds is spent according to HUD's requirements. (Audit Report: 2008-CH-1013)



HUD OIG performed corrective action verification for an audit recommendation cited in the audit report, Cuthbert Housing Authority, Public Housing Programs (2004-AT-1001), issued January 15, 2004. The purpose of the corrective action verification was to determine whether the Housing Authority of the City of Cuthbert, GA, had implemented the selected audit recommendation and expended its funds in accordance with HUD regulations.

The Authority did not comply with its HUD-approved agreement to obtain repayment of more than \$327,000 advanced to one of its affiliates, the Development Corporation, and did not stop advancing funds until November 2004, although it had agreed it would stop by June 2004. The Authority collected sporadic payments from the Development Corporation after the agreement was executed, leaving a balance of more than \$224,000. In addition, two other receivables of more than \$148,000 and nearly \$127,000 were advanced by the Authority to the Development Corporation. Also, the Authority paid a law firm \$9,000 to lobby the Georgia State legislature to eliminate barriers to developing affordable housing in rural Georgia.

OIG recommended that HUD (1) continue to work with the Authority to collect more than \$224,000 from the Development Corporation and reimburse its operating fund, (2) require the Authority to collect nearly \$275,000 from the Development Corporation and reimburse its operating fund, (3) apply appropriate sanctions if the Authority does not comply with its payback agreement, and (4) require the Authority to reimburse its operating fund \$9,000 from nonfederal sources. (Audit Report: 2008-AT-0803)



HUD OIG audited the Tuckahoe Housing Authority, Tuckahoe, NY, to assess the merits of a complaint and determine whether the Authority administered its low-rent housing program and nonprofit entity activities in accordance with its annual contributions contract and HUD regulations.

The Authority did not adequately administer its low-rent program and nonprofit entity activities in accordance with regulations. As a result, it incurred ineligible, unsupported, and unnecessary costs. In addition, the Authority's nonprofit entity encountered delays in the construction of a planned senior citizen complex on land approved by HUD for that purpose in 1999, for which it did not expect to break ground until November 2008.

OIG recommended that HUD instruct the Authority to reimburse more than \$64,000 in ineligible expenses, provide documentation to substantiate nearly \$183,000 in unsupported costs, and provide justification for nearly \$16,000 in unnecessary costs so that HUD can determine the reasonableness or necessity of the costs. OIG recommended strengthening financial and operational controls to better ensure compliance with HUD regulations and policy. (Audit Report: 2008-NY-1008)





HUD OIG performed a corrective action verification of audit recommendations cited in an audit report on the Opelika Housing Authority in **Opelika, AL**, entitled Opelika Housing Authority, Public Housing Programs (2004-AT-1011), issued July 23, 2004, to determine whether the selected audit recommendations had been implemented and the deficiencies cited in the report had been corrected.

The Authority had implemented the necessary corrective action for the recommendations, and no further action is required. However, the Authority's Section 8 general ledger contained a receivable in the amount of nearly \$58,000 due from Opelika Housing Development Corporation, a not-for-profit corporation affiliated with the Authority. The receivable represents ineligible payments made to the Corporation by the Section 8 program. HUD recovered the ineligible payments during 2005 through offset of administration fees from the Authority's Section 8 program. However, the Corporation did not reimburse the Authority for the ineligible payments.

OIG recommended that HUD require the Authority to collect the ineligible Section 8 payments from the Corporation. (Audit Report: 2008-AT-0802)

### *Native American Program Activities*

HUD OIG audited Salish and Kootenai Housing Authority in **Pablo, MT**, to determine whether the Authority calculated program income for Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA)-assisted United States Housing Act of 1937 (1937 Act) properties in accordance with applicable HUD guidance, regulations, and requirements and to observe uses of revenue from NAHASDA-assisted 1937 Act properties.

The Authority did not have adequate accounting policies and procedures for allocating income from 1937 Act properties receiving Indian Housing Block Grant (Block Grant) program assistance between its general fund and Block Grant programs. It failed to track Block Grant rehabilitation or capital expenses for each property and recognize program income from substantially rehabilitated properties. It also miscalculated the amount of NAHASDA revenue because it included units converted to non-NAHASDA tax credit units in its average expense level calculation. As a result, more than \$184,000 in low-rent housing receipts were inappropriately excluded from Block Grant affordable housing funds and should be reclassified.

OIG recommended that HUD require the Authority to (1) implement policies and procedures to determine program income in accordance with HUD requirements; (2) update its computation of program income, properly segregating the revenue and allowable expense level calculation for low-income housing tax credit properties from other 1937 Act low-rent units and reclassifying as Block Grant funds more than \$174,000 previously withdrawn from the 1937 Act low-rent program as nonprogram income; (3) reduce the number of 1937 Act units capable of producing nonprogram income by the nine units that received substantial rehabilitation or capital expenses between 2002 and 2006 using Block Grant funds, which exceeded 40 percent of the dwelling, construction, and equipment costs, and reclassify more than \$10,000 as NAHASDA revenue; and (4) adjust the annual 2007 and future 1937 Act program income calculations to include all revenue from substantially rehabilitated units as NAHASDA revenue. (Audit Report: 2008-SE-1003)



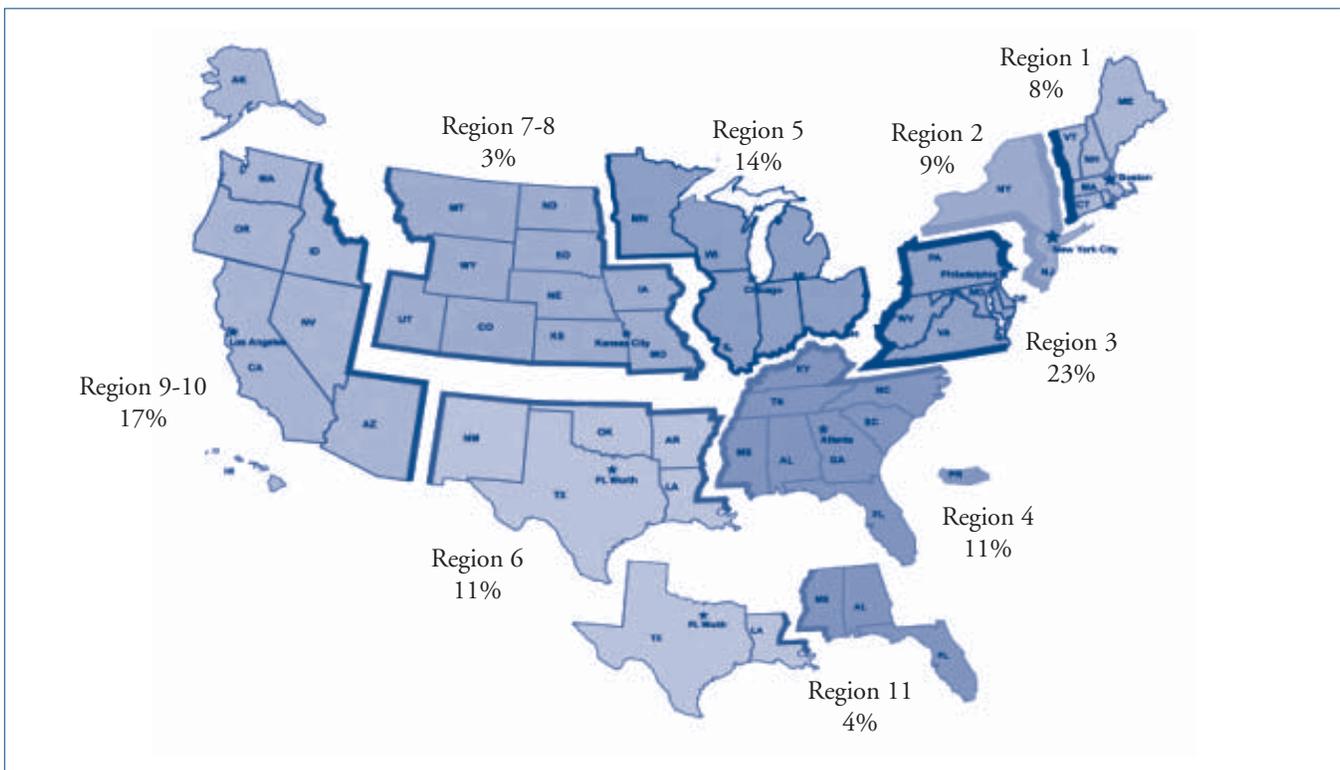
# Investigations

Some investigations discussed in this report were generated from leads provided by HUD public and Indian housing program staff or conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

## Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	322	\$8,513,166	367	416
Our focus	Page 46	- Public housing authority theft/embezzlement		
	Page 51	- Rental assistance fraud		
	Page 55	- FedRent Initiative		
	Page 58	- Fugitive Felon Initiative		
	Page 59	- Other fraud/crimes		

Chart 2.2: Percentage of OIG public and Indian housing closed investigation cases during this reporting period



## Public Housing Authority Theft / Embezzlement

Four fictitious Tampa Housing Authority (Tampa) landlords each pled guilty in U.S. District Court, Tampa, FL, to conspiracy to steal government funds, theft of government funds, or committing Federal program fraud. In addition, former Tampa Section 8 counselors Calvin Coleman, Mario Lovett, and Carlton Miles and 14 fictitious Tampa landlords were collectively sentenced to 118 months incarceration, 8 months home detention, 540 months supervised release, and 168 months probation and ordered to pay HUD \$706,260 in restitution for their earlier guilty pleas to committing theft of government funds or conspiracy. The above defendants and others conspired and used the housing authority computer system to fraudulently generate and obtain \$455,168 in housing contract payments they were not entitled to receive.

# Ex-Housing Authority Official Sentenced

## HE ORGANIZED RENT SUBSIDY SCHEME

By ELAINE SIVESTRINI  
The Tampa Tribune

**TAMPA** — A former Tampa Housing Authority official was sentenced Friday morning to four years and two months in federal prison and three years' probation for his role in a scheme to steal more than \$486,000 in federal rent subsidies.

Calvin Coleman, 44, is the third former housing official sentenced in the scheme, which involved recruiting bogus landlords to collect federal housing money. He pleaded guilty April 22 to charges of conspiracy, public corruption and theft.

Carlton Miles pleaded guilty and was sentenced in June to two years in federal prison for his role in the scam. Mario Lovett also pleaded guilty and was sentenced to 18 months.

The men and more than a dozen phony landlords are said to be responsible for more than \$500,000 in losses.

At least 16 people have entered guilty pleas. Phony landlords who have been sentenced have

See RENTAL CONSPIRACY, Page 8 ►  
*Fake landlords collected fraudulent subsidy checks.*

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James Lawrence, the former executive director for the Housing Authority of the City of Winston-Salem (Winston-Salem); Ernest Pitt, the former chairman for the Winston-Salem Board of Commissioners; and Thomas Trollinger, a partner with Pitt doing business as East Point Developers, LLC, were each indicted in U.S. District Court, Greensboro, NC, for making false statements; aiding and abetting; and committing mail and wire fraud, money laundering, honest service violations, and conspiracy. The above defendants allegedly conspired and purchased property with \$414,000 in Winston-Salem funds without authorization, failed to report their financial interest in the property sold to Winston-Salem, and provided false information to Federal agents when questioned.





Cassandra Ashe, the former New London Housing Authority (New London) Section 8 coordinator and current East Haven Housing Authority (East Haven) executive director, and her husband, Jonathan Ashe, a New London employee, were each indicted in U.S. District Court, **Hartford, CT**, for committing conspiracy and theft from a program receiving Federal funds. From August 2003 through August 2005, Cassandra and Jonathan Ashe allegedly conspired and created a fictitious landlord to fraudulently obtain \$204,951 in New London housing contract payments, and from March 2007 through April 2008, they allegedly stole \$192,600 in East Haven housing funds through unauthorized bank withdrawals. HUD losses are estimated at \$397,191.

## Housing Official, Husband Charged

**By EDMUND H. MAHONY**  
COURANT STAFF WRITER

### Accused Of Thefts From East Haven Authority

<p>The executive director of East Haven's housing authority was arrested with her husband Tuesday and charged with stealing \$173,000 of federal housing money that was supposed to help low-income town residents pay their rent.</p> <p>Cassandra Ashe, 36, and her husband, Jonathan, 43, are accused of conspiracy and theft from a program receiving federal money. Cassandra Ashe earns \$57,000 a year as executive director of the authority.</p>	<p>Her husband, who works in the New London Housing Authority's maintenance department, earns \$12.20 an hour. They live in North Haven.</p> <p>According to the arrest warrant affidavit, Cassandra Ashe, without approval from the East Haven Housing Authority, obtained a debit card in May 2007 that gave her access to the authority's bank account containing low-income rental subsidies.</p> <p>Almost immediately after-</p>	<p>ward, a series of 253 withdrawals, totaling \$173,000, began. Of those withdrawals, 68 — totaling \$47,400 — were made on weekends and holidays, many of them from ATM machines at or near shopping malls.</p> <p>Bank records show that, during the period that the withdrawals were being made, the Ashes were spending more money than they earned, the affidavit says.</p> <p>The affidavit says that, in the</p>	<p>case of some of the withdrawals, an agent of the federal Housing and Urban Development's inspector general has bank videos of Cassandra Ashe making the withdrawals. On other occasions, she was followed and observed withdrawing money.</p> <p>During the period that the ATM withdrawals were taking place, Cassandra Ashe is accused of making fictitious reports to the housing authority board of commissioners</p>
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that misrepresented the balance in the rental subsidy account.

The federal subsidy program, known as Section 8, is designed to help qualified, low-income individuals obtain rental housing in the private market.

Both Ashes were arrested Tuesday morning and released on bail of \$200,000 each. If convicted, they face as much as 10 years in prison and \$250,000 in fines.

Contact Edmund H. Mahony at [emahony@courant.com](mailto:emahony@courant.com).

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Brent Wells, the former Crow Creek Housing Authority (Crow Creek) executive director; Alyce McGhee, the former Crow Creek finance officer; and former Crow Creek employees Velsworth Hawk, Carla Big Eagle, and Terra Thompson were collectively sentenced in U.S. District Court, **Pierre, SD**, to 57 months incarceration, 108 months supervised release, and 8 years probation and ordered to pay Crow Creek \$79,682 in restitution and fines totaling \$6,000 for their earlier guilty pleas to committing theft from an Indian tribal organization. From May 2004 through December 2005, the above defendants submitted fictitious receipts and invoices and embezzled \$175,590 in Crow Creek funds.



Patricia Bobo, the former Gary Housing Authority (Gary) finance director, was sentenced in U.S. District Court, **Gary, IN**, to 18 months incarceration and 3 years probation and ordered to pay Gary \$111,000 and the IRS \$39,590 in restitution for her earlier guilty plea to embezzlement and filing false Federal income tax returns. From August 2002 through September 2003, Bobo created, endorsed, and negotiated unauthorized salary payments and failed to claim the embezzled funds on her Federal income tax returns.



Tracey White-Jenkins, the former Irvington Housing Authority (Irvington) Section 8 director, and her sister, Ninetta White, a New Jersey parole officer, were each arrested and charged in U.S. District Court,



Newark, NJ, with committing theft of government funds. White-Jenkins allegedly deposited more than \$95,000 in Irvington checks into her personal bank account, including \$28,000 in Irvington checks written to Exquisite Realty, a New Jersey company allegedly controlled by Ninetta White. In addition, White allegedly obtained Irvington housing contract payments for a property she did not own.



Anslem and Rachele Thompson, former employees of the Lukachukai Chapter Veterans Organization Service Development, Inc. (Lukachukai), a Navajo Housing Authority contractor, were collectively sentenced in U.S. District Court, **Phoenix, AZ**, to 10 years probation and ordered to pay the Navajo Housing Authority \$27,302 in restitution for their earlier guilty pleas to conspiracy to commit embezzlement and theft from an Indian tribal organization. From May 2000 to November 2002, Anslem and Rachele Thompson and others embezzled \$65,000 in Lukachukai funds for their personal use.



George Green, the former Union County Housing Authority (Union County) executive director, was sentenced in Eighth Judicial Circuit Court, **Lake Butler, FL**, to 1 day incarceration (time served) and 3 years probation and ordered to pay HUD \$19,000 in restitution for his earlier *nolo contendere* plea to committing an organized scheme to defraud HUD. From November 2002 to March 2006, Green allegedly received Union County funds for fabricated work and vacation hours, directed Union County personnel to perform services at private residences during Union County work hours, diverted Union County assets for his personal use, disbursed Union County funds for unauthorized expenditures, and created fraudulent Union County rental records for relatives and friends. HUD realized losses of \$57,498.



**Tribal accountant guilty of embezzlement, tax dodge**

ARIZONA DAILY STAR

Loren Albert Goldtooth Sr., who had once overseen public housing funds for the Tohono O'odham Nation, was found guilty of embezzlement and tax evasion charges Friday in federal court in Tucson.

From February 2000 through August 2002, Goldtooth served as executive director of the Ki:Ki Association, the nation's tribal housing entity. During that time he embezzled more than \$200,000 while also failing to file personal and business tax returns.

Not only did Goldtooth charge more than \$17,000 to an association credit card, he also took in more than \$63,000 in unauthorized payments and more than \$34,000 in overtime that he wasn't entitled to, according to his indictment.

Goldtooth, who was originally hired in 1998 by the tribe to do consulting work as a certified public accountant, didn't file his personal tax returns from 2000 to 2002 as well as income tax returns for his accounting firm in 1999 and 2000.

After consulting, Goldtooth was appointed as the association's executive director. But he was fired after allegations of sexual harassment, according to an association press release.

An audit followed, uncovering numerous dubious accounting practices ranging from unnecessary bills to unfinished financial reports and unauthorized payments, among others.

U.S. District Judge David C. Bury presided over the trial. Sentencing is scheduled for July 25.

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Loren Goldtooth, Sr., a former certified public accountant and executive director for the Tohono O'odham Ki:Ki Association (Tohono O'odham), a HUD-funded Indian tribal organization, was sentenced in U.S. District Court, **Tucson, AZ**, to 1 year incarceration and 3 years probation and ordered to pay Tohono O'odham \$52,239 in restitution and the IRS an amount not yet determined for his earlier conviction of committing embezzlement and theft from an Indian tribal organization and failing to file individual and corporate Federal income tax returns. From February 2000 through July 2002, Goldtooth embezzled more than \$52,239 from Tohono O'odham when he obtained unauthorized salary payments and used Tohono O'odham credit cards for personal expenses. Goldtooth also failed to claim the embezzled funds on his 2000, 2001, and 2002 individual Federal income tax returns and failed to file 1999 or 2000 corporate Federal income tax returns for his accounting firm, Goldtooth & Company.



Frank Giannoccaro, a former Rochester Housing Authority, **Rochester, NY**, contractor and owner of Giannoccaro Plumbing and Construction, Inc., was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for three years. Giannoccaro, who previously pled guilty to committing theft of government funds, submitted more than \$36,000 in fraudulent work orders and completion certifications to the Rochester Housing Authority.



Erica Spears, the former Omaha Tribal Housing Authority (Omaha Tribal) executive director, was indicted in U.S. District Court, **Omaha, NE**, for committing theft from an organization receiving Federal funds and embezzlement from an Indian tribal organization. Spears allegedly acquired unauthorized salary payments, falsified travel reimbursement forms, and fraudulently obtained Omaha Tribal funds through loans she failed to repay. HUD losses are estimated at \$30,000.



Lesvia Barrera, the former executive director for the Eagle Pass Housing Authority, and her nephew, Juan Sifuentes, were each charged in U.S. District Court, **Eagle Pass, TX**, with committing conspiracy to defraud the government with respect to claims. In October 2001 and August 2003, Barrera and Sifuentes allegedly submitted fraudulent claims totaling \$17,800 to HUD for work unrelated to the housing authority.



Tonya Jackson, the former Claiborne Parish Section 8 program executive director, was arrested and charged in Claiborne Parish District Court, **Homer, LA**, with committing theft over \$500. Jackson allegedly falsified FSS program documents and obtained kickbacks from FSS tenants after they received FSS graduation payments. HUD realized losses of about \$17,000.



Tequetta Cody, a former Indianapolis Housing Authority housing manager, was indicted in Marion County Superior Court, **Indianapolis, IN**, for committing theft. Cody allegedly wrote off bad debts, falsified accounting journals, and housed ineligible housing recipients in HUD-subsidized housing units. HUD losses are estimated at \$9,047.



Rochelle Brown, a former Durham Housing Authority (Durham) commissioner and Section 8 landlord, was arrested and charged in Durham County State Court, **Durham, NC**, with obtaining property by false pretenses, and Elston Brown was sentenced to 12 months probation and ordered to perform 50 hours of community service for his earlier guilty plea to obtaining property by false pretense. Rochelle Brown allegedly

**Former HUD  
exec arrested**

**MICHELLE BATES**  
*Editor*

in Homer for felony theft over \$500, after a yearlong investigation into allegations that she took money from the parish. She was employed by the Claiborne Parish Police Jury as the executive director of the Claiborne Parish HUD/Section 8 program.

A woman who has been sought for more than a year was arrested Friday afternoon when Homer police served an arrest warrant.

Tonya Z. Jackson, of Arlington, Texas, was arrested

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and her husband Elston Brown admittedly obtained \$3,966 in housing contract payments after a Durham Section 8 tenant vacated their property.



William Porfilio, a former Springfield Housing Authority (Springfield) contractor doing business as Eastern Electronics and Security, Inc., was sentenced in U.S. District Court, **Springfield, MA**, to 2 years probation, ordered to pay Springfield \$12,500 in restitution, and fined \$1,000 for his earlier guilty plea to conspiracy to commit theft and mail fraud. Porfilio and others conspired with the former Springfield executive director, Raymond Asselin, Sr., and embezzled more than \$3.5 million in Springfield funds for their personal benefit.

## Man sentenced in fraud case

By **STEPHANIE BARRY**  
sbarry@repub.com

**SPRINGFIELD** – An electrical contractor was sentenced to two years of probation and ordered to pay \$13,500 after admitting he participated in the Springfield Housing Authority pay-to-play scam.

William Porfilio, of East Longmeadow, received the punishment during the least contentious sentencing proceeding in the high-profile public corruption case.

The investigation revealed a pervasive bid-rigging scheme run by former housing author-

ity executives who coerced vendors to pay bribes in exchange for continued contracts with the taxpayer-funded authority.

Top executives Raymond B. Asselin and Arthur G. Sotirion were sentenced to 10 and nine years, respectively, after pleading guilty to racketeering, bribery and other crimes. Several of Asselin's family members also were prosecuted after admitting they accepted free, high-end home improvements from beholden contractors.

Asselin agreed to pay \$4 million in restitution to the au-

thority under a plea deal. He is serving his sentence at a prison camp in Ayer.

Porfilio, who owns Eastern Electronics, pleaded guilty to one count of conspiracy to commit wire fraud. He admitted he did free electrical work for housing authority managers and their families to secure continued work with the agency.

Porfilio offered a brief, unqualified apology in U.S. District Court yesterday.

"I could have said no, and I did it and it weighed heavily on my conscience," Porfilio told Judge Michael A. Ponsor,

adding that he was almost relieved when federal agents confronted him about paying the bribes.

There was virtually no discord between the prosecution and defense lawyer Michael O. Jennings, who told Ponsor of Porfilio's history of charity work and requested the judge waive any fine.

Ponsor imposed a \$1,000 fine; the rest is restitution which will be paid directly to the housing authority.

The judge said Porfilio was a minor player in the conspiracy and was pulled into "the infection" the city was suffering while the scheme endured.

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Joba Cottreal, a Housing Preservation and Development (Housing Preservation) Housing Choice Voucher program administrator, and 15 additional defendants were each arrested and charged in Bronx County Court, **Bronx, NY**, with committing bribery or bribery receiving. Cottreal allegedly sold housing choice vouchers to more than 300 unqualified individuals waiting for Housing Preservation housing assistance. HUD losses are not yet determined.



Benny Ramos, the former deputy director for the City of Paterson (Paterson) Section 8 program, pled guilty in U.S. District Court, **Newark, NJ**, to accepting cash intending to be influenced and rewarded, and Paterson deputy court administrator Princess Reaves, Paterson employees Victor Ortiz and Standley Williams, and Passaic Valley Water Commission employee George Morgan were collectively sentenced to 51 months incarceration and 132 months probation and fined \$4,500 for their earlier guilty pleas to soliciting and accepting cash payments intending to be influenced in connection with transactions of a local government or

agency or soliciting and accepting corrupt payments under color of official right. In addition, Paterson employees Yolanda Lane, Marie Rosa, and Elisa Griffin and Paterson Housing Authority Section 8 caseworkers Marisol Cortez and Flora Cruz, each previously sentenced for their guilty pleas to conspiracy to defraud the U.S. Government, soliciting and accepting corrupt payments under color of official right, or interfering with commerce by threat or violence, were debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for 3 years. The above defendants and others solicited and accepted bribes from an unnamed conspirator in exchange for steering Section 8 tenants to specific properties.



John Fischer, a Buffalo Municipal Housing Authority (Buffalo) administrator, was arrested and charged in U.S. District Court, **Buffalo, NY**, with committing bribery, extortion, obstruction of justice, and tampering with a witness. Fischer allegedly pressured a Buffalo contractor to provide and install a roof at a private residence in exchange for his assistance on a Buffalo project. In addition, Fischer allegedly attempted to influence the official statements provided by others after he learned of an ongoing investigation.



Michael Macaruso, a former Providence, North Providence, and Cranston Housing Authorities contractor doing business as Ocean State Building Wrecking and Asbestos Removal, Inc., pled guilty in U.S. District Court, **Providence, RI**, to obtaining kickbacks from public works employees and filing false Federal income tax returns. From July 2003 to December 2006, Macaruso submitted false employee wage and benefit certifications to the above housing authorities and failed to report income on his 2005 and 2006 Federal income tax returns.

## Contractor squeezed kickbacks from workers

**Michael Macaruso, of Johnston, pleads guilty to cashing workers' paychecks and giving them only some of the pay.**

**BY EDWARD FITZPATRICK**  
*Journal Staff Writer*

**PROVIDENCE** — An asbestos-removal contractor who did work for public agencies in Providence, Cranston, North Providence and South Kingstons, yesterday pleaded guilty to extorting kickbacks from his employees.

Michael Macaruso, 49, of Bishop Hill Road in Johnston, also admitted that he failed to report more than \$290,000 in income on his tax returns for 2005 and 2006, federal prosecutors said.

"This case should serve as a warning to any other employers who defy the federal prevailing wage law," U.S. Attorney Robert Clark Corrente said. "Exploiting workers in this manner exposes unscrupulous employers to investigation and prosecution."

Macaruso's companies — Ocean State Building Wrecking and Asbestos Removal, and Ocean State Environmental — removed asbestos for the Providence, Cranston and North Providence housing authorities, the Providence School Department and the Town of South Kingstown, prosecutors said. Federal law requires that workers on public sector projects be paid the prevailing wage as calculated by the Department of Labor.

Macaruso did submit certified payrolls to the public agencies, reporting that he was paying his workers the prevailing wages, and he did provide time sheets to an accounting firm, which generated paychecks for the workers at prevailing wages, prosecutors said.

But instead of distributing the

**"This case should serve as a warning to any other employers who defy the federal prevailing wage law."**

**ROBERT CLARK CORRENTE**  
*U.S. Attorney*

paychecks, Macaruso cashed them himself and then handed out cash to workers at "significantly less" than the prevailing wage, Assistant U.S. Attorney Lee H. Vicker said at yesterday's plea hearing.

Ten employees reported that Macaruso held back some of their pay. And the investigation determined that Macaruso withheld about \$95,000 that was due to his workers, prosecutors said.

"Rather than distribute the payroll checks to his employees, on many occasions from July 2003 through December 2006, defendant Michael Macaruso would either himself sign the employees' names on the backs of the checks or require the employees to endorse the backs of their paychecks and return the paychecks to them," prosecutors stated in court documents.

Macaruso would meet with each worker on a weekly basis, giving them an amount of cash that was "significantly below the amount of their paycheck," prosecutors said. "The employees accepted less in cash than the amounts of their paychecks due to their belief that they would lose their jobs if they insisted upon receiving the prevailing wage."

Besides paying less than the prevailing wage for regular hours worked, Macaruso paid less than the time-and-a-half rate required

**SEE CONTRACTOR, A6**

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## Rental Assistance Fraud

Jonathon Hon, a former Chicago Housing Authority (Chicago) Section 8 landlord and owner of Burnham Mortgage, Inc., and Sandra Pickett and Myrtis Burkhart, also known as Myrtis Griffin, Chicago Section 8 tenants, were each charged or indicted in U.S. District Court, **Chicago, IL**, for making false statements; theft of government funds; or committing mail, wire, or bankruptcy fraud. Hon allegedly provided false documents used by unqualified straw borrowers to obtain conventional mortgages, obtained and personally used \$1.9 million in fraudulent loan proceeds, failed to report the sale of his Section 8-subsidized properties on housing

certifications, and obtained more than \$210,000 in housing contract payments he was not entitled to receive. Pickett and Burkhart allegedly failed to report income or assets on housing and other certifications and together obtained \$50,800 in housing assistance and \$167,200 in Social Security Administration (SSA) benefits they were not entitled to receive. In addition, former Chicago Section 8 landlord Burnyss Perry pled guilty to committing theft, and Chicago Section 8 landlord Joseph Payne and Section 8 tenant Karla Smith entered into civil settlements and agreed to collectively pay HUD \$56,000. Perry inflated the value of properties he sold to unqualified straw borrowers who obtained conventional mortgages, placed the properties owned by others into the Chicago Section 8 program, and fraudulently obtained more than \$70,000 in housing assistance payments. Payne and Smith failed to report income, assets, or their joint residency on housing certifications. Collectively, the above defendants caused HUD losses of \$386,800.



Sandra Dargon, Cynthia Howell, and Omaira Blalock, also known as Omaira Hernandez, New York City Housing Authority (New York City) Section 8 tenants, were each arrested and charged in U.S. District or Bronx County Courts, **New York City, NY**, with committing theft of government funds, grand larceny, or welfare fraud. In addition, six New York City housing recipients were collectively sentenced to 24 months incarceration, 12 months home confinement, and 192 months probation and ordered to pay New York City \$260,937 in restitution for their earlier guilty pleas to committing theft of government funds. Dargon, Howell, and Blalock allegedly and remaining defendants admittedly failed to report income, accurate household compositions, or unauthorized residents on housing certifications and together obtained \$320,937 in housing assistance they were not entitled to receive.



Irma Saucedo, a Miami-Dade Housing Authority (Miami-Dade) Housing Choice Voucher program participant, was arrested after her indictment in U.S. District Court, **Miami, FL**, for committing theft of government property and aggravated identity theft; Miami-Dade housing recipient Kendrick Davis, Jr., was charged with committing public assistance fraud and grand theft; and Miami-Dade housing recipients Latrice Cleveland and Thelma Thomas each pled guilty to committing public assistance fraud and grand theft. In addition, 10 current or former Miami-Dade housing recipients were collectively sentenced to 366 days incarceration and 73 years probation and ordered to perform 800 hours of community service and pay HUD \$204,681 in restitution for their earlier guilty pleas to making false statements, committing grand theft and public assistance fraud, or fraudulently using identification documents. Saucedo and Davis allegedly and the remaining defendants admittedly failed to report income, assets, accurate household compositions, criminal

## Mortgage crackdown hits Chicago targets

Up to 70 people may be charged with fraud here

By Jeff Coen and Todd Lighty  
TRIBUNE REPORTERS

Federal authorities fanned out Wednesday and began making arrests in what sources called a sweeping investigation of mortgage fraud in the Chicago area and across the country.

Up to 70 people were expected to be charged here as part of the effort, sources said. A first indictment publicly surfaced this week.

The operation comes amid an unfolding mortgage crisis nationwide that has led federal authorities to make mortgage fraud a new priority.

Announcements of charges were expected as soon as Thursday in

Washington D.C., Chicago and elsewhere.

As mortgage fraud has boomed, it has become more sophisticated, authorities have said, and investigators have begun targeting prolific crews, some with links to street gangs. Those arrested this week in the latest case include brokers and appraisers, sources said.

The investigation is the first major case of its kind in Chicago since federal authorities brought charges in February in a mortgage fraud scheme that grew out of a probe of the Black Disciples and Black P Stone gangs, authorities said.

In that case, drug money was being laundered through the purchase and renovation of real estate, authorities said. Investigators with the FBI and U.S. Postal

PLEASE SEE **MORTGAGE** ► PAGE 9

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histories, or the subleasing of their subsidized units on housing certifications and together obtained \$288,274 in housing assistance they were not entitled to receive.



Gaila Requena, Isa Buechner, and Aran and Marquita Tolliver, current or former Las Vegas Housing Authority (Las Vegas) Section 8 tenants, were each charged in Clark County Justice Court, **Las Vegas, NV**, with committing theft by misrepresentation or obtaining money under false pretenses. In addition, five former Las Vegas Section 8 tenants were collectively sentenced to 12 months incarceration (suspended) and 3 years probation and ordered to pay Las Vegas \$54,584 in restitution for their earlier guilty pleas to conspiracy to commit a crime or attempted theft. Requena, Buechner, and Aran and Marquita Tolliver allegedly and the remaining defendants admittedly failed to report income, accurate household compositions, or their criminal histories on housing certifications and together obtained \$189,786 in housing assistance they were not entitled to receive.



Jan Freeman, Victoria Shakoor, and Pamela Lovitt, former Prince Georges Department of Housing and Community Development Housing Choice Voucher program participants, were each charged in Prince Georges County Circuit Court, **Upper Marlboro, MD**, with committing theft over \$500. The above defendants allegedly failed to report unauthorized residents and their incomes or registered sex offender classifications on housing certifications and collectively obtained \$136,972 in housing assistance they were not entitled to receive.



Blanca Martinez and Sonia Luciano, also known as Nancis Sepulveda, Yonkers Municipal Housing Authority Section 8 tenants, were charged in U.S. District or Yonkers City Courts, **Westchester, NY**, with filing a false instrument or committing grand larceny or identity theft. Martinez and Luciano allegedly submitted false identity documents or failed to report income and assets on housing certifications and together obtained about \$134,478 in housing assistance they were not entitled to receive.



Mary Ann Miles, a former Arlington County Department of Human Services Housing Choice Voucher program participant, pled guilty in Arlington County Circuit Court, **Arlington, VA**, to committing forgery of public documents. From 1991 through 2004, Miles failed to report an unauthorized resident or his income on housing certifications and obtained \$120,195 in housing assistance she was not entitled to receive.



Tara Crespo, a Homestead Housing Authority Housing Choice Voucher program participant, was indicted in U.S. District Court, **Miami, FL**, for making false statements and committing theft of government funds; Stacey Chestnut and Evelyn Bessent, former Pompano or Palm Beach County Housing Authority Section 8 tenants, each pled guilty to making false statements and committing theft of government funds; and former Broward County Section 8 tenant Natasha Bradley was sentenced to 180 days home detention and 3 years probation and ordered to perform 100 hours of community service and pay HUD \$33,854 in restitution for her earlier guilty plea to committing theft of government funds. Crespo allegedly and Chestnut, Bessent, and

Bradley admittedly failed to report income, assets, or the subleasing of their HUD-subsidized unit on housing certifications and collectively obtained \$107,332 in housing assistance they were not entitled to receive.



Ernestine Bumpass and Nakeisha Minor, also known as Nakeisha Taylor, Durham Housing Authority (Durham) housing recipients, were each arrested and charged in Durham County District Court, **Durham, NC**, with obtaining property by false pretenses. In addition, Durham housing recipients Larunatta Barlow and Margaret Mangum each pled guilty to obtaining property by false pretenses, and former Durham housing recipients Sheila Browder and Shronda Johnson were collectively sentenced to 45 days incarceration and 48 months probation and ordered to pay Durham \$5,631 in restitution for their earlier pretrial diversion or guilty plea to obtaining property by false pretenses. Bumpass and Minor allegedly and the remaining defendants admittedly failed to report income, unauthorized residents, or their accurate marital status on housing certifications and collectively obtained \$103,433 in housing assistance they were not entitled to receive.



Aida Contreras and Brenda Grubisich, former Cook County Housing Authority (Cook County) Section 8 tenants, were each charged in Cook County Circuit Court, **Chicago, IL**, with committing theft by deception. In addition, Cook County Section 8 landlord Julius Macklin, also known as Julius Heart, pled guilty to committing wire fraud, and former Cook County Section 8 tenant Jean Marshal, also known as Jean Allen, was sentenced to 3 years probation and ordered to pay HUD \$10,122 and the SSA \$81,788 in restitution for her earlier guilty plea to committing theft of government funds. Contreras and Grubisich allegedly and Macklin and Marshal admittedly failed to report income, assets, SSA benefits, fraudulent use of identification documents, or familial relationships to Section 8 landlords on housing and other certifications and collectively obtained \$98,487 in housing assistance and \$253,733 in SSA and other benefits they were not entitled to receive.



Tomeka Jackson, Cynthia Milhouse, and Elodis Platt, former Saint Petersburg, Pinellas County, or Sarasota Housing Authorities Section 8 or Housing Choice Voucher program participants, were each charged or indicted in U.S. District Court, **Tampa, FL**, for making false statements and committing theft of government funds. Jackson, Milhouse, and Platt allegedly failed to report income on housing certifications and together obtained \$96,496 in housing assistance they were not entitled to receive.



Kindole Roberson and her daughter Tiffanee Rankins, former Inglewood Housing Authority (Inglewood) Section 8 tenants, and Erika Hamlet were each charged in Los Angeles County Superior Court, **Inglewood, CA**, with filing a false instrument or committing forgery. In addition, former Inglewood Section 8 tenants Karen Fleming and Kesha Burton were collectively sentenced to 8 years probation and ordered to perform 250 hours of community service and pay Inglewood \$46,487 in restitution for their earlier guilty pleas to committing grand theft and perjury. Roberson, Rankins, and Hamlet allegedly failed to report income or provided forged documents, and Fleming and Burton failed to report income or an unauthorized resident on housing certifications. HUD losses are estimated at \$90,487.



## *FedRent Initiative*

Recent studies indicate that an estimated 60 percent of all subsidized housing rents are miscalculated, and approximately \$5.2 billion in erroneous and net annual subsidy overpayments are a result of both errors in program administration and tenants underreporting income.

In an effort to combat administrative overpayments and tenant fraud, HUD and HUD OIG commenced "Operation FedRent," a joint effort to address rental assistance fraud involving Federal employees. Operation FedRent compares HUD tenant data to current and retired Federal employee information maintained by the U.S. Office of Personnel Management. After the data comparison, an income eligibility determination is made, and the Social Security numbers for family members six years of age and older are verified. If a discrepancy exists, an investigation is opened and appropriate administrative or legal actions are initiated to collect any overpaid housing assistance. Results of Operation FedRent during this semiannual reporting period are described below.



Ten Chicago Housing Authority, Cook County Housing Authority, or Aurora Housing Authority public housing or Section 8 tenants and current or former U.S. Postal Service (USPS) employees were each charged in U.S. District Court, **Chicago, IL**, for making false statements and committing theft of government funds or mail fraud. The above defendants allegedly failed to report income on housing certifications and collectively obtained \$247,000 in housing assistance they were not entitled to receive.



Lauton Joshua, a former San Francisco Housing Authority (San Francisco) Section 8 tenant and U.S. Army employee, and her grandmother, Helen Lowe, a former San Francisco Section 8 landlord, were collectively sentenced in U.S. District, **San Francisco, CA**, to 15 months incarceration and 6 years probation, fined \$30,000, and ordered to jointly pay HUD \$126,934 in restitution for their earlier guilty pleas to making false statements. In addition, Lowe was suspended from procurement and nonprocurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government pending the outcome of any related debarment actions. From August 1998 to December 2006, Joshua and Lowe failed to report income, assets, or their familial relationship on housing certifications and together obtained \$126,934 in housing assistance they were not entitled to receive.



Latoya Mason, a former District of Columbia Housing Authority (DC Housing Authority) Section 8 tenant and former U.S. Department of Veterans Affairs (VA) employee, pled guilty in U.S. District Court, **Washington, DC**, to making false claims and fraudulently obtaining public assistance. In addition, Barbara Johnson and Gerry Coffee, former DC Housing Authority housing recipients and current VA or IRS employees, were collectively sentenced to 5 years probation and ordered to perform 250 hours of community service and pay DC Housing Authority \$59,344 in restitution for their earlier guilty pleas to committing fraud in obtaining public assistance. From 1999 through 2006, Mason, Johnson, and Coffee failed to report income or unauthorized residents and their criminal histories on housing certifications and together obtained \$110,233 in housing assistance they were not entitled to receive.



Sonya Reshard, a former Housing Authority of the County of Los Angeles (Los Angeles County) Housing Choice Voucher program participant and USPS employee, was sentenced in U.S. District Court, **Los Angeles, CA**, to 6 months incarceration and 2 years probation and ordered to pay Los Angeles County \$71,267 in restitution for her earlier guilty plea to making false statements and willfully causing an offense against the government. Reshard failed to report income on housing certifications and obtained \$71,267 in housing assistance she was not entitled to receive.



Antoinette Love, a former Compton Housing Authority (Compton) Section 8 tenant and current USPS employee, was sentenced in U.S. District Court, **Los Angeles, CA**, to 5 years probation and 4 months home detention with electronic monitoring and ordered to pay Compton \$58,000 in restitution for her earlier guilty plea to making false statements. From 1999 to 2007, Love failed to report income on housing certifications and obtained more than \$51,000 in housing assistance she was not entitled to receive.



Dinorah Cancel, a former Tampa Housing Authority (Tampa) Section 8 tenant and current USPS employee, pled guilty in U.S. District Court, **Tampa, FL**, to committing theft of government funds. In addition, former Tampa Section 8 tenants and USPS employees Luz Correa and Bienvenido Rosa Santos were collectively sentenced to 90 days incarceration, 90 days home detention, 90 days in a residential reentry program, and 7 years of supervised release and ordered to pay HUD \$47,046 in restitution for their earlier guilty pleas to committing theft of government funds. From February 2002 to August 2007, the above defendants failed to report income on housing certifications and collectively obtained \$47,046 in housing assistance they were not entitled to receive.



Kim Carson, a former Santa Monica Housing Authority housing recipient and U.S. Department of Defense auditor who previously pled guilty to committing theft of public monies, entered into a Program Fraud Civil Remedies Act settlement filed in U.S. District Court, **Santa Monica, CA**, and agreed to pay HUD \$4,000. Carson submitted altered employment documents, failed to report income, and obtained \$44,843 in housing and FSS program assistance she was not entitled to receive.



Daniel Engle, a Cuyahoga Metropolitan Housing Authority (Cuyahoga Metropolitan) Section 8 landlord, and Cindy Valentine, also known as Cindy Engle, a Cuyahoga Metropolitan Section 8 tenant and IRS employee, were each charged in U.S. District Court, **Cleveland, OH**, with making false statements and committing theft of government funds. In addition, Cuyahoga Metropolitan Section 8 tenant and IRS employee Kenyada Spates was indicted in Cuyahoga County Court of Common Pleas for committing grand theft and tampering with records. Engle, Valentine, and Spates allegedly failed to report income, assets, or their accurate marital status and household compositions on housing certifications and collectively obtained \$35,928 in housing assistance they were not entitled to receive.





Temeria Alexander, a former Charlotte Housing Authority Section 8 tenant and USPS employee, was sentenced in U.S. District Court, **Charlotte, NC**, to 6 months incarceration and ordered to pay HUD \$29,669 in restitution for her earlier guilty plea to making false statements and embezzlement of government funds. Alexander failed to report income on housing certifications and obtained \$29,669 in housing assistance she was not entitled to receive.



Elizabeth Rosa, a former Orange County Housing Agency (Orange County) Section 8 tenant and current USPS employee, pled guilty in U.S. District Court, **Tampa, FL**, to making false statements and theft of government funds. From June 2001 to July 2006, Rosa failed to report income on housing certifications and obtained \$28,931 in housing assistance she was not entitled to receive.



Natasha Acoff, a Cook County Housing Authority Section 8 tenant and current U.S. Department of Homeland Security employee, was charged in U.S. District Court, **Chicago, IL**, with making false statements. Acoff allegedly failed to report income on housing certifications and obtained \$27,200 in housing assistance she was not entitled to receive.



Brenda Houston, a former Housing Authority of Kansas City (Kansas City) Section 8 tenant and IRS employee, was sentenced in U.S. District Court, **Kansas City, MO**, to 4 months incarceration and 3 years supervised probation and ordered to pay Kansas City \$25,812 in restitution for her earlier guilty plea to committing theft of government funds. From December 2001 through February 2005, Houston failed to report income on housing certifications and obtained \$25,812 in housing assistance she was not entitled to receive.



Debra Freeman, a former East Chicago Housing Authority public housing tenant and USPS employee, was sentenced in U.S. District Court, **Hammond, IN**, to 3 years probation and ordered to pay HUD \$20,675 in restitution for her earlier guilty plea to committing theft of government funds. Freeman failed to report income on housing certifications and obtained \$20,675 in housing assistance she was not entitled to receive.



Lakeesha Jefferson, a San Francisco Housing Authority Section 8 tenant and current Federal Emergency Management Agency (FEMA) employee, was indicted in U.S. District Court, **San Francisco, CA**, for committing theft of government funds and making fraudulent claims. From October 2004 through October 2006, Jefferson allegedly failed to report income on housing certifications, submitted fraudulent FEMA travel vouchers, and obtained \$14,511 in housing assistance and \$16,252 in travel reimbursements she was not entitled to receive.



Peter Ruach, a former Portland Housing Authority public housing tenant and USPS employee, was sentenced in U.S. District Court, **Portland, ME**, to 36 months probation and ordered to pay HUD, the U.S. Department of Health and Human Services, and the U.S. Department of Agriculture \$7,596 in restitution for his earlier guilty plea to making false statements and committing theft of government property. From November 2004 through September 2005, Ruach failed to report income on housing and other certifications and obtained \$4,686 in housing assistance and \$2,900 in welfare and other benefits he was not entitled to receive.

### *Fugitive Felon Initiative*

Enacted into law in 1996, Section 903 of Public Law 104-193, "Elimination of Housing Assistance with Respect to Fugitive Felons and Probation and Parole Violators," amended 42 U.S.C. §§ 1437d, 1437z, and allows for the termination of housing subsidies for public or assisted housing tenants who flee to avoid prosecution, avoid confinement after conviction of a felony, or violate conditions of their parole or probation. The law also authorizes Federal, State, and local law enforcement agencies to exchange information and perform data matches.

OIG supports the Fugitive Felon Initiative (FFI) by matching HUD housing assistance information with crime data from the National Crime Information Center, U.S. Marshals Service (USMS), and other participating law enforcement data banks. In addition, OIG special agents actively participate in the USMS "Operation FALCON," a joint Federal, State, city, and county law enforcement effort to locate and apprehend fugitive felons wanted for violent crimes. Conducted in most major cities throughout the United States and its territories, Operation FALCON places a strong emphasis on apprehending fugitive felons involved in gangs, homicides, sexual assaults, or crimes against the elderly and children. Since the inception of OIG's FFI, hundreds of cases have been opened and closed, resulting in more than 8,374 arrests. OIG strongly supports Operation FALCON in an effort to make HUD public and assisted housing safe places for families to live. FFI results during this semiannual reporting period are described below.



HUD OIG participated in Operation FALCON in **Kansas City** and **St. Louis, MO**. As a result, 219 individuals were arrested on outstanding warrants, and nine of those arrested resided in HUD-subsidized housing.



HUD OIG participated in Operation FALCON in **Wichita** and **Kansas City, KS**. As a result, 28 individuals were arrested on outstanding warrants, and two individuals arrested resided in HUD-subsidized housing.



HUD OIG participated in Operation FALCON in **Salt Lake City, UT**. As a result, 50 individuals were arrested on outstanding warrants, and seven of those arrested resided in HUD-subsidized housing.





HUD OIG participated in Operation FALCON in **East St. Louis, IL**. As a result, 19 individuals who resided in HUD-subsidized housing were arrested on outstanding warrants.



HUD OIG participated in Operation FALCON in **Newell, SD**. As a result, one person who resided in HUD-subsidized housing was arrested on outstanding warrants.



Staniford Griswold was sentenced in U.S. District Court, **Kansas City, MO**, to 30 months incarceration and 36 months supervised release for his earlier guilty plea to assault on a Federal officer. Griswold assaulted a HUD OIG special agent during Operation FALCON.



Jacquelyn McFarland was arrested and charged in U.S. District Court, **Wichita, KS**, with assaulting a Federal officer. McFarland allegedly assaulted a HUD OIG special agent and a deputy U.S. marshal during Operation FALCON.



Lamesha Ware, a former Pinellas County Housing Authority Section 8 tenant, was arrested on an outstanding warrant for violating her conditions of release. Ware, who was previously sentenced in U.S. District Court, **Tampa, FL**, to 4 months incarceration and 32 months supervised release and ordered to pay HUD \$36,997 in restitution for her earlier guilty plea to making false statements, allegedly failed to reside in a residential reentry center, comply with the home detention program, or pay the court-ordered restitution.



Ruigui Xia and German Cruz, New York City Housing Authority Section 8 tenants, were each arrested in **New York City, NY**, on outstanding warrants that charged them with deportation violations.



William Suffron and Leslie Weeks, Wichita Housing Authority Section 8 tenants, were each arrested in **Wichita, KS**, on outstanding warrants that charged them with larceny, forgery, burglary, or probation violations.



Twenty-two Ogden Housing Authority public housing, Section 8, or Housing Choice Voucher program participants were arrested in **Salt Lake City, UT**, on outstanding warrants that charged them with narcotic, assault, theft, or other violations.





## *Other Fraud and Crimes*

Michael Eliasof, a realtor and owner of Paterson Management, LLC, and MGE Investments; William Ottaviano, an appraiser for Equity Appraisal Services, LLC (Equity Appraisal); and Equity Appraisal were each suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment action. Eliasof, Ottaviano, and others allegedly provided false loan documents and appraisals used by unqualified investors to obtain conventional mortgages. The investors placed the fraudulent mortgaged properties into the Paterson Housing Authority or the City of Paterson Section 8 housing programs and obtained housing contract payments they were not entitled to receive. HUD losses are not yet determined.



David and Anna Delle Donna, the mayor of Guttenberg, NJ, a Guttenberg Planning Board member, and Guttenberg Housing Authority Section 8 landlords, were each convicted in U.S. District Court, **Newark, NJ**, of conspiracy to commit extortion and filing false Federal income tax returns. David Donna accepted payoffs as campaign contributions, and David and Anna Donna failed to report \$25,000 in housing contract payments on their 2004 and 2005 Federal income tax returns.



Terry Rice was indicted in U.S. District Court, **Kansas City, MO**, for uttering a forged and counterfeit security. Rice allegedly negotiated a counterfeit Independence Housing Authority check.



Felix Ortiz-Garcia, a former Harrisburg Housing Authority (Harrisburg) public housing tenant, was sentenced in U.S. District Court, **Harrisburg, PA**, to 13 years incarceration for his earlier guilty plea to unlawful distribution of heroin. Ortiz-Garcia distributed heroin from his Harrisburg public housing unit.



*Chapter 3*

# HUD's Multifamily Housing Programs



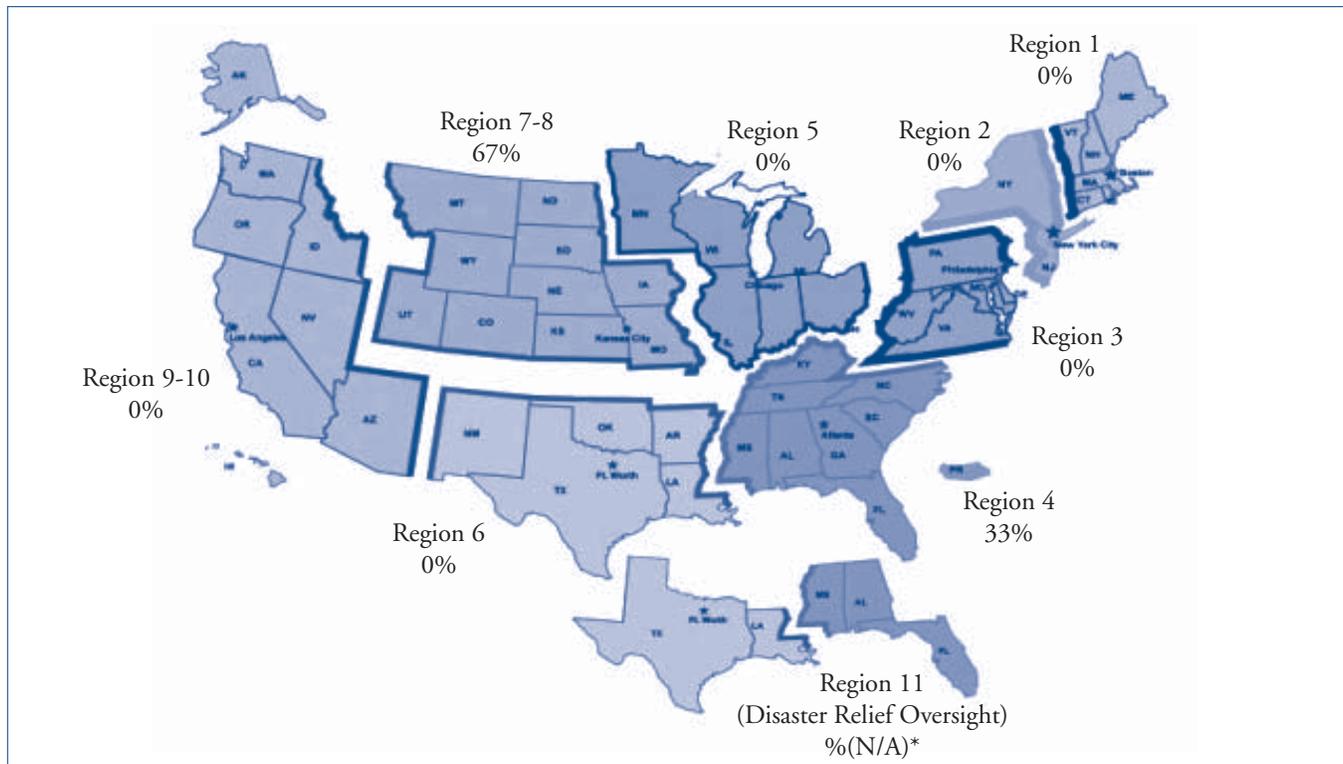
In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, the Department subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly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

## Audits

### Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results		Questioned costs	Funds put to better use
Audit	3 audits	\$3.3 million	---
Our focus	Page 63	- HUD's use of residual receipts	
	Page 63	- Owner and management agent operations	
	Page 63	- Opt-out process for project-based Section 8	

Chart 3.1: Percentage of OIG multifamily housing audit reports during this reporting period



\* This does not include hurricane relief audits. See chapter 5 for these reviews.



## *HUD's Use of Residual Receipts*

The HUD Office of Inspector General (OIG) audited HUD's use of residual receipts in lieu of reserve for replacement funds to determine whether HUD appropriately authorized residual receipt withdrawals in lieu of reserve for replacement funds for new regulation multifamily projects.

HUD inappropriately authorized the use of more than \$3.2 million in residual receipt funds for ineligible project costs. Regional and field office staff nationwide were either not familiar with or overlooked the residual receipt use requirements for new regulation multifamily projects. As a result, HUD lost \$3.2 million that it could have used more effectively for additional housing subsidies and other authorized taxpayer purposes.

OIG recommended that HUD, on a project-by-project basis for the 14 projects reviewed, ensure that the projects reimburse the residual receipts account with reserve for replacement or operating funds, unless this action negatively affects the project. In addition, HUD needs to ensure that regional and field office staff fully understand and comply with the requirements regarding the use of residual receipts for new regulation multifamily projects. (Audit Report: 2008-KC-0007)

## *Owner and Management Agent Operations*

HUD OIG audited Bethany Towers Apartments, **Tampa, FL**, to determine whether the nonprofit owner and management agents complied with the project's regulatory agreement, applicable laws, and other HUD requirements pertaining to the sale and transfer of ownership interest in the project, use of project assets, identity-of-interest (IOI) relationships, necessity and reasonableness of project costs, and record keeping.

The owner and its undisclosed IOI management agent did not provide proper oversight and management of the project's financial affairs. The owner executed an unauthorized agreement to sell the project, diverted \$90,000 in funds paid toward the purchase to its church sponsor, selected an undisclosed IOI management agent, allowed financial harm to the project from IOI dealings, incurred more than \$16,000 in ineligible/improperly supported costs, and maintained inadequate books and records.

OIG recommended that HUD (1) determine whether to declare the project in technical default of its regulatory agreement and initiate foreclosure proceedings; (2) require the owner to repay or support more than \$106,000 in questioned costs, which include the diverted funds; (3) require the owner to establish and implement policies and procedures to ensure compliance with HUD requirements; (4) take appropriate administrative action against the owner and its IOI agent for the most significant reported violations; and (5) seek double damages against the owner for diverting \$90,000 received for the purchase of the project. (Audit Report: 2008-AT-1013)

## *Opt-Out Process for Project-Based Section 8*

HUD OIG reviewed HUD's oversight of projects that opted out of the Section 8 program between January 1, 2004, and December 31, 2007, because the opt-out process involved large amounts of funds potentially not accounted for or remitted to HUD.

With a few minor exceptions, HUD complied with applicable requirements while administering the opt-out process for the nine Section 8 projects reviewed. In addition, for all nine projects, the responsible



depository properly remitted residual receipts to HUD or released the residual receipts to the projects' owners, or the balance in the residual receipts account was zero so no action was required. (Audit Report: 2008-KC-0005)

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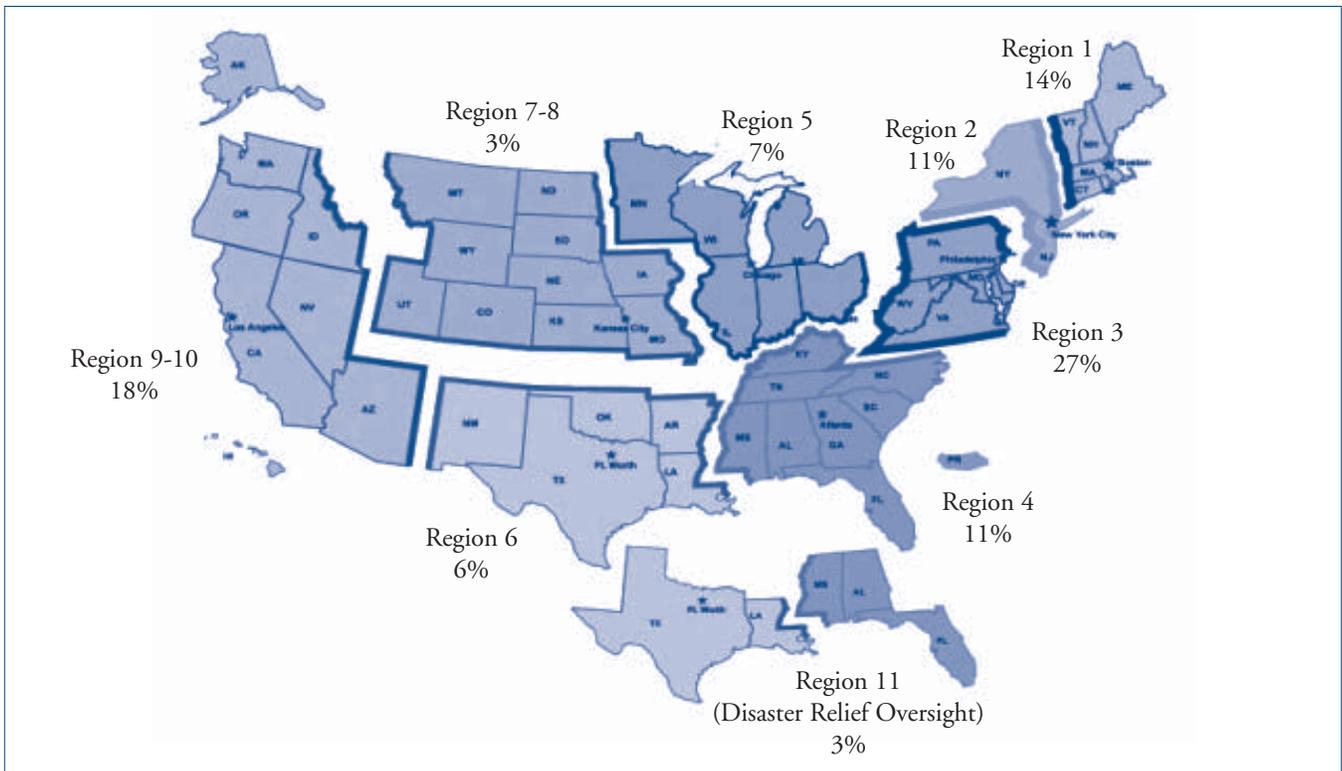
# Investigations

Some investigations discussed in this report were generated from leads provided by HUD multifamily housing program staff or conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

## Strategic Initiative 2: Contribute to the reduction of erroneous payments in rental assistance

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	66	\$2,892,389	30	62
Our focus	Page 66 Page 67 Page 69	- Theft/embezzlement - Rental assistance fraud - Other fraud/crimes		

Chart 3.2: Percentage of OIG multifamily housing closed investigation cases during this reporting period





## *Theft / Embezzlement*

Debbie Bethany, the owner of Southern Investment Management Company and the management agent for Hillview Apartments, a HUD-subsidized multifamily housing development, was indicted in U.S. District Court, **Oxford, MS**, for committing embezzlement, theft of government funds, and bribery. Bethany allegedly embezzled \$550,000 in HUD and U.S. Department of Agriculture housing funds.



Wynee Joyner, the vice president of National Housing Group, Inc., a HUD contractor who oversees the management and maintenance of HUD-owned multifamily housing developments, was indicted in U.S. District Court, **New York City, NY**, for conspiracy to commit mail fraud. Joyner allegedly falsified vendor invoices and submitted false claims to HUD in an effort to circumvent contract terms and obtain HUD reimbursements before paying third-party vendors. HUD losses are not yet determined.



Sentry Security entered into a settlement with HUD and agreed to pay Hunts Point I, a HUD-subsidized multifamily housing development located in the **Bronx, NY**, \$107,841 for work not performed. Sentry Security allegedly submitted false invoices and obtained \$107,841 for services not performed.



Denise Toce, a former housing manager for Luther Ridge Apartments (Luther Ridge), a HUD-subsidized multifamily housing development, was sentenced in Connecticut Superior Court, **Middletown, CT**, to 4 years incarceration (suspended) and 3 years probation and ordered to pay Luther Ridge \$18,000 in restitution for her earlier guilty plea to committing larceny. Toce embezzled about \$25,000 in Luther Ridge rents and security deposits.



Linda Copenhaver, a former manager for Kingston House, a HUD-subsidized multifamily housing development for senior and disabled citizens, was charged in U.S. District Court, **Harrisburg, PA**, with embezzlement. Copenhaver allegedly embezzled \$12,000 from an elderly tenant.



Nickhoulas Vitale, a former painter for Co-Op City, a HUD-subsidized 15,372 unit multifamily housing development, was sentenced in U.S. District Court, **New York City, NY**, to 3 months incarceration, 3 months home confinement, and 3 years supervised release and ordered to forfeit \$10,000 for his earlier guilty plea to committing bribery. Vitale paid kickbacks to previously indicted Iris Baez, the former board president for Co-Op City, in exchange for \$3.5 million in painting contracts awarded to his employer, Stadium Interior Painting.





Betty Jefferson, the former president of the St. Stephen Manor, Inc. (St. Stephen), a HUD-subsidized multifamily housing development; her brother, Mose Jefferson; and Angela Coleman, a St. Stephen manager, were each indicted in U.S. District Court, **New Orleans, LA**, for making false statements; evading Federal income tax; and committing conspiracy, aggravated identity theft, embezzlement, mail fraud, and money laundering. From October 2001 to September 2006, the above defendants allegedly embezzled and personally used about \$931,225 in Federal and State grant funds, including \$9,230 in HUD housing assistance payments. In addition, former St. Stephen employee Brenda Jefferson, also known as Brenda Foster, pled guilty to misprision of a felony. Brenda Jefferson failed to report her knowledge of the alleged fraudulent activities involving Betty Jefferson and the other defendants identified above.

### *Rental Assistance Fraud*

Christian Ighodaro and Uyi and Lucy Omo, former Section 8 tenants at Mandela Homes, a HUD-subsidized multifamily housing development, were collectively sentenced in Boston Municipal Court, **Boston, MA**, to 66 months probation and ordered to pay HUD \$19,000 for their earlier guilty pleas to committing larceny over \$250 by a single scheme. From January 2001 to August 2006, Ighodaro and Uyi and Lucy Omo failed to report income or assets on housing certifications and collectively obtained \$97,292 in housing assistance they were not entitled to receive.



Hong Le, a former Section 8 tenant at the El Rancho Verde Apartments, HUD-subsidized multifamily housing development, was sentenced in California Superior Court, **San Jose, CA**, to 28 months incarceration and ordered to pay Choices for Children \$9,418 in restitution for her earlier *nolo contendere* plea to committing grand theft. Le allegedly failed to report an unauthorized resident on housing certifications and obtained \$80,356 in housing assistance she was not entitled to receive.



Jeri Hill, a former Section 8 tenant at Glenridge Cooperative Apartments, a HUD-subsidized multifamily housing development, was sentenced in U.S. District Court, **San Francisco, CA**, to 3 years probation, ordered to perform 100 hours of community service and pay HUD \$54,754 in restitution, and fined \$2,500 for her earlier guilty plea to submitting false documents to HUD. From January 2003 through October 2007, Hill failed to report income on HUD certifications and obtained \$54,754 in housing assistance she was not entitled to receive.



Trenell Peoples, a Section 8 tenant at Coral Gardens Apartments (Coral Gardens), a HUD-subsidized multifamily housing development, was charged in Eleventh Judicial Circuit Court, **Homestead, FL**, with organizing a scheme to defraud and committing public assistance fraud and grand theft. In addition, Coral Gardens Section 8 tenants Prudencio Rodriguez entered into a pretrial diversion, Eliezer Cruz was sentenced

**Jefferson sibling pleads guilty in fraud**

*Youngest sister says she knew about scam*

By Gordon Russell  
Staff writer

Dealing a blow to her family's hang-tough legal posture, Brenda Jefferson, the youngest sister of embattled U.S. Rep. William Jefferson, pleaded guilty Wednesday to concealing her knowledge of a conspiracy to skim money from nonprofit groups controlled by relatives.

The plea marked the first admission of guilt by a member of the Jefferson family, five of whom have been charged with federal crimes in the past year.

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for his earlier guilty plea to making false statements, and Joann Thompson was given a suspended entry of sentence for her earlier guilty plea to committing public assistance fraud. Rodriguez agreed to pay HUD \$3,726 in restitution, and Cruz was sentenced to 364 days incarceration and ordered to pay HUD \$7,632 in restitution. Peoples allegedly and the remaining defendants admittedly failed to report income or unauthorized residents and their criminal histories on housing certifications and collectively obtained \$54,176 in housing assistance they were not entitled to receive.



Shiray Savoy, a Housing Choice Voucher program participant through both the Housing Commission of Anne Arundel County (Anne Arundel), an organization that receives HUD housing assistance, and Bay Ridge Garden Apartments (Bay Ridge), a HUD-subsidized multifamily housing development, was charged in Anne Arundel County District Court, **Glen Burnie, MD**, with committing theft by deception and making false statements for housing assistance. From December 2002 through November 2007, Savoy allegedly failed to report her Anne Arundel housing assistance on Bay Ridge housing certifications and obtained \$48,583 in housing assistance she was not entitled to receive.



Kathleen Lovett, a former Section 8 tenant at Woodridge Homes Apartments, a HUD-subsidized multifamily housing development, was sentenced in Lawrence District Court, **Lawrence, MA**, to 5 years probation and ordered to pay HUD \$47,000 in restitution for her earlier guilty plea to committing larceny over \$250. From November 2001 to November 2006, Lovett failed to report income on housing certifications and obtained \$47,600 in housing assistance she was not entitled to receive.



Hasan Bajrami, a Section 8 tenant at Seaside Plaza, a HUD-subsidized multifamily housing development, was arrested and charged in Staten Island Criminal Court, **Staten Island, NY**, with submitting a false instrument and committing grand larceny and forgery. Bajrami allegedly failed to report income on housing certifications and obtained \$46,000 in housing assistance he was not entitled to receive.



Sade White and April Blackstone, current Section 8 tenants at Circle Terrace Apartments (Circle Terrace), a HUD-subsidized multifamily housing development, were each charged in Baltimore County District Court, **Baltimore, MD**, with making false statements and committing theft by deception. In addition, former Circle Terrace Section 8 tenant Katrina Longhorne was sentenced to 3 years supervised probation and ordered to pay Circle Terrace \$12,720 in restitution for her earlier guilty plea to committing theft, and former Circle Terrace Section 8 tenant Latasha Fisher was ordered to pay Circle Terrace \$12,170 in restitution in exchange for the dismissal of charges previously filed. From September 2005 through June 2008, White, Blackstone, and Fisher allegedly and Longhorne admittedly failed to report income or unauthorized residents and their criminal histories on housing certifications and collectively obtained \$43,895 in housing assistance they were not entitled to receive.



Mary Brown, a former Section 8 tenant at Cedar Park Apartments, a HUD-subsidized multifamily housing development, and her husband, Michael Scalf, were each sentenced in U.S. District Court, **Davenport, IA**, for their earlier guilty pleas to making false statements and committing conspiracy. Brown was sentenced to 3 years supervised release, Scalf was sentenced to 6 months incarceration and 3 years supervised release, and Brown and Scalf were ordered to pay HUD \$19,036 and the State of Iowa \$90,569, jointly and severally. Brown failed to report Scalf's residency or income on housing and other certifications, and together they obtained \$19,036 in housing assistance and \$90,569 in other benefits they were not entitled to receive.



Five Section 8 tenants at Kenwood Apartments, a HUD-subsidized multifamily housing development, were each charged in Jackson County Circuit Court, **Kansas City, MO**, with stealing by deceit. The above defendants allegedly failed to report income on housing certifications and collectively obtained about \$14,950 in housing assistance they were not entitled to receive.



Romesz Coleman, a housing assistance recipient at Pheasant Run Apartments, a HUD-subsidized multifamily housing development, was charged in Montgomery County District Court, **Harleysville, PA**, with committing theft by deception, receiving stolen property, making a false swearing, and tampering with public records. Coleman allegedly failed to report assets, an accurate household composition, or his criminal history on housing certifications and obtained \$11,398 in housing assistance he was not entitled to receive.

### *Other Fraud/Crimes*

Robert Corp, a former loan officer and originator, underwriter, and vice president of Continental Securities, LLC, was charged in a civil complaint filed in U.S. District Court, **Buffalo, NY**, with violating the False Claims Act and unjust enrichment. Corp allegedly made misrepresentations on loan documents he submitted to HUD when he originated and underwrote a \$7 million HUD-insured mortgage for Brylin Hospital. Brylin Hospital defaulted on the HUD-insured mortgage, and HUD paid an adjusted claim of more than \$6.1 million to the lender.



Aaron Dare, the former owner of the three Federal Housing Administration (FHA)-insured multifamily properties, and Berne Watkins, the previous owner of the three FHA-insured multifamily properties sold to Dare, were each sentenced in U.S. District Court, **Albany, NY**, for their earlier guilty pleas to making false statements to HUD or conspiracy to commit mortgage or wire fraud. Collectively, Dare and Watkins were sentenced to 72 months incarceration and 72 months probation and ordered to perform 200 hours of community service and pay HUD more than \$1.9 million in restitution, \$792,685 jointly and severally. In 2000 and 2001, Watkins and Dare executed two fraudulent promissory notes to create the appearance that Dare held equity worth \$2.5 million and to facilitate Dare's purchase of the three multifamily properties from Watkins. Dare used the fake promissory notes to obtain FHA-insured mortgages for the three properties but failed to make mortgage payments as promised. HUD realized losses of more than \$1.9 million after the mortgages defaulted.





Nine landlords and one property management company entered into a civil consent decree with HUD, the U.S. Environmental Protection Agency, and the U. S. Attorney's Office in **Minneapolis, MN**, and each agreed to pay \$7,500 in fines to the U.S. Department of Justice, collectively provide \$50,000 for a child health improvement project, and eliminate 179 lead-based paint hazards in their respective housing developments. The above defendants allegedly violated the Residential Lead-Based Paint Hazard Reduction Act when they failed to disclose or provide records relating to lead-based paint or lead-based paint hazards.



Ottis Levine and Lionell Bradley were collectively sentenced in Thirteenth Judicial Circuit Court, **Tampa, FL**, to time served and 24 months probation and ordered to perform 50 hours of community service for their earlier guilty pleas to committing grand theft, conspiracy to commit a robbery with a firearm, or possession of a firearm during the commission of a felony. Levine, Bradley, and others robbed Kenneth Court Apartments, a HUD-subsidized multifamily housing development, and stole about \$3,000 in utility assistance payments.



*Chapter 4*

**HUD's Community  
Planning and Development  
Programs**



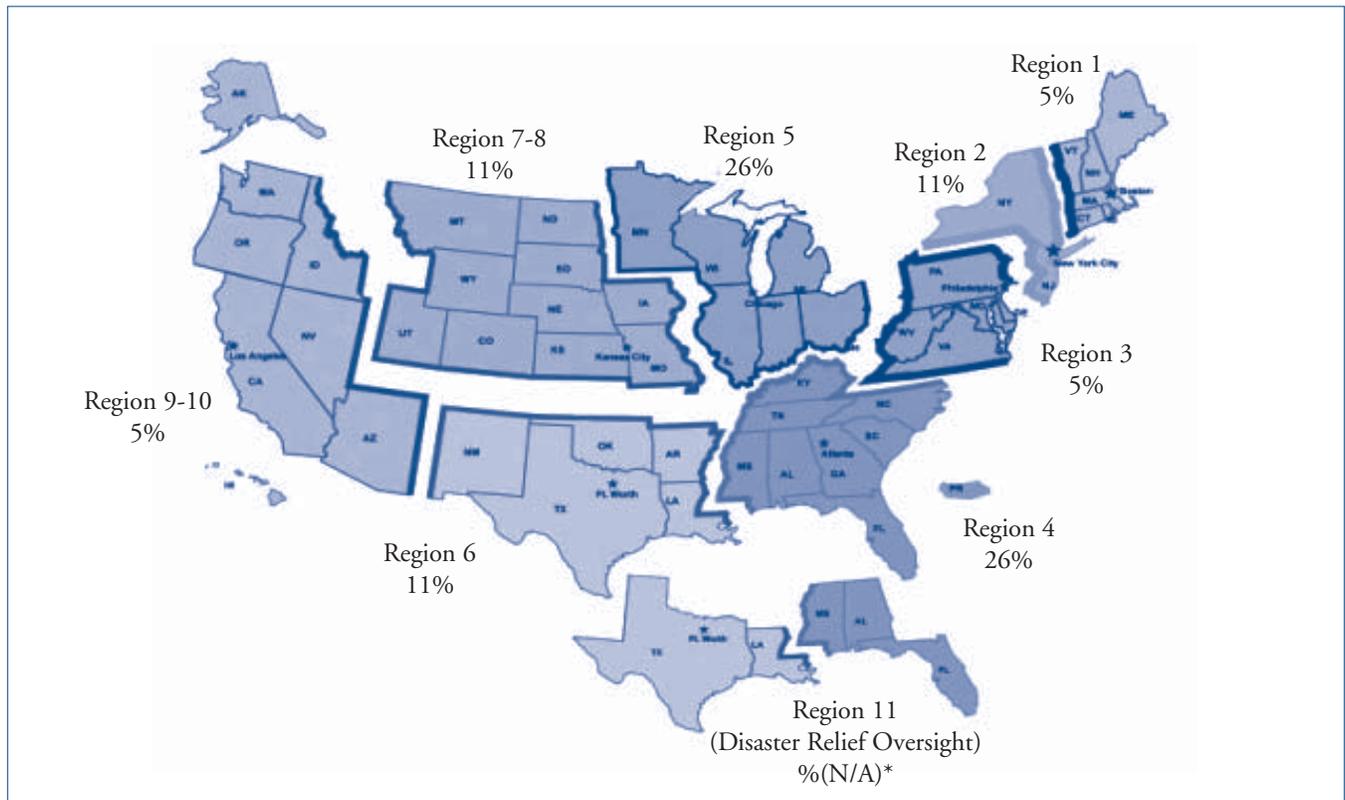
The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has conducted numerous outreach efforts (see chapter 7, page 129).

## Audits

### Strategic Initiative 3: Contribute to the strengthening of communities

Key program results		Questioned costs	Funds put to better use
Audit	19 audits	\$71 million	\$25 million
Our focus	Page 73 Page 76	<ul style="list-style-type: none"> <li>- Community Development Block Grant programs</li> <li>- HOME Investment Partnerships program</li> </ul>	

Chart 4.1: Percentage of OIG community planning and development audit reports during this reporting period



\* This does not include hurricane relief audits. See chapter 5 for these reviews.



The Office of Inspector General (OIG) audited the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), and the Supportive Housing Program grants. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the grant funds were administered for eligible activities and that the auditee met program objectives. The following section illustrates the audits conducted in the CPD area.

## *Community Development Block Grant Programs*

The U.S. Department of Housing and Urban Development (HUD) OIG audited HUD's administration of CDBG set-aside for colonias because of concerns that surfaced during an audit survey of the State of Texas's colonia set-aside funds. Colonias are rural communities located within 150 miles of the U.S.-Mexican border. The objective was to determine whether HUD ensured that the States of **New Mexico, Arizona, Texas, and California** expended colonia set-aside funds in compliance with the Cranston-Gonzalez National Affordable Housing Act of 1990.

HUD did not issue regulations or handbooks specific to the administration of the set-aside funds or develop performance measures to track accomplishments. Thus, it did not ensure that the States expended the funds in compliance with the Act and could not track accomplishments. Rather, HUD allowed the States to define colonias and determine how to distribute the funds. The States had different definitions of colonias and did not always prioritize funding to the colonias with the greatest needs as required. As a result, between 2004 and 2007, New Mexico and Arizona allocated or expended colonia set-aside funds for projects that did not meet the requirements of the Act and did not meet the intended beneficiaries' basic health and safety needs. In addition, HUD could not report on the progress or effect of the set-aside funds in meeting the colonia residents' needs regarding water, sewage, and housing.

OIG recommended that HUD (1) require the States of New Mexico and Arizona to support or repay more than \$8.4 million, (2) implement effective internal controls to ensure that the States comply with the Act, and (3) implement performance measures specific to the colonia set-aside to help ensure that funds are used effectively to meet water, sewage, and housing needs of the colonia residents. By implementing effective controls, HUD can put more than \$2.8 million to better use over the next 12 months. (Audit Report: 2008-FW-0001)



HUD OIG audited the City of **Tulsa, OK**'s CDBG program and found that while the City generally monitored other subrecipients, it did not monitor or supervise its largest subrecipient, the Tulsa Development Authority (Authority). From October 1, 2005, through September 30, 2007, the Authority inappropriately expended \$1.5 million for its CDBG acquisition, clearance, and relocation activities. However, it did not have specific disposition plans for its CDBG-acquired properties and only benefited the low- to moderate-income community "whenever possible." In addition, the Authority's acquisition and clearance projects did not have the HUD-required environmental reviews.

OIG recommended that HUD require the City to adopt written policies and procedures for its CDBG program for day-to-day operations that include procedures to ensure that it monitors all of its subrecipients in accordance with HUD and local requirements and require the Authority to (1) develop and implement specific plans for its future CDBG acquisitions and currently owned CDBG properties that will benefit the

low- to moderate-income community as a whole and individually, which would put more than \$8.9 million to better use; (2) support or repay the funds that the Authority could not support in performing its acquisition, clearance, relocation, and disposition activities; and (3) perform the necessary environmental reviews when acquiring or clearing land. (Audit Report: 2008-FW-1012)



HUD OIG audited the CDBG program of the County of Essex, **Verona, NJ**, and found that the County did not always follow applicable regulations and its submission to HUD while disbursing CDBG funds. It disbursed CDBG funds for ineligible and defaulted float loans, it and its subgrantees did not always comply with procurement requirements, grant agreements did not contain the requirements, and substantial changes to program activities were not amended appropriately. In addition, there were control weaknesses in the County's financial management system used to safeguard funds.

OIG recommended that HUD instruct the County to reimburse to the CDBG program from nonfederal funds more than \$1.2 million for ineligible and defaulted float loans, provide supporting documentation for two procurements totaling more than \$517,000, reimburse more than \$2.6 million in excess checking account funds to the CDBG program if the County does not immediately disburse the funds, remit more than \$280,000 in bank interest, reimburse to the CDBG program more than \$179,000 for the unnecessary drawdowns of funds, and establish procedures to ensure that CDBG funds will be disbursed in a timely manner and in accordance with program requirements. (Audit Report: 2008-NY-1007)



HUD OIG audited the State of Colorado, Division of Housing's CDBG program in **Denver, CO**, and found that the Division used CDBG funds for ineligible and questionable projects. As a result, it awarded more than \$4.6 million in grants that did not effectively meet the needs of the intended nonentitlement low- and moderate-income beneficiaries. The Division did not effectively identify, report, or classify program income generated by its subrecipients. As a result, neither the Division nor HUD had assurance that subrecipients used program income for its intended purpose. In addition, the Division did not realize the full benefits of the allowable amounts for planning and administrative costs and for public service activities.

OIG recommended that HUD (1) require the Division to repay from nonfederal funds the \$1.7 million in ineligible grants, (2) require the Division to develop and implement effective controls over establishing and administering projects and identifying and recording program income, and (3) determine the eligibility of the questioned costs and require the Division to repay from nonfederal funds the amounts determined to be unsupported or unnecessary. (Audit Report: 2008-DE-1003)



HUD OIG audited the operations of the City of **Troy, NY**, CDBG program and found that the City generally complied with HUD program requirements when administering its overall CDBG program. However, it did not establish adequate (1) procedures to ensure that its housing rehabilitation program was administered in accordance with program regulations; (2) procedures to ensure that costs for its street improvement activities were allowable and supported by adequate documentation; (3) administrative controls to ensure that costs associated with its public facilities activities were eligible, necessary, and supported by sufficient documentation; and (4) controls to ensure that program labor costs were adequately supported and that costs incurred were current and accurately recorded.



compliance requirements and determine whether or how to implement maintenance of effort requirements for the program after consideration of stakeholders' input. (Audit Report: 2008-BO-0002)

## HOME Investment Partnerships Program

HUD OIG audited the City of Los Angeles Housing Department, Los Angeles, CA, HOME rehabilitation program and found that the Department did not comply with HOME affordability monitoring and inspection requirements for its HOME-assisted rental housing. It failed to maintain the required tenant eligibility information for 26 HOME-assisted rental housing projects totaling nearly \$38 million. In addition, it did not maintain complete tenant eligibility information for 27 tenants living in seven projects, resulting in nearly \$104,000 in unsupported costs. Further, it did not ensure that its contractor conducted occupancy monitoring as required and failed to inspect HOME-assisted rental housing projects when required and ensure that local housing code regulations were met. Improvements on controls would ensure that more than \$226,000 could be put to better use.

OIG recommended that HUD require the Department to properly support or repay from nonfederal funds more than \$38 million in unsupported expenses and establish and implement more effective procedures and controls. (Audit Report: 2008-LA-1016)



HUD OIG audited the HOME program of Cook County, IL, and found that the County did not effectively administer its program income and administrative costs and failed to follow HUD's requirements. It did not comply with HUD's requirement in its use and reporting of program income. As a result, the County had nearly \$5.2 million in program income in its HOME investment trust fund's local account, did not allocate at least \$641,000 in interest earned from program income in its local account, and underreported at least \$2.7 million in program income in HUD's Integrated Disbursement and Information System. In addition, the County did not comply with HUD's requirements in using HOME funds for administrative costs. As a result, it used more than \$28,000 in HOME funds for improper administrative costs and lacked sufficient documentation to support its use of nearly \$56,000 in HOME funds for eligible administrative costs.

OIG recommended that HUD require the County to (1) commit and disburse program income, unallocated interest earned from program income, and reimbursed program funds before drawing down additional funds from its HOME trust fund treasury account; (2) provide support or reimburse its program from nonfederal funds for the unsupported payments; (3) provide sufficient documentation as to whether it earned interest from program income before September 2002; and (4) report its additional program income in HUD's system. OIG also recommended

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that HUD restrict the County's ability to draw down HOME funds from its treasury account until the County disburses all program income, unallocated interest earned from program income, and reimbursed program funds. (Audit Report: 2008-CH-1009)



HUD OIG audited the City of **Cincinnati, OH's** HOME program and found that the City did not adequately manage its program. It incorrectly reported program contributions in its consolidated annual performance and evaluation reports, lacked sufficient documentation to support program contributions reported in its consolidated reports, inappropriately used program and American Dream Downpayment Initiative (Initiative) funds, failed to ensure that it sufficiently protected program funds, and lacked documentation to support its use of program and Initiative funds. In addition, the City did not comply with HUD's requirements in determining and reporting contributions for its program. It incorrectly reported in its consolidated reports to HUD nearly \$2.6 million in program contributions from 31 Cincinnati Habitat for Humanity (Habitat) projects that did not qualify as affordable housing and was unable to support more than \$1.8 million that it reported as program contributions in its consolidated reports to HUD. Further, the City inappropriately provided more than \$220,000 in program funds for the 31 Habitat projects in which it did not sufficiently protect the program funds.

OIG recommended that HUD require the City to (1) implement a detailed comprehensive written action plan to improve its procedures and controls to ensure that the City operates its program in accordance with HUD's and its own requirements, (2) remove incorrectly reported program contributions of nearly \$2.6 million from its consolidated reports to HUD, (3) provide support for more than \$1.8 million or remove program contributions from its consolidated reports to HUD and obtain program contributions from nonfederal funds for housing that qualifies as affordable housing under the program, (4) reimburse its program from nonfederal funds and decommit program funds for the insufficiently protected Habitat projects, and (5) implement adequate procedures and controls to address the findings cited. (Audit Report: 2008-CH-1014)



HUD OIG audited the HOME program of the City of **Cincinnati, OH**, and found that the City did not effectively administer its reporting of activity data in HUD's system and failed to follow HUD's and its own requirements. It did not comply with HUD's requirements in its reporting of activity data in HUD's system. As a result, it did not decommit more than \$114,000 in program funds accurately and in a timely manner and obligated more than \$816,000 and drew down and disbursed nearly \$442,000 in program funds for an activity without entering into a written agreement or contract with the owner or developer of the property or having a current specified plan for how the property would be used to provide affordable housing to low- and moderate-income individuals. The City also did not comply with HUD's regulations and its rental rehabilitation program manual in providing housing rehabilitation assistance for rental rehabilitation projects. As a result, it provided more than \$397,000 in program funds to assist 11 units in three projects that did not qualify as affordable housing, was unable to support that it used more than \$590,000 in program funds for appropriate projects, and did not ensure that it sufficiently protected more than \$561,000 in program funds.

OIG recommended that HUD ensure that the HOME funds the City decommitted as a result of the audit are committed and used for eligible activities. OIG also recommended that HUD require the City to (1) decommit HOME funds for completed activities, (2) move forward on providing housing for an activity or

reimburse its program from nonfederal funds and decommit HOME funds remaining for the activity, (3) reimburse the appropriate parties from nonfederal funds for the overpayments of rents or reimburse its program from nonfederal funds, (4) provide support or reimburse its program from nonfederal funds for the unsupported payments, (5) ensure that projects' owners obtain title insurance naming the City as coinsured for the projects or reimburse its program from nonfederal funds, and (6) implement adequate procedures and controls to address the findings cited. These procedures and controls should help to ensure that nearly \$304,000 in HOME funds is appropriately used over the next year. (Audit Report: 2008-CH-1010)



HUD OIG audited the City of **Jacksonville, FL**/Duval County's HOME program and found that the City did not comply with program requirements for affordability/eligibility for three foreclosed multifamily rental rehabilitation projects and record keeping. It also had not established and maintained an adequate system for filing and retrieving program records. The review did not identify reportable violations concerning the City's compliance with the HOME program's commitment and 5-year expenditure requirements.

OIG recommended that HUD require the City to (1) reimburse more than \$2.7 million in funds approved for three foreclosed multifamily rental rehabilitation projects that did not accomplish the program's affordability requirement or meet other program eligibility requirements and (2) take appropriate actions to ensure that management and staff follow program requirements for approval and oversight of multifamily rental rehabilitation activities and improve its system for filing and maintaining program records. (Audit Report: 2008-AT-1012)



HUD OIG audited the **State of Maryland**'s HOME program and found that the State did not ensure that its single-family owner-occupied rehabilitation projects complied with HUD regulations and/or met the State's property standards. As a result, it used more than \$42,000 in HOME funds for a project that did not comply with Federal regulations and was unable to support its use of \$2.3 million in HOME funds for projects.

OIG recommended that HUD require the State to reimburse its program from nonfederal funds for the ineligible project, provide documentation to support its use of more than \$2 million or reimburse its program from nonfederal funds, ensure that housing rehabilitation work and required repairs are completed in accordance with HUD's or the State's standards or reimburse its program more than \$205,000 from nonfederal funds, and implement adequate procedures and controls to address the findings cited. These procedures and controls should help ensure that nearly \$75,000 in HOME funds is appropriately used over the next year for projects that comply with HUD's regulations and meet the State's standards. (Audit Report: 2008-PH-1008)



HUD OIG audited the City of **Muncie, IN**'s HOME Investment Partnerships program (HOME), and found that the City did not maintain an adequate system of controls to ensure that it committed HOME funds within HUD's 24-month commitment deadline and avoided losing the funds. As a result, it was required to commit more than \$1.2 million in HOME funds for eligible activities by July 31, 2008, to avoid losing the funds. The City lacked documentation to support that it followed HUD's regulations and/or its requirements when it used HOME funds and/or program income to provide rehabilitation assistance; downpayments, closing costs, and/or gap financing; and tenant-based rental assistance for HOME activities. In addition, it

improperly used HOME funds after an operating agency agreement with a subrecipient expired. Therefore, it was unable to support its use of more than \$215,000 in HOME funds and income and improperly disbursed more than \$6,000 in HOME funds.

OIG recommended that HUD require the City to reimburse its program from nonfederal funds for the improper use of funds, provide support or reimburse its program from nonfederal funds for the unsupported payments, and implement adequate procedures and controls to address the findings cited. These procedures and controls should help ensure that HOME funds and income are used in accordance with HUD's regulations and the City's requirements and that the City does not lose more than \$1.1 million in HOME funds over the next 5 months. (Audit Report: 2008-CH-1004)



HUD OIG audited the HOME program of the City of **Augusta, GA**, and found that the City's controls over its HOME program were inadequate. As a result, more than \$1 million in HOME funds involved questioned costs and funds that were subject to recapture. Specifically, the City did not (1) properly commit more than \$755,000, (2) have proper documentation and analysis to support approvals and effectively address project performance delays, (3) ensure proper support for nearly \$197,000, (4) ensure the eligibility of more than \$92,000 for affordable housing compliance, and (5) properly maintain and manage program staff.

OIG recommended that HUD require the City to (1) properly support or repay nearly \$567,000 in questioned costs, (2) recapture more than \$477,000 because of program violations, and (3) establish and implement proper controls and procedures to ensure compliance with program requirements. (Audit Report: 2008-AT-1009)



HUD OIG audited the City of **Durham, NC**'s HOME program and found that the City did not advertise for homeowner rehabilitation contractors as required. Also, it did not take necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms were used when possible. As a result, it could not support that the program activities were subject to full and open competition. In addition, it could not ensure that minority firms, women's business enterprises, and labor surplus area firms were given proper consideration.

OIG recommended that HUD require the City to (1) provide documentation to support that the HOME program homeowner rehabilitation activities, totaling more than \$790,000 for fiscal years 2006 and 2007, were awarded to the most responsible firm with a proposal that was most advantageous to the program, considering price and other factors, and (2) develop and implement procedures to ensure that future services for homeowner rehabilitation are procured in accordance with applicable federal procurement requirements. (Audit Report: 2008-AT-1015)



HUD OIG audited the City of **Durham, NC**'s HOME program and found that the City did not always perform required monitoring reviews or provide adequate evidence that monitoring reviews were performed. As a result, the City and HUD lacked assurance that HOME activities were conducted in accordance with the requirements or that the intended program benefits were realized. In addition, the City incorrectly used



HOME entitlement funds when program income funds were available for use and did not always make the required program income entries in HUD's Integrated Disbursement and Information System. As a result, the City's reporting to HUD was incorrect, and it unnecessarily drew down more than \$158,000 to its local HOME investment trust fund account.

OIG recommended that HUD require the City to (1) establish and implement effective written policies and procedures for monitoring HOME activities and reporting and using program income; (2) repay interest earned on program income that was not reported in a timely manner and used for HOME activities; and (3) establish the eligibility of funds disbursed for tenant-based rental activities, recalculate tenant rents and refund any overcharged tenants, and reimburse HUD for any payments determined to be ineligible. (Audit Report: 2008-AT-1011)



HUD OIG reviewed the City of **St. Louis, MO's** use of HOME program funds and found that the City used HOME funds for costs that were not reasonable and necessary to produce housing for low-income families. Additionally, it did not establish adequate controls to ensure that it determined the proper amount of subsidy for HOME-funded development activities.

OIG recommended that HUD require the City to design and implement a process to ensure that HOME-funded project costs are reasonable and necessary. (Audit Report: 2008-KC-1007)



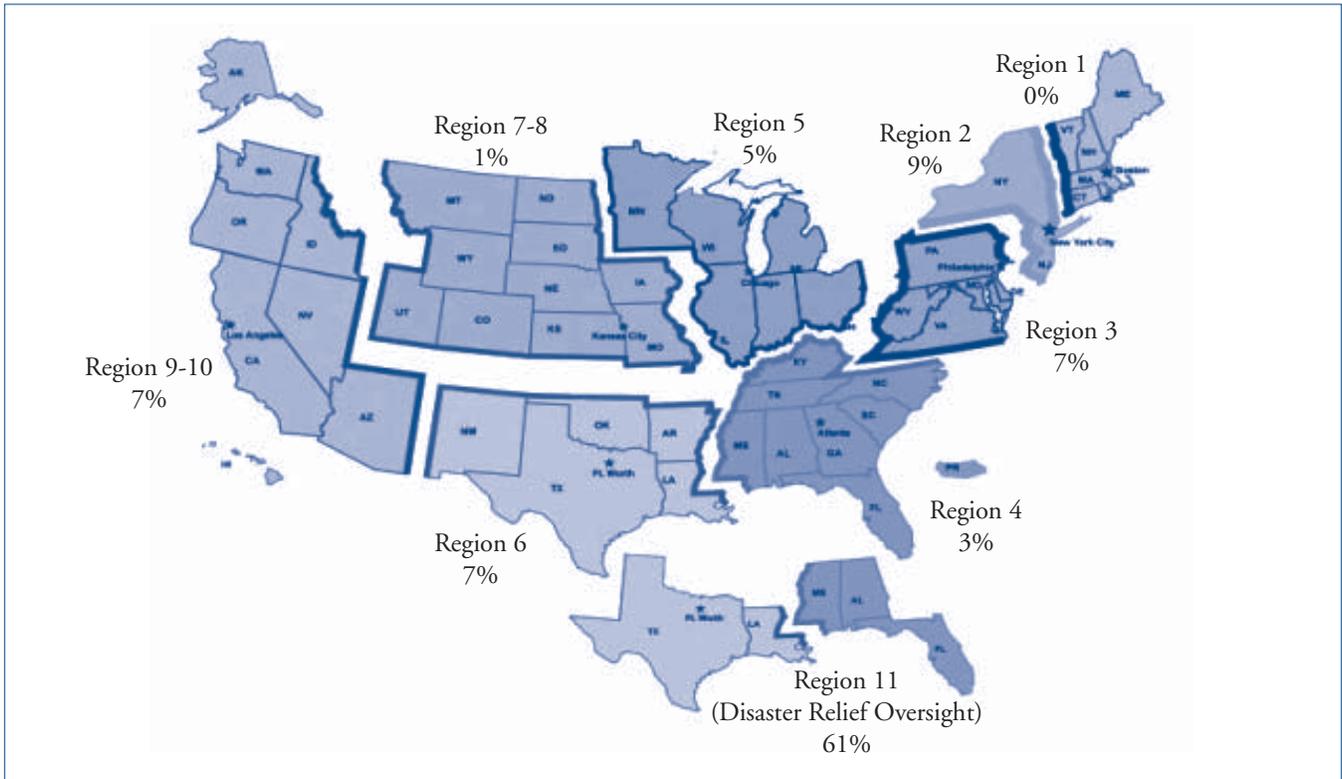
# Investigation

Some investigations discussed in this report were generated from leads provided by HUD CPD program staff or conducted jointly with Federal, State, and local law enforcement agencies. The results of various significant investigations are described below.

## Strategic Initiative 3: Contribute to the strengthening of communities

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	97	\$11,333,932	18	28
Our focus	Page 82	- Theft/embezzlement		
	Page 84	- Other fraud/crimes		

Chart 4.2: Percentage of OIG community planning and development closed investigation cases during this reporting period





## *Theft / Embezzlement*

Murilda and James Hayes, the former executive director and treasurer for the Love Social Services Center (Love SSC), an organization that receives HUD Economic Development Initiative grants and U.S. Department of Justice (DOJ) funding, were collectively sentenced in U.S. District Court, **Fairbanks, AK**, to 102 months incarceration and ordered to pay HUD \$658,534 and DOJ \$103,292 in restitution for their earlier convictions of misapplication from an organization receiving Federal funds; filing a false Federal income tax return; and committing conspiracy, money laundering, fraud, and theft. From 2000 through 2005, Murilda and James Hayes embezzled and personally used more than \$825,000 in Love SSC funds without authorization.



Robert Broadway, the former executive director for the 21 Century Homestead, Inc., an organization that receives HUD CDBG and other funds, was charged in Shawnee County District Court, **Topeka, KS**, with making false writings. From 2003 through 2007, Broadway allegedly provided false information on HUD and State funding applications and obtained \$812,000 in HUD and State funds he was not entitled to receive.



Constance Post, also known as Gerrie Post, the executive director for the Mount Vernon Urban Renewal Agency (Mount Vernon) and a commissioner for the Mount Vernon Department of Planning and Community Development, organizations that receive HUD CDBG funds, and Wayne Charles, president of the Charles Group and owner of Micros Only Computer Concepts (Micros), both previously indicted in U.S. District Court, **White Plains, NY**, for conspiracy to commit mail fraud and making false statements, were each suspended from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment actions. Post allegedly awarded \$1.1 million in Mount Vernon computer contracts to Micros without obtaining bids from others, provided the Charles Group with a \$500,000 loan from Mount Vernon funds and failed to disclose the loan in Mount Vernon books and records, and concealed about \$30,000 she personally received from Charles.



Gordon Choyce II, the director for Jubilee Restoration, Inc., a nonprofit organization that receives HUD Supportive Housing program funds for homeless youths, was indicted in U.S. District Court, **Oakland, CA**, for submitting fraudulent claims to HUD. From 2002 through 2004, Choyce allegedly submitted \$199,476 in fraudulent claims for fabricated or previously compensated counseling services. Choyce was also suspended from procurement and nonprocurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government pending the outcome of criminal proceedings or any related debarment actions.



Leo Hardy, Jr., and Shirley Hardy Walden, the former president and treasurer of Southampton County Assembly (Southampton), an organization that receives HUD HOME funds, were collectively sentenced in U.S. District Court, **Norfolk, VA**, to 11 months incarceration, 11 months home detention, and 6 years



supervised release and ordered to pay HUD \$125,000 in restitution for their earlier guilty pleas to making false statements. Hardy and Walden used \$125,000 in Southampton funds for projects not related to HUD programs.



Phyllis Tate, the grant administrator for the Golden Triangle Planning and Development District (Golden Triangle), an organization that receives HUD HOME funds, was sentenced in U.S. District Court, **Oxford, MS**, to 18 months home detention and 3 years probation for her earlier guilty plea to conspiracy. From March 2004 to August 2005, Tate and others created fictitious invoices and building inspections for nonexistent homes, deposited Golden Triangle payments into bank accounts controlled by others, and used about \$80,751 in Golden Triangle funds for their personal benefit.



Connie Kuzma, a former program manager for the Northern Cambria Community Development Corporation (Northern Cambria), an organization that receives HUD HOME funds, pled guilty in U.S. District Court, **Johnstown, PA**, to embezzlement. Kuzma failed to report her correct income or actual household composition on Northern Cambria loan applications, fraudulently obtained two HOME loans and a grant totaling \$49,450, and removed the Northern Cambria HOME liens from the property deed without authorization.



James Fantroy, Sr., the former treasurer for the Paul Quinn College Community Development Corporation (Paul Quinn CDC), the recipient of a HUD Historically Black College and University grant, was sentenced in U.S. District Court, **Dallas, TX**, to 180 days home confinement and 2 years supervised release and ordered to pay Paul Quinn College \$17,938 in restitution for his previous conviction of committing theft from a program receiving Federal funds. Fantroy remitted \$30,062 to Paul Quinn CDC before sentencing and chose 30 days incarceration after he was given the option to either publicly confess and apologize for his crime or spend 30 days in prison. Fantroy obtained and personally used about \$48,000 in Paul Quinn CDC funds without authorization.

**DALLAS**

## 'It's up to you,' judge tells Fantroy: Admit theft or serve 30 days in jail

Ex-councilman mulls offer; he's also given home confinement

By **JASON TRAHAN**  
Staff Writer  
jtrahan@dallasnews.com

Former Dallas City Council member James Fantroy was given a choice during his sentencing Wednesday morning:

Admit he was wrong, or serve a month in prison for stealing from Paul Quinn College.

Whatever he decides, he'll also serve 180 days of home confinement, followed by two years of probation. He also was ordered to pay more than \$17,000 in restitution.

U.S. District Judge Ed Kinkeade dared Mr. Fantroy to "stand in front of the court-

house or sit in that chair and admit what you did was wrong. I don't think you have the guts to do that. It's up to you."

"You've been on lots of TV interviews, and they've all been lies," the judge said. "I'll be watching."

Mr. Fantroy left the courthouse without making a state-

See **FANTROY** Page 12A.



JIM HARONEY/Staff Photographer

**James Fantroy** asked the judge for mercy Wednesday, saying: "Don't send me to prison. Let me do my time at home with my family. I probably have three months left."

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Margare Segura, also known as Margare Lewis, a case manager for the Catholic Charities of the Archdiocese of New Orleans (Catholic Charities), an organization that receives HUD Supportive Housing program funds, was indicted in U.S. District Court, **New Orleans, LA**, for conspiracy to defraud the government. In addition, fabricated Catholic Charities landlords Deborah Knighten and Lola Davis each pled guilty to conspiracy. Segura and others allegedly and Knighten and Davis admittedly conspired and created fake landlords and nonexistent homeless families to conceal their personal use of \$35,217 in Catholic Charities funds.



Steven Scott, a former City of New Brunswick housing inspector, was sentenced in U.S. District Court, **Newark, NJ**, to 3 years probation and ordered to pay HUD \$19,940 in restitution for his earlier guilty plea to committing theft of public funds. Scott used the identification of another when he applied for and obtained \$19,940 in HUD housing rehabilitation grants funds.



Kip Wadsworth, a HUD Self-Help Homeownership Opportunity Program (Self-Help) grant recipient, was named in a False Claims Act civil complaint filed in U.S. District Court, **Boise, ID**. Wadsworth allegedly submitted false income and asset information when he applied for and received \$10,000 in Self-Help grant funds and a \$95,000 Rural Development loan from the U.S. Department of Agriculture.



Anthony Roper was sentenced in U.S. District Court, **New York City, NY**, to 36 months probation and ordered to perform 100 hours of community service and pay HUD \$6,750 in restitution for his earlier guilty plea to committing theft of government funds. Roper fraudulently applied for and received a HUD CDBG Disaster Recovery Assistance 9/11 Residential grant, but Roper did not live or hold an apartment lease in the lower Manhattan area on September 11, 2001.

### *Other Fraud/Crimes*

Raymond Vella, the owner of Pavel Construction, a contractor for the Linden Neighborhood Preservation program (Linden NP), an organization that receives HUD CDBG and HOME funds, was indicted in U.S. District Court, **Newark, NJ**, for committing mail fraud, offering and giving a corrupt thing of value, and obtaining property by fraud. From January 1998 to December 2006, Vella paid bribes to an unnamed conspirator in exchange for more than \$652,448 in Linden NP contracts. In addition, Venancio Ribeiro, a partner in the Cota Corporation and a contractor for Linden NP, pled guilty to mail fraud and criminal forfeiture. From January 1998 to December 2006, Ribeiro paid bribes to an unnamed conspirator in exchange for more than \$1.5 million in Linden NP program contracts.



**NEW ORLEANS**  
**Woman pleads guilty in charity theft**

A 43-year-old New Orleans woman pleaded guilty in federal court Wednesday to one count of conspiring with her sister to steal from a Catholic Charities homeless assistance program that the sister supervised. Lola Davis, who faces a sentence of as long as five years in prison, admitted sharing the \$13,954 she stole from the agency's supportive housing program with her 42-year-old sister and alleged co-conspirator, Margare Segura. Segura's trial on charges of conspiracy and theft is scheduled next month. Prosecutors claim she approved Davis and 46-year-old Deborah Knighten of Harvey as qualified landlords of rental units that neither actually owned. Knighten pleaded guilty in July to stealing from the homeless assistance program. She agreed to help the government build its case against Segura.

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# Housing director sentenced to prison

■ The city's former housing director will serve 2½ years in federal prison after pleading guilty to using his office for personal profit.

BY REBECCA DELLAGLORIA  
rdellagloria@miamiherald.com

He said the money made him do it.

Matthew Price II, Florida City's one-time housing director, told U.S. District Judge Paul Huck on Friday that the reason he conspired to defraud the taxpayers of Florida City was because of financial woes.

"I stand before you with a great sadness and remorsefulness," Price began, before Huck sentenced him to 30 months in federal prison. "For most of my life I have been dedicating myself to serving

others and, doing so, I lost focus on paying attention to my finances, which unfortunately placed me where I am today."

Price admitted his role in a scheme that involved collecting rent payments on a city property for which he was not entitled; fraudulently acquiring a home mortgage through a shadow buyer; and profiting from the resale of city property that he first sold at a depressed price.

Price had pleaded guilty to a federal conspiracy charge as part of a deal with federal prosecutors just as he was set to stand trial. In exchange, the government dropped 34 other related counts.

A dozen of Price's friends, fellow churchgoers and family members submitted letters to the court on his behalf.

*'I think the guy got over his head financially and just started letting the ends justify the means . . . There was nothing about his past when I hired him that showed that he was criminally inclined or broke the law.'*

- OTIS WALLACE,  
Florida City mayor

Florida City Mayor Otis Wallace didn't write a letter, but told The Miami Herald that Price was a good person who had run into trouble.

"I think the guy got over his head financially and just started letting the ends justify the means," said Wallace, who first met Price when Wallace was working as an attorney and Price for the Department of Children and Families. "There was nothing

about his past when I hired him that showed that he was criminally inclined or broke the law."

But Price and a co-defendant did just that.

Price had already filed for bankruptcy when in 2002, he and his wife went to purchase a house in the Crestview subdivision, on Southwest 153rd Terrace and 139th Avenue.

According to evidence presented by Assistant U.S.

Attorney Karen Rochlin, mortgage broker Jennifer Stimpson realized Price couldn't qualify for financing on his own, and helped Price obtain a mortgage through a shadow buyer.

Price made a down payment on this house with a \$10,000 check he received from A&T Development, Rochlin told the court. Price later steered work and grant money to help that developer.

Stimpson pleaded guilty for her part. She received a six-month prison sentence, followed by six months on home confinement.

She and Price will surrender to authorities to begin serving time June 9.

"I can only say I am very sorry by all that has happened," Stimpson told the court.

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Matthew Price, the former director for the Florida City Housing and Economic Development, an organization that receives HUD HOME funds, and Jennifer Stimpson, a broker for Venture Mortgage Investments, were collectively sentenced in U.S. District Court, Miami, FL, to 123 months incarceration and 72 months supervised release and ordered to perform 1,500 hours of community service and pay restitution and fines not yet determined for their earlier guilty pleas to conspiracy to commit mail and wire fraud. Price, Stimpson, and others conspired to obtain mortgage funding from contractors in exchange for discounted sales of city-owned properties, including a property constructed with HUD HOME and CDBG funds.



William Walker, the former director for both the City of New Brunswick Neighborhood Preservation and the Housing Rehabilitation programs, organizations that receive HUD CDBG and HOME funds, pled guilty in U.S. District Court, Newark, NJ, to conspiracy to extort under color of law, soliciting and accepting corrupt payments, and filing a false Federal income tax return. Walker accepted \$112,500 in bribes from construction and maintenance companies under contract with both HUD-funded programs identified above and failed to report the kickbacks on his Federal income tax return.



Linda Roach, a former supervisory clerk for the City of New Brunswick Department of Community Planning and Economic Development (New Brunswick CPED), an organization that receives HUD CDBG funds, was debarred from procurement and nonprocurement transactions with HUD and throughout the Executive Branch of the Federal Government for three years. Roach, who was previously sentenced in U.S. District Court, Newark, NJ, for her guilty plea to receiving corrupt payments, accepted cash payments from New Brunswick CPED contractors in exchange for expedited contract payments.





Juanita Dennis, the former executive director for the Urban Youth Development Corporation, Inc., a Newark, NJ, organization that receives HUD Supportive Housing and Shelter Plus Care funds, was issued a limited denial of participation and prohibited from participating in specific HUD programs. Dennis allegedly failed to comply with HUD regulations and contract provisions governing the HUD-funded Supportive Housing and Shelter Plus Care programs. HUD losses are not yet determined.



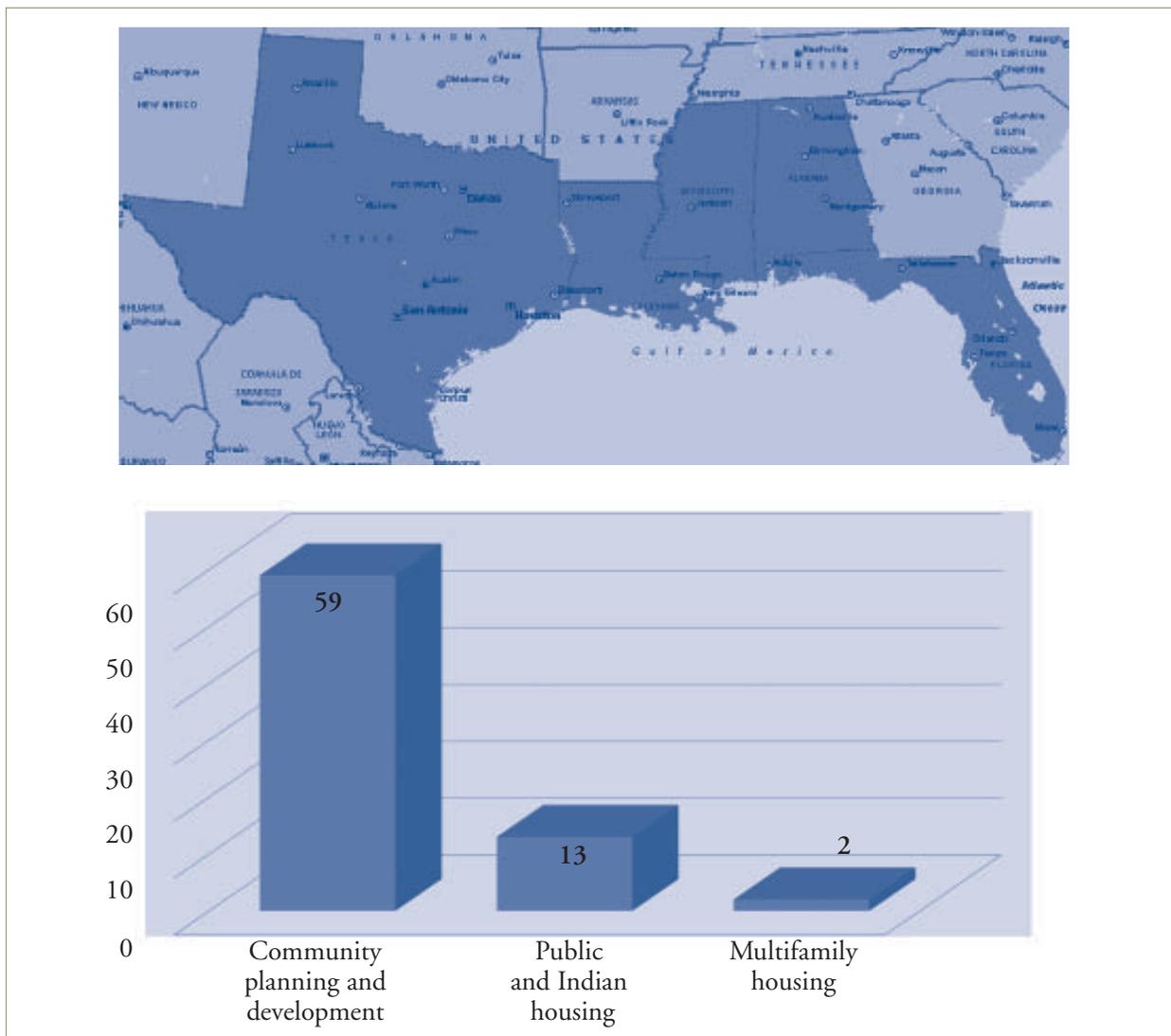
Heather Little, an employee for the Columbus House, a homeless shelter that receives HUD Emergency Shelter and CDBG funds, pled guilty in U.S. District Court, **Bridgeport, CT**, to possession of stolen mail. In addition, Marie Smith, Colleen London, and Charmaine Wright, a Connecticut Housing Finance Authority Section 8 tenant, were collectively sentenced to 24 months and 2 days incarceration, 6 months home confinement, and 3 years supervised release and ordered to pay the U.S. Department of the Treasury, the U.S. Postal Service, and others \$15,805 in restitution for their earlier guilty pleas to possession of stolen mail or altering stolen U.S. Treasury checks. The above defendants and others stole, altered, and negotiated U.S. Treasury checks delivered to the Columbus House.



*Chapter 5*  
**Hurricane Relief  
Oversight**



## Investigation cases closed by program area\*



\* Total number of hurricane-related cases, some of which may have been worked in different States due to relocation of evacuees.



# Introduction and Background

Disasters in 2008 continue to be a challenge for the U.S. Department of Housing and Urban Development (HUD). After the spring floods in the Midwest and fires in California, the Gulf Coast was hit by two more major hurricanes: Gustav and Ike. Ike caused significant homeowner destruction in Texas along the Gulf Coast including the cities of Galveston and Houston. Gustav caused damage in Louisiana, in and around New Orleans, as well as in the city of Baton Rouge. In response, Congress enacted the "Consolidated Security Disaster Assistance, and Continuing Appropriations Act, 2009." HUD received more than \$6.1 billion in emergency supplemental funding for rental assistance, the Public Housing Capital Fund, and community development funds. As these disaster funds are awarded to various States, Office of Inspector General (OIG) audit, investigative, and inspection staff resources will be allocated accordingly, since disaster funding is particularly vulnerable to waste, fraud, and abuse.

After unprecedented storm damage caused by hurricanes Katrina, Rita, and Wilma, the OIG audit, investigative, and inspections staff have been diligently providing oversight to the approximately \$20 billion allocated in three separate supplemental disaster fundings. For the period ending September 30, 2008, more than \$10.5 billion has been disbursed by the five Gulf States—Alabama, Florida, Louisiana, Mississippi, and Texas—for disaster recovery.

During the past year, the OIG Office of Audit (OA), Gulf Coast Region has issued seven reports resulting in findings of questioned costs of more than \$20 million. During the current period, OA will continue to pursue audits of Louisiana's largest disaster program, the Road Home program. In addition to this homeowner program, OA has identified other high-risk areas that will require immediate attention. These areas include the following: economic development, Texas Homeowner Program, and Gulf Coast regional infrastructure programs.

During this reporting period, the Office of Investigation (OI) opened 120 and closed 77 investigations in the Gulf Region disaster relief program areas. Judicial action taken on these cases included \$510,221 in investigative recoveries; more than \$10.3 million in administrative recoveries; more than \$10.2 million in funds put to better use; 25 indictments or informations; 23 convictions, pleas, or pretrial diversions; 26 administrative actions; and 25 arrests.

## *Hurricane Financial Profiles of HUD Community Development Block Grant Funds*

The chart on the next page provides a status as of September 30, 2008, of the HUD Community Development Block Grant (CDBG) disaster funds appropriated to the five Gulf States. Also on the next page is a summary of the homeowners programs for Mississippi and Louisiana. HUD's distribution of the funds and receipt and use of the funds by State agencies, contractors, consultants, homeowners, and evacuees are being tracked and monitored for waste, fraud, and abuse by HUD OIG OA and OI.

## Disaster Community Development Block Grant

States	Allocations	Disbursements	Balance
<b>Alabama</b>			
1st & 2nd supplemental total	\$95,613,574	\$26,180,546	\$69,433,028
<b>Florida</b>			
1st & 2nd supplemental total	\$182,970,518	\$11,902,620	\$170,853,304
<b>Louisiana</b>			
1st, 2nd & 3rd supplemental total	\$13,410,000,000	\$8,015,609,109	\$5,394,390,891
<b>Mississippi</b>			
1st & 2nd supplemental total	\$5,481,221,059	\$2,445,775,427	\$3,035,445,632
<b>Texas</b>			
1st & 2nd supplemental total	\$503,194,849	\$71,446,554	\$431,748,295
<b>Totals</b>	<b>\$19,673,000,000</b>	<b>\$10,570,914,257</b>	<b>\$9,101,871,150</b>

### State of Louisiana

#### *The Road Home Program (authorized \$9.99 billion; disbursed \$7.45 billion to the grantee)*

The Road Home program is the major program set up to rebuild Louisiana's impacted communities. Devastated communities will be subjected to abandoned homes, clouded land titles, and disinvestments if a large portion of the financial assistance is not provided to homeowners. Some owner-occupants, however, may choose none of the basic options to repair, rebuild, or relocate in Louisiana. In these instances, the State will compensate the homeowner for 60 percent of the home's prestorm value, less insurance and Federal Emergency Management Agency (FEMA) repair funds. The State of Louisiana received an additional \$3 billion in emergency funding in November 2007. The status of the Road Home program is described below.

### State of Louisiana homeowner program status

Community Planning and Development Community Development Fund The Road Home snapshot Analysis of the homeowner applications State of Louisiana Status as of September 30, 2008	
Line items	Totals
Total applications received and recorded to date	185,106 (final)
Closings held	117,975
Average award	\$59,900

Source of Funds: Emergency Supplemental Appropriations I, II, & III (P.L. 109-148, P.L. 109-234, & P.L. 110-116)

### State of Mississippi

#### Homeowner Grant Assistance Program (authorized \$2.6 billion; disbursed \$1.8 billion to the grantee)

The purpose of the Homeowner Grant Assistance program is to provide a one-time grant payment (maximum \$150,000) to eligible homeowners who had suffered flood damage to their primary residence as of August 29, 2005, from Hurricane Katrina. The Homeowner Grant Assistance program is designed to provide compensation to those impacted by the hurricane.

Also noted: There is no requirement that the homeowner occupy the property after replacement/rehabilitation work is completed. After certain deductions, homeowners have complete discretion over the use of grant funds, as allowable by State and Federal law, as they work through their personal disaster recovery situation. The status of the Mississippi homeowner program is described below.

### State of Mississippi homeowner program status

The Homeowner Grant Assistance Program Snapshot analysis of the homeowner applications State of Mississippi Status as of September 30, 2008	
Line items	Totals
Applications received	31,019
Grants paid	23,651
Dollar value of grants paid	\$1.7 billion
Average grant paid	\$74,034

Source of Funds: Emergency Supplemental Appropriations I & II (P.L. 109-148 and P.L. 109-234) 96

# Audits



## *Emerging Oversight Trends*

Currently, auditors are evaluating the Housing Authority of New Orleans as part of a congressional request. It should be noted that OA is monitoring the funding for Louisiana's Road Home program, which exceeds \$9 billion, and the amount obligated for Mississippi's homeowner program, which totals \$2.6 billion. In addition to these programs, OA has identified other high-risk areas that will require immediate attention. These areas include the following:

- Economic development (Small Business Loan Program)
- Texas Homeowner Program
- Gulf Coast regional infrastructure programs

## *Final Audit Products*

The HUD OIG OA Gulf Coast Region has completed seven audits of the supplemental funding during fiscal year (FY) 2008 with two audits completed during the current semiannual period. For FY 2008, questioned costs totaled more than \$20 million, of which \$4 million represents questioned costs for the current semiannual period audit reports.

HUD OIG audited the **State of Mississippi's** Development Authority's Homeowners Assistance Program, implemented by Reznick Mississippi, LLC, to determine whether the Authority ensured that the contingency amounts were eligible and supported.

The Authority executed a contract, which included an ineligible provision that allowed its contractor to bill and receive payment for ineligible and unsupported contingency amounts. The Authority paid these amounts to its contractor because it was unaware of Federal prohibitions. As a result, it paid its contractor for ineligible and unsupported contingency amounts. In addition, contingency amounts in the contract remained unpaid and could be put to better use.

OIG recommended that HUD require the Authority to (1) repay the Program from nonfederal funds more than \$3.9 million, which it disbursed for ineligible and unsupported contingency amounts; (2) cease making further contract payments for more than \$243,000 in contingency amounts, which could be put to better use; and (3) develop and implement a process to ensure that all future contracts and amendments involving State of Mississippi CDBG disaster recovery funds do not include such ineligible provisions and amounts. (Audit Report: 2008-AO-1003)



HUD OIG audited the **State of Louisiana's** additional grant component of the Road Home homeowner assistance program, managed by the State's contractor, ICF Emergency Management Services, LLC, Baton Rouge, LA, in conjunction with the OIG Gulf Coast Region's audit plan and examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. The audit objectives were to determine whether (1) applicants were eligible to receive the grant and (2) the State ensured that grant income policies and procedures were in accordance with HUD rules and regulations and that its contractor followed them.

The State implemented grant income policies and procedures as required by HUD rules and regulations. However, those policies and procedures were not sufficient to ensure that all applicants were eligible to receive their grant. Of 45 grants sampled, the State funded nine grants, totaling nearly \$264,000, that were either ineligible or unsupported. In addition, the State did not ensure that its contractor followed its policies and procedures for another 24 grants, but the errors did not impact the grants' (or grantees') eligibility. These conditions existed because the State did not ensure that its contractor's controls were sufficient to catch errors and that its policies and procedures were followed when determining eligibility. Further, although the State's contractor performed a review of all 45 grants sampled, issues remained undetected.

OIG recommended that HUD require the State to repay amounts disbursed for ineligible grants by its Road Home program, either support or repay amounts disbursed for unsupported grants, ensure that its contractor follows established policies and procedures, ensure that its contractor's postclosing reviews detect and correct errors, and review the remaining 21,672 grants disbursed between June 12, 2006, and October 13, 2007, to ensure that grants were eligible and supported. By reviewing these grants, OIG estimates that the value of questioned costs will total more than \$70 million for grant disbursements to ineligible participants and more than \$57.4 million for grant disbursements to participants whose eligibility was not adequately supported. (Audit Report: 2008-AO-1005)



# Investigations



OI has focused on fraud in all major disasters during this reporting period. OI and OA have been actively overseeing a program of combating waste, fraud, and abuse in the disbursements of more than \$26 billion in HUD funding for Hurricane Katrina and other major disasters in the Gulf Coast region, Florida, California, and the Midwest.

In an effort to coordinate efforts, OI performs outreach actions to law enforcement partners, State agencies, HUD multifamily owners and managers, HUD public housing agencies (PHA), and HUD personnel. OI has been a dedicated partner in the Hurricane Katrina Fraud Task Force (HKFTF) Command Center in Baton Rouge, LA., which was recently renamed the "National Center for Disaster Fraud" (NCDF) Task Force. OI worked closely with law enforcement agencies on complaints, intelligence, and joint investigations regarding disaster fraud. During this reporting period, the NCDF Task Force received 4,900 complaints and referred 2,122 complaints for investigation, to include 137 referred to HUD OIG OI.

Hurricane Katrina disaster fraud has been the primary disaster-related investigative focus since August 2005. A majority of Gulf Coast OI cases have been with the Mississippi and Louisiana homeowner assistance programs and HUD's new Disaster Housing Assistance Program (DHAP).

The homeowners assistance programs have provided grants to Hurricane Katrina homeowners in both States (for homes valued at \$150,000 or less), who had flood damage to their primary residence. One example of the program is the Louisiana homeowners assistance program, Road Home, which has received more than 185,000 applications and disbursed \$7 billion in HUD CDBG funds since its inception. OI has hundreds of joint agency investigations of false grant applications by State homeowners. Criminal information for investigation was referred by both the Mississippi Development Authority (MDA) and Louisiana Redevelopment Authority (State agencies).

DHAP is administered by HUD and the PHAs to provide temporary disaster housing assistance and case management services for about 45,000 FEMA families. The HUD Office of Public and Indian Housing's (PIH) interagency agreement (IAA) with FEMA has been operating DHAP with \$565 million in FEMA grant funds. OI has been working jointly with HUD PIH, the NCFD Task Force, and the U.S. Department of Homeland Security OIG to investigate criminal cases of duplicate benefits by HUD and/or FEMA landlords and other fraud by HUD tenants. Criminal information on DHAP was referred to OI by HUD PIH from its computer matching operations.

OI has been working closely with HUD PIH on antifraud measures and investigations of another new DHAP program, named DHAP-Ike, in response to the Hurricane Ike disaster in Texas and Louisiana. HUD PIH has another IAA with FEMA for this program with \$478 million in FEMA grant funds.

Some of the investigations discussed in this report were conducted jointly with Federal, State, and local law enforcement agencies, including the NCFD Task Force. Following the Attorney General's policy of "zero tolerance" in relation to Hurricane Katrina fraud and similar criminal activity following other major disasters, OIG pursues all allegations of waste, fraud, and abuse in HUD's disaster benefit programs. The results of various significant investigations are described below.

### Homeowner Grant Fraud

Jerome and Catherine Foreman were each indicted in U.S. District Court, **Jackson, MS**, for committing theft of government funds and making false claims and statements. They allegedly applied for and obtained \$150,000 in CDBG Disaster Recovery funds through MDA and \$8,706 in FEMA disaster assistance for hurricane-damaged residential property, but the property damaged was not their primary residence during the storm.



Barbara Dowl was indicted in U.S. District Court, **New Orleans, LA**, for committing theft of government funds and wire fraud. Dowl allegedly applied for and obtained \$132,000 in CDBG Disaster Recovery funds through Louisiana's Road Home program and \$46,000 in Small Business Administration (SBA) disaster assistance for hurricane-damaged residential property, but she did not own or reside in the damaged property during the storm.



Elaine Rougeau, the recipient of a Road Home disaster assistance grant, entered into a civil settlement filed in U.S. District Court, **Baton Rouge, LA**, and agreed to pay the Louisiana Redevelopment Authority \$99,355. Rougeau filed for bankruptcy and defaulted on her mortgage after she obtained \$127,355 in Road Home funds.



#### N.O. woman charged with storm fraud

BY MARY FOSTER  
Associated Press writer

**NEW ORLEANS** — A New Orleans woman has been charged in a two-count federal indictment with theft and wire fraud in connection with her application for federal funds under the state's Road Home hurricane recovery program, U. S. Attorney Jim Letten announced Friday.

A federal grand jury in New Orleans indicted Barbara Simmons Dowl, 46, on one count of theft of government funds and one count of wire fraud — the first indictment in connection with the Road Home program in Louisiana, according to Christina Stephens, spokeswoman for the Louisiana Recovery Authority.

The Road Home program is a federally funded program designed to help homeowners rebuild or relocate.

"The state has been cooperating with the U.S. Attorney's Office and will continue to do so," Stephens said. "We only want people who qualify for grants to get grants."

At the closing of her Road Home grant, Dowl received a check for \$85,930 and had the agency wire \$46,000 of her grant to the Small Business Administration to pay off a loan in her name.

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Candice McMillian was charged in U.S. District Court, **New Orleans, LA**, with making a false statement. McMillian applied for and received \$150,000 in SBA disaster assistance for her hurricane-damaged primary residence, but she allegedly submitted false invoices and used the SBA funds to rehabilitate a rental property instead. After McMillian allegedly used the SBA disaster assistance to fraudulently rehabilitate a rental property, she legitimately applied for and received \$150,000 in CDBG Disaster Recovery funds through the Road Home program. Her acceptance into the Road Home program caused the Road Home administrator to remit \$89,000 in CDBG funds to pay for McMillian's alleged fraudulent SBA loan.



Doris Wilkerson was sentenced in U.S. District Court, **Gulfport, MS**, to 7 months incarceration and 3 years supervised release, ordered to perform 100 hours of community service and pay FEMA \$17,133 in restitution, and fined \$25,000 for her guilty plea to making false statements and committing theft of government funds. Wilkerson applied for and received FEMA disaster assistance and \$74,008 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but the property damaged was not her primary residence during the storm.



Clinton Tapper, Jr., was indicted in U.S. District Court, **Jackson, MS**, for making false statements and claims, committing theft of government funds and wire and mail fraud, and submitting fraudulent loan and credit applications. Tapper allegedly applied for and received \$14,006 in FEMA and \$169,400 in SBA disaster assistance and attempted to obtain \$150,000 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but the property damaged was not his primary residence during the storm.



Lee Taylor was sentenced in U.S. District Court, **Gulfport, MS**, to 30 months incarceration and 36 months supervised release and ordered to perform 100 hours of community service and repay FEMA \$30,241 and Rebuild Jackson County \$66,764 in restitution for his conviction of making false claims. Taylor applied for and received FEMA and Rebuild Jackson County disaster assistance and attempted to obtain \$150,000 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but Taylor did not own or occupy the damaged property during the storm.



Roger and Annette Williams each pled guilty in U.S. District Court, **Gulfport, MS**, to making false statements and committing theft of government funds and Federal program fraud. They applied for and obtained \$17,814 in FEMA, \$80,600 in SBA, and \$13,667 in U.S. Department of Agriculture (USDA) disaster assistance and attempted to obtain \$150,000 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but Roger and Annette Williams did not occupy the damaged property during the storm.



William and Isabel Bates were collectively sentenced in U.S. District Court, **Gulfport, MS**, to 5 months incarceration, 11 months home confinement, and 8 years supervised release; ordered to perform 120 hours of community service and pay FEMA \$12,969 in restitution, jointly and severally; and fined \$22,500 for their guilty pleas to making false statements and theft of government funds. They applied for and received \$12,969 in FEMA disaster assistance and attempted to obtain an SBA disaster loan and \$120,000 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but the property damaged was not their primary residence during the storm.



Nealie and Joe Rudolph were each indicted in U.S. District Court, **Gulfport, MS**, for making false claims and statements, committing wire and mail fraud, and civil forfeiture. They allegedly applied for and received \$11,858 in FEMA and \$1,810 in USDA disaster assistance and allegedly attempted to obtain \$71,887 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but the property damaged was not their primary residence during the storm.



Beatrice and Leverne Moses were each indicted in U.S. District Court, **Jackson, MS**, for making false statements, submitting false claims, committing theft of government funds and mail fraud, and aiding and abetting. They allegedly applied for and received \$24,790 in FEMA disaster assistance and allegedly attempted to obtain \$52,300 in CDBG Disaster Recovery funds through MDA for hurricane-damaged residential property, but the property damaged was not their primary residence during the storm.



Catherine Pruitt was sentenced in U.S. District Court, **Gulfport, MS**, to 10 months incarceration and 36 months supervised release and ordered to perform 40 hours of community service and pay FEMA \$4,358 in restitution for her guilty plea to making false statements and committing mail fraud. Pruitt applied for and received \$4,358 in FEMA disaster assistance and attempted to obtain \$100,000 in CDBG Disaster Recovery funds and \$30,000 in Elevation grant funds through MDA for hurricane-damaged residential property, but the property damaged was not her primary residence during the storm.

## Katrina fraud case yields guilty pleas

A California couple, formerly of Ocean Springs, pleaded guilty Monday in federal court in Gulfport to charges of submitting false claims for Hurricane Katrina disaster assistance funds.

William Denton Bates and Isabel Marie Bates pleaded guilty to making a false statement to the Mississippi Development Authority to obtain a home grant and stealing Federal Emergency Management Agency funds.

The Bateses owned a home in Ocean Springs that they rented out while living in California at the time of Katrina, according to U.S. Attorney Dunn Lampton.

The Bateses face a maximum penalty of 10 years in prison and a \$500,000 fine. They will be sentenced Aug. 18 in Gulfport.

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## GULFPORT Woman to serve time for fraud

An Ellisville woman will serve 10 months in prison after being sentenced Friday for Katrina fraud.

Catherine Pruitt was sentenced in federal court in Gulfport. In addition to her prison sentence, she will have three years of supervised release and 40 hours of community service. She also must pay more than \$4,000 in restitution to the Federal Emergency Management Agency.

Pruitt filed for disaster benefits with FEMA and a home grant through the Mississippi Development Authority that claimed a primary residence in Pass Christian, according to a news release from U.S. Attorney Dunn Lampton. She had not lived in that home since 2002.

She was found to have tried to secure a Phase II grant with elevation funds worth \$130,000, according to the release.

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## HUD and FEMA Disaster Housing Assistance Fraud

Kim Pounds, a HUD and FEMA Hurricane Katrina DHAP participant, was indicted in U.S. District Court, **Los Angeles, CA**, for committing mail fraud. From September 2005 to May 2008, Pounds allegedly applied for and received \$34,507 in FEMA and \$6,710 in HUD disaster housing assistance after she claimed Hurricane Katrina evacuee status, but Pounds resided in California during the storm.



Phyllis Taylor, a former Housing Authority of New Orleans public housing tenant and current Hurricane Katrina DHAP participant, was indicted in U.S. District Court, **Houston, TX**, for committing disaster assistance fraud, aggravated identity theft, and mail fraud. Taylor allegedly used numerous false Social Security numbers and Louisiana addresses when she submitted 12 fraudulent claims for FEMA disaster assistance. In addition, Taylor allegedly applied for FEMA disaster assistance after she claimed hurricane-damaged residential property in Galveston, TX, but Taylor resided in Houston, TX, during Hurricane Ike.



Eric Gibbs, a HUD and FEMA Hurricane Katrina DHAP participant, was indicted in U.S. District Court, **Houston, TX**, for making false claims. Gibbs allegedly applied for and received FEMA disaster assistance and HUD and FEMA disaster housing assistance after he claimed residential property damage from Hurricane Katrina, but Gibbs never owned property in Louisiana and resided in Houston, TX, during the storm.

## FEMA and Other Fraud by HUD Tenants

Erica Prince, a former Houston Housing Authority Section 8 tenant, and eight conspirators were each sentenced in U.S. District Court, **Houston, TX**, for their earlier guilty pleas to conspiracy to file false, fictitious, or fraudulent claims. Collectively, the above defendants were sentenced to 68 months incarceration and 28 years probation and ordered to pay FEMA \$104,958 in restitution. Prince and others filed 77 fraudulent claims and obtained \$92,958 in FEMA disaster assistance they were not entitled to receive.



Renada Thornton, a former Slidell Housing Authority Section 8 tenant, was sentenced in U.S. District Court, **New Orleans, LA**, to 5 years probation and ordered to pay the American Red Cross (Red Cross) \$17,015 in restitution for her earlier guilty plea to committing wire and mail fraud. Thornton fraudulently claimed hurricane evacuee status on 14 separate occasions and obtained \$17,015 in Red Cross disaster assistance she was not entitled to receive.



**Woman accused of Ike fraud**

A Houston woman has been indicted on federal fraud charges, accused of filing multiple bogus claims for federal disaster assistance during hurricanes Katrina, Rita and Ike.

Phyllis Ann Taylor, 28, is the first person charged in the area with fraud in connection with Ike and the 86th charged in connection with Katrina and Rita, according to U.S. Attorney Don DeGabrielle's office.

Taylor appeared in federal court Tuesday and told U.S. Magistrate Judge Calvin Botley that she understood the accusations against her.

Botley ordered Taylor to remain in jail, where she has been since her arrest Monday. She is scheduled to appear for a detention hearing and arraignment on Friday.

The 16-count indictment, handed up last week, charges Taylor with filing a false claim with the Federal Emergency Management Agency for Hurricane Ike assistance on Sept. 13 — the day Ike made landfall.

The indictment says Taylor falsely claimed a damaged residence on Pruitt Street in Galveston was her primary residence.

If convicted of the charges, Taylor faces up to 30 years in prison and a \$250,000 fine.

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Mark Johnson, a Baton Rouge Housing Authority public housing tenant, was sentenced in U.S. District Court, **Baton Rouge, LA**, to 3 months incarceration and 36 months supervised release and ordered to pay FEMA \$8,017 in restitution for his earlier guilty plea to making false claims. Johnson applied for and received FEMA disaster assistance after he claimed personal property damage from Hurricane Katrina, but the Baton Rouge Housing Authority suffered no storm damage, nor were tenants evacuated.



Shaunena Staple, a former Mississippi Regional Housing Authority VIII Section 8 tenant, was sentenced in U.S. District Court, **Minneapolis, MN**, to 5 years probation and ordered to pay FEMA \$8,225 in restitution for her earlier guilty plea to making a false claim. Staple applied for and received \$5,688 in housing assistance and \$2,537 in FEMA disaster assistance after she claimed Hurricane Katrina evacuee status and personal property damage, but Staple resided in Minnesota during the storm.



Tameka Lafore, a Mississippi Regional Housing Authority VIII Section 8 tenant, was indicted in U.S. District Court, **Hattiesburg, MS**, for unauthorized use of an automatic teller machine. Lafore allegedly claimed Hurricane Katrina evacuee status on four separate occasions at the Red Cross centers in Mississippi and Alabama and allegedly obtained \$6,495 in Red Cross disaster assistance she was not entitled to receive.



Sharon Dailey, a Fairfield Housing Authority (Fairfield) Section 8 applicant, was sentenced in U.S. District Court, **Sacramento, CA**, to 25 months incarceration and 60 months supervised release and ordered to pay FEMA \$4,358 in restitution for her earlier guilty plea to submitting false claims and committing credit application fraud. Dailey applied for and received FEMA disaster assistance after she claimed Hurricane Katrina evacuee status, but Dailey resided in California during the storm. Dailey also used a false Social Security number to apply for Fairfield housing assistance, obtain a bank loan, and cash fraudulent checks.



Linda Southall, a former Thibodaux Housing Authority public housing tenant, was sentenced in U.S. District Court, **New Orleans, LA**, to 3 years supervised probation and ordered to pay FEMA \$2,377 in restitution for her earlier guilty plea to committing theft of government funds. Southall applied for and received FEMA disaster assistance after she claimed personal property damage from Hurricane Katrina, but the Thibodaux Housing Authority suffered no storm damage, nor were tenants evacuated.



Debra Jackson, an East Baton Rouge Housing Authority (East Baton Rouge) Section 8 tenant, was indicted in U.S. District Court, **Baton Rouge, LA**, for allegedly making false claims and committing wire fraud. In addition, former East Baton Rouge public housing tenant Tammy Dabney was sentenced to 3 years probation and ordered to perform 25 hours of community service and pay FEMA \$2,000 in restitution for her earlier guilty plea to making false claims. Jackson allegedly and Dabney admittedly applied for and received FEMA disaster assistance after they claimed personal property damage or Hurricane Katrina evacuee status, but East Baton Rouge suffered no storm damage, nor were tenants evacuated.



Michelle Chapman and Janale King, San Francisco Housing Authority (San Francisco) Section 8 tenants, each pled guilty in U.S. District Court, **San Francisco, CA**, to committing theft of government funds. In addition, San Francisco housing recipients Chemeca Gant and Aaron Jones were collectively sentenced to 3 years probation and ordered to pay FEMA \$4,358 in restitution for their earlier guilty pleas to committing theft of government funds. The above defendants each applied for and received FEMA disaster assistance after they claimed to be displaced victims of Hurricane Katrina, but each defendant resided in San Francisco subsidized housing during the storm.



Brenda Frazier, a current Housing Authority for the City of Fresno Section 8 tenant, was indicted in U.S. District Court, **Fresno, CA**, for filing a false claim, making false statements, and committing mail fraud. Frazier allegedly applied for and received FEMA disaster assistance after she claimed Hurricane Katrina evacuee status, but Frazier resided in California during the storm.

### *Other Fraud*

Bernard McCann, also known as Bernard Mitchell, Bernard Marshall, or Johnny Jordan, was indicted in Cook County Circuit Court, **Chicago, IL**, for committing theft by deception, false impersonation of a government official, aggravated false impersonation of a police officer, and wire fraud. McCann allegedly posed as a Chicago Housing Authority employee and a police officer for the Cook County Sheriff's Office, fraudulently sold bogus Hurricane Katrina Section 8 vouchers, and collected \$9,100 from numerous victims.

## Hurricane-Related Outreach

Special Agent in Charge (SAC) Thomas Luke provided an overview of DHAP, explained the process for receiving Federal Housing Administration (FHA) foreclosure information through the HUD New Orleans field office, and described the current status of the Louisiana Road Home properties conveyed to the State of Louisiana at a Jefferson Parish Crime Prevention and Reduction Task Force meeting in **Gretna, LA**. Approximately 30 Jefferson Parish Council members, representatives from the District Attorney's Office, and local police department personnel attended.



SAC Thomas Luke and Assistant Special Agent in Charge (ASAC) Kevin Whalen provided an overview of fraud found in the Hurricane Katrina DHAP and discussed the implementation of fraud prevention measures for Hurricane Ike DHAP recipients during a meeting in **Washington, DC**. In attendance were HUD Housing Choice Voucher program director David Fleischman and staff from the Reznick Group, LLC, the HUD contractor overseeing DHAP. In addition, SAC Luke and ASAC Whalen described HUD OIG's successful partnership with HUD in identifying and investigating DHAP fraud and provided disaster assistance fraud information for distribution at DHAP centers nationwide.



ASAC Fernando Ramos provided an overview of demolition projects at the Housing Authority of New Orleans, HUD rental assistance programs including DHAP, and the Louisiana Road Home buy-back program for Project Safe Neighborhood executive committee members meeting in **New Orleans, LA**. Project Safe Neighborhood, a program funded by the U.S. Department of Justice, targets violent crimes in New Orleans metropolitan neighborhoods and housing developments with high percentages of vacant or rental properties. Executive committee members in attendance included the U.S. Attorney for the Eastern District of Louisiana; the New Orleans Police Department chief; sheriffs from the Orleans, Jefferson, and St. Bernard Parishes; and representatives from the Federal Bureau of Investigation, the U.S. Drug Enforcement Administration, and the Bureau of Alcohol, Tobacco, Firearms, and Explosives.



SAC Thomas Luke and Special Agent (SA) Wyatt Achord provided an overview of HUD OIG's mission, Rental Assistance and Sex Offender Initiatives, investigative fraud indicators, and criminal and civil statutes at a Louisiana Housing Council meeting held in **Baton Rouge, LA**. Approximately 75 executive directors and housing authority board members attended.



ASAC Fernando Ramos and SA Robert Anderson provided an overview of HUD OIG's mission in relation to Louisiana's Road Home program and described homeowner assistance grant fraud for personnel from ICF International and KPMG, Road Home program contractors meeting in **Baton Rouge, LA**. Approximately 15 ICF International and KPMG employees attended.



ASAC Fernando Ramos and Senior Forensic Auditor (SFA) Windell Durant participated as panelists and provided an overview of HUD OIG's response to Hurricanes Katrina and Rita at the North American Consumer Protection Investigators annual conference held in **New Orleans, LA**. Approximately 75 civil and criminal consumer protection investigators from across the country and Canada attended.



ASAC Fernando Ramos and SFA Windell Durant provided an overview of the Road Home program and described the impact on FHA-insured properties in relation to OIG foreclosure initiatives and properties conveyed to the State of Louisiana at a HUD senior staff meeting held at the HUD Homeownership Center in **Denver, CO**. Approximately six HUD personnel attended.

## Disaster-Related OIG Hotline

During this reporting period, the Hotline received five complaints and closed 25 complaints related to Hurricanes Katrina, Rita, Wilma, Gustav, and Ike and other major disasters.

# Inspections and Evaluations

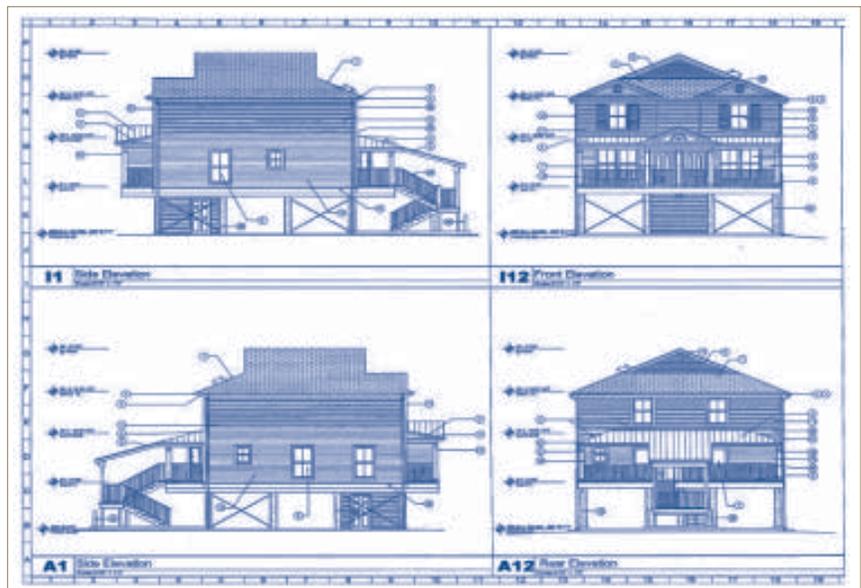
## *Housing Assistance Overpayments to Multifamily Property Owners after Hurricane Katrina*

In August 2005, HUD-subsidized multifamily Section 8 tenants vacated Louisiana properties that were severely damaged or destroyed by Hurricane Katrina. Although many of these vacated properties were uninhabitable, HUD and the Louisiana Housing Finance Agency continued to pay the property owners housing subsidies. In November 2005, HUD notified the New Orleans, LA, field office that HUD-subsidized multifamily property owners were only entitled to housing assistance payments for 1 month following the hurricane. The 1-month grace period ended in September 2005.

HUD OIG conducted an inspection of the HUD housing assistance payments provided to Louisiana multifamily property owners after Hurricane Katrina. This inspection found that HUD and the Louisiana Housing Finance Agency overpaid more than \$1.6 million in housing assistance to 27 multifamily property owners. Since HUD did not formally suspend housing assistance electronic fund transactions until November 2005, most of these overpayments are attributable to October 2005 electronic fund transactions. As of July 24, 2008, HUD and the Louisiana Housing Finance Agency had recovered \$527,407 in overpayments from 7 of the 27 multifamily property owners, and HUD intends to send out collection letters to the remaining property owners who have yet to make any repayments. OIG recommended continued collection efforts and the pursuit of administrative sanctions against the multifamily property owners or management agents, if warranted. (I&E Report: IED 07 003)

## *Reconstruction of Mississippi Gulf Coast Public Housing damaged by Hurricane Katrina*

As of August 2008, the State of Mississippi had approved up to \$100 million in HUD CDBG funds to rebuild 24 Gulf Coast public housing developments. Thirteen of these public housing developments are situated in floodplains and were devastated by the Hurricane Katrina storm surge and subsequent flooding. The \$231 million estimated total construction costs for the 24 proposed developments will be funded through tax credit programs, loans, and other grants.



*Architect's Drawing of Buildings in East End Homes Project, Biloxi Housing Authority, Biloxi, MS, which illustrates the use of the requirement for housing authorities to elevate replacement housing to meet new FEMA standards.*



HUD OIG completed an evaluation of the Mississippi Gulf Coast public housing reconstruction. The objective of this evaluation was to determine both the status of recovery efforts and the risks involved with rebuilding on sites located in designated flood plain areas. The results of our evaluation found that MDA, the State agency responsible for construction regulation compliance in flood plain areas, followed the HUD floodplain management and eight-step environmental review processes during its project funding decisions. In addition, the approved projects require housing authorities to elevate replacement housing to meet the new FEMA standards. (I&E Report: **IED 08 0003**)



*Chapter 6*

**Other Significant  
Audits and Investigations/  
OIG Hotline**



In addition to the audits and investigations described in this chapter, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG), has conducted numerous outreach efforts (see chapter 7, page 130).

## Audits

### Strategic Initiative 4: Contribute to improving HUD’s execution and accountability of fiscal responsibilities as a relevant and problem-solving advisor to the Department

Key program results		Questioned costs	Funds put to better use
Audit	8 audits	\$1.4 million	---
Our focus	Page 106	- HUD's management of human resources	
	Page 107	- Review of HUD's information technology security program	
	Page 107	- OIG response to questions from the Office of Management and Budget under the Federal Information Security Management Act of 2002	
	Page 107	- Evaluation of HUD's security controls over databases	
	Page 108	- Review of controls over the removal of local and remote user access	
	Page 108	- Office of fair housing and equal opportunity	

### *HUD's Management of Human Resources*

HUD OIG reviewed HUD's management of human resources to determine the adequacy of HUD's staffing resources in meeting its program objectives and whether HUD's offices used HUD's Resource Estimation and Allocation Process (REAP) studies when they had the ability to hire.

HUD lacked a valid basis for assessing its human resource needs and allocating staff within its program offices. Three of the five offices reviewed could not provide adequate documentation to support their assessment of human resource needs and allocation of staff among their headquarters and field office locations. As a result, HUD lacked assurance that its allocation of staff was based on supportable need and it accurately determined the human resources required to meet its performance goals under the Government Performance Results Act (GPRA).

HUD's program offices used the REAP studies when they had the ability to hire; however, they lacked adequate documentation to support their hiring practices. In particular, five of the seven HUD program offices reviewed were unable to provide adequate documentation to support their hiring of staff. As a result, HUD lacked assurance that its program offices' hiring was appropriate.

OIG recommended that HUD (1) implement a plan detailing how HUD's program offices will use REAP and the Total Estimation and Allocation Mechanism (TEAM) system to determine which program offices



need to be reassessed, (2) continue providing training, and (3) obtain feedback from the Office of Fair Housing and Equal Opportunity (FHEO) regarding the pilot of the TEAM system's allocation module. If the pilot is determined to be successful, HUD should take the necessary steps to implement the allocation module in its program offices. We also recommend that HUD implement adequate controls to ensure that its program offices comply with its internal hiring procedures. (Audit Report: 2008-CH-0003)

### *Review of HUD's Information Technology Security Program (Reports Not Available to the Public)*

HUD OIG audited the Federal Housing Administration's (FHA) management of its information technology (IT) resources and compliance with HUD and other Federal information security requirements to determine whether FHA effectively managed security controls relating to its IT resources. This audit supported our financial statement audits of FHA and HUD as well as our annual Federal Information Security Management Act (FISMA) review. OIG has determined that the contents of this report would not be available for public disclosure; therefore, we have limited its distribution to selected HUD officials. (Audit Report: 2008-DP-0004)



HUD OIG reviewed HUD's IT security program to evaluate HUD's entity-wide compliance with FISMA requirements. Specifically, OIG evaluated the overall quality of HUD's certification and accreditation process for its systems, HUD program officials' and system owners' implementation of their assigned information security responsibilities, and whether HUD had developed security policies and implemented and monitored enterprise-wide controls. OIG determined that the contents of this report would not be appropriate for public disclosure; therefore, OIG limited its distribution to selected HUD officials. (Audit Report: 2008-DP-0006)

### *OIG Response to Questions from the Office of Management and Budget under the Federal Information Security Management Act of 2002 (Report Not Available to the Public)*

HUD OIG performed an annual independent evaluation of HUD's information security program and practices mandated by FISMA. OIG has determined that the contents of this report would not be appropriate for public disclosure and has, therefore, limited its distribution to selected officials. (Audit Report: 2008-DP-0802)

### *Evaluation of HUD's Security Controls over Databases (Report Not Available to the Public)*

HUD OIG evaluated HUD's security controls over databases to determine whether the security implemented on HUD's network provides adequate controls to prevent abuse or unauthorized access to its information resources. OIG has determined that the contents of this report would not be appropriate for public disclosure and, therefore, has limited its distribution to selected HUD officials. (Audit Report: 2008-DP-0007)



## *Review of Controls over the Removal of Local and Remote User Access (Report Not Available to the Public)*

HUD OIG audited HUD's processes and controls regarding the removal of the computer system access rights of retired employees. This audit was initiated based upon work performed during the fiscal year 2007 review of information system controls in support of the annual financial statement audit. OIG determined that the contents of this report would not be appropriate for public disclosure; therefore, OIG limited its distribution to select HUD officials. (Audit Report: 2008-DP-0005)

### *Office of Fair Housing and Equal Opportunity*

HUD OIG audited the HUD Office of Fair Housing and Equal Opportunity (FHEO) to determine whether FHEO complied with the requirements of 42 U.S.C. (United States Code) chapter 45, subpart I, section 3616a(d), entitled Fair Housing Initiatives Program, Education and Outreach, when it published the 2007 Fair Housing Initiatives Program notice of funding availability.

FHEO generally complied with the applicable requirements. However, it issued the 2007 Fair Housing Initiatives Program notice of funding availability with an error related to applicant eligibility, and it did not fully document the criteria used to determine eligibility of the applicant awarded the 2007 Education and Outreach Initiative national program media campaign. Additionally, FHEO lacked a policy regarding whether a portion of each fiscal year's Education and Outreach Initiative funds was to be used for a national program for Fair Housing Month activities.

OIG recommended that FHEO (1) strengthen its internal control procedures regarding the development of future super notices of funding availability to ensure that notice language complies with statutory requirements, (2) obtain guidance on the meaning of a nonprofit organization representing groups of persons protected under the Fair Housing Act, and (3) develop policy on whether funds from each fiscal year's Fair Housing Initiatives Program appropriation are intended to be used for a national program for annual Fair Housing Month activities. (Audit Report: 2008-NY-0002)





# Inspections and Evaluations

## *Evaluation of the Fair Housing and Equal Opportunity Housing Discrimination Complaint Process and Compliance*

In October 2005, the U.S. Government Accountability Office (GAO) reported deficiencies in the HUD Office of Fair Housing and Equal Opportunity (FHEO) and its affiliated nonprofits, State and local governments administering fair housing laws under the Fair Housing Assistance program (FHAP). The GAO report cited deficiencies in the timeliness and processing of housing discrimination complaints, the sufficiency of documentation, and the integrity of data maintained in the Title VIII Automated Paperless Tracking Office System, also known as TEAPOTS (GAO-06-79).

HUD OIG completed an evaluation that followed the GAO review and addressed similar program management issues. This evaluation randomly sampled nationwide FHEO and FHAP investigations for two periods: January through June 2006 and October through December 2007. Although several improvements were noted in relation to case file documentation, our evaluation found the same or similar processing deficiencies as noted in the GAO report. OIG recommended that FHEO conduct aggressive monitoring and testing for current case documentation compliance within the guidelines found in the Fair Housing Act and related handbooks and regulations. (I&E Report: IED07001)



# Investigations

## Strategic Initiative 4: Contribute to improving HUD’s execution and accountability of fiscal responsibilities as a relevant and problem-solving advisor to the Department

Key program results	Cases closed	\$ recovered	Convictions/pleas/pretrials	Admin/civil actions
Investigations	26	\$38,345	4	12

The investigations discussed below were generated from leads provided by HUD program staff and conducted jointly with Federal, State, or local law enforcement agencies.

Michelle Meek, a former HUD employee and treasurer for the American Federation of Government Employees (AFGE) Local Union 3435, was sentenced in U.S. District Court, **Columbus, OH**, to 5 years probation and ordered to perform 50 hours of community service and pay AFGE \$4,845 in restitution for her earlier guilty plea to committing theft. Meek provided false accounting statements and embezzled AFGE Local Union 3435 funds.



HUD housing specialist Toulou Thao entered into a 12-month deferred prosecution agreement with the U.S. Attorney's Office in **Fresno, CA**, and agreed to perform 200 hours of community service under the supervision of the U.S. Pretrial Services Office and comply with all Federal, State, and local laws. At the conclusion of the 12-month period, and if Thao is in full compliance with all obligations under this agreement, the U.S. Attorney's Office will seek dismissal of Thao's previous indictment for making false statements on his Office of Government Ethics Form 450.



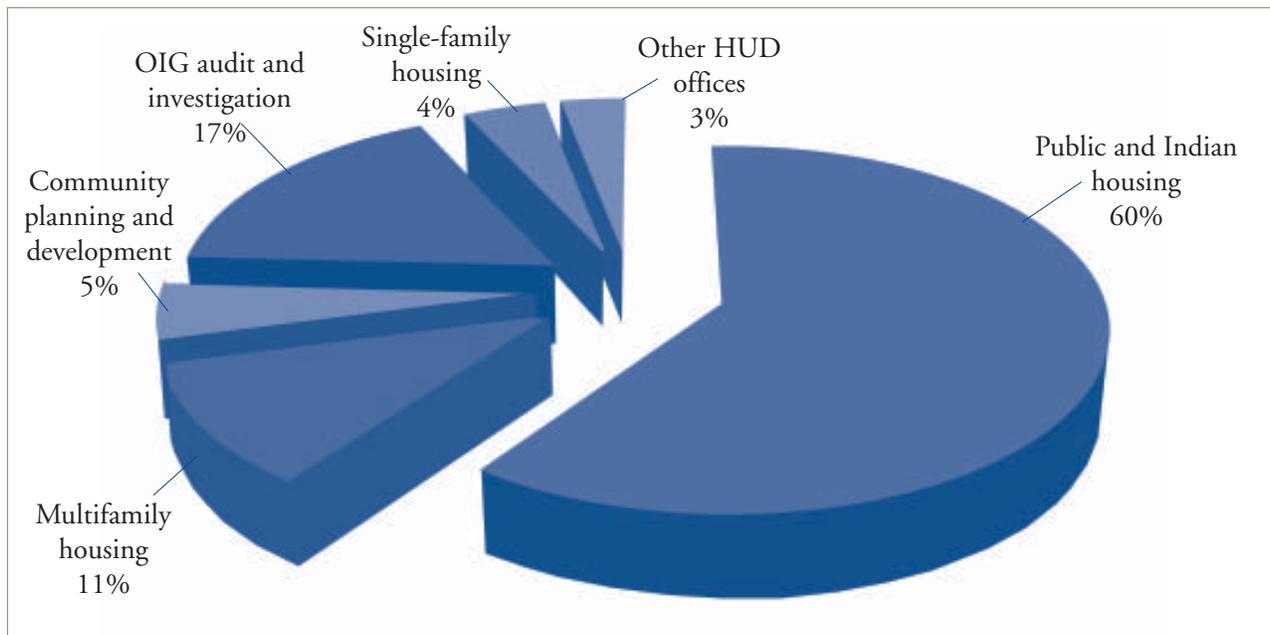
# OIG Hotline

The HUD OIG Hotline is operational 5 days a week, Monday through Friday, from 10:00 a.m. to 4:30 p.m. The Hotline is staffed by 10 full-time OIG employees, who take allegations of waste, fraud, abuse, or serious mismanagement in HUD or HUD-funded programs from HUD employees, contractors, and the public. The Hotline also coordinates reviews with internal audit and investigative units or with HUD program offices.

During this reporting period, the Hotline received and processed 9,931 complaints: 77 percent received by telephone, 12 percent by mail, and 11 percent by e-mail. Every allegation received by the Hotline is logged into a database and tracked.

Of the complaints received, 1,093 were related to the mission of OIG and were addressed as Hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following illustration shows the distribution of Hotline case referrals by percentage.

**Chart 6.1: Hotline cases opened by program area**



The Hotline closed 1,662 cases this reporting period. The closed Hotline cases included 177 substantiated allegations. The substantiated allegations resulted in 15 administrative sanctions, including action taken against a nonprofit organization that failed to properly document HUD-funded expenditures. The Department also took 107 corrective actions that resulted in \$123,784 in recoveries of losses and nearly \$2.7 million in HUD funding that could be put to better use. The recoveries included repayments of overpaid rental subsidies. Some of the funds that could be put to better use were the result of cases in which tenants were terminated from public housing or multifamily housing programs for improperly reporting their incomes or family composition to qualify for rental assistance.

Chart 6.2: Hotline dollar impact from program offices

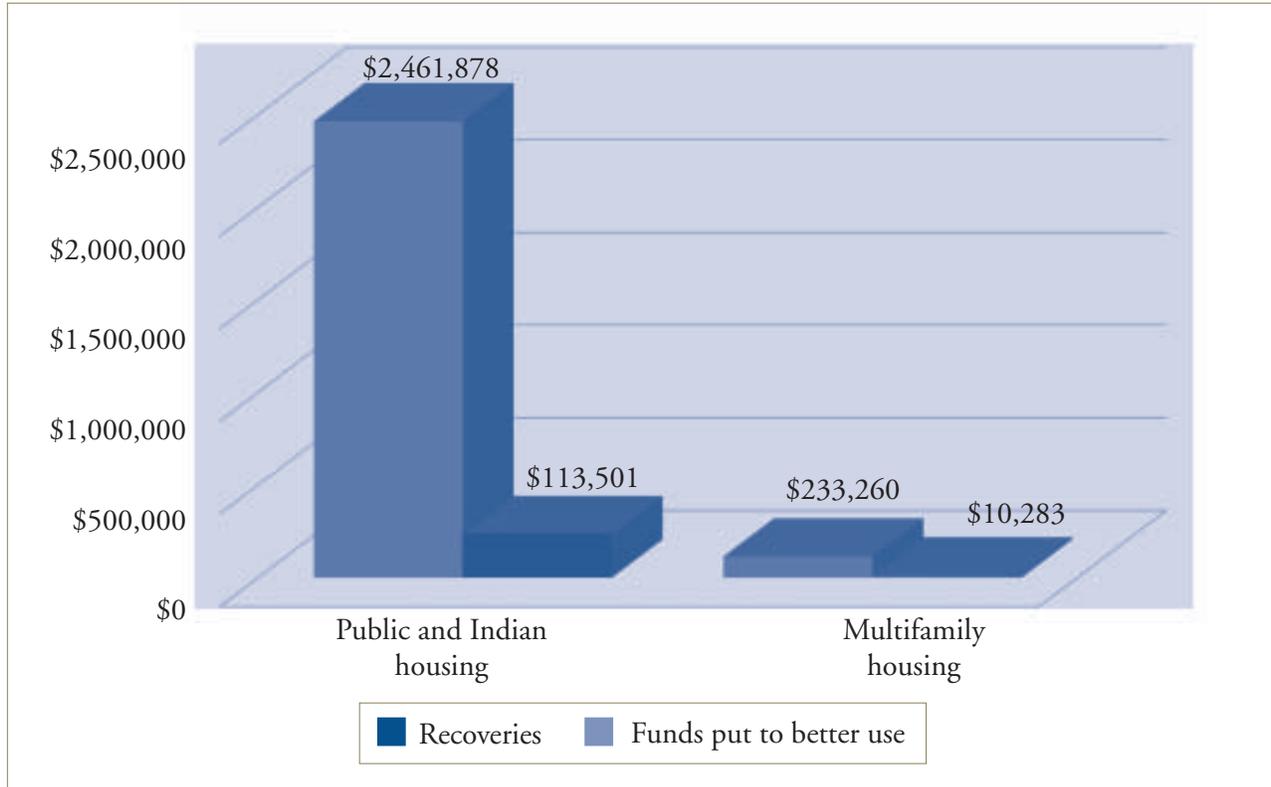
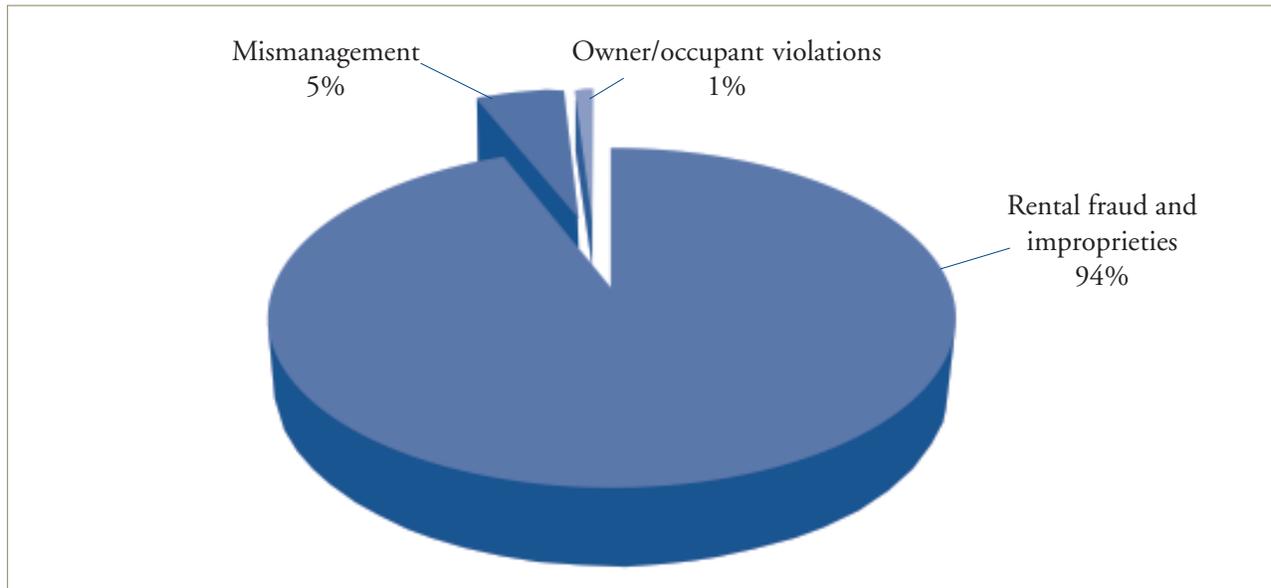


Chart 6.3: Substantiated cases by type of complaint received by Hotline



*Chapter 7*  
**Outreach  
Efforts**



To foster cooperative, informative, and mutually beneficial relationships with agencies and organizations assisting the U.S. Department of Housing and Urban Development (HUD) in accomplishing its mission, the Office of Inspector General (OIG) participates in special outreach efforts. The outreach efforts described below complement routine coordination with Federal, State, and local law enforcement agencies; various congressional committees or subcommittees; and other OIGs. During outreach efforts, OIG personnel present information about HUD OIG's role and function, provide audit and investigative results, and discuss desired goals and objectives.

### *Single-Family Housing Programs*

Special Agent in Charge (SAC) Phyllis Robinson and Special Agent (SA) Karen Gleich provided an overview of HUD OIG's mission and authority, described common mortgage fraud schemes and "red flag" indicators, and hosted a question and answer forum for members of the Ozark Gateway Women's Council of Realtors meeting in **Joplin, MO**. Approximately 50 real estate agents and mortgage and title company representatives attended.



SAC Barry McLaughlin and Regional Inspector General for Audit (RIGA) Heath Wolfe provided an overview of HUD's role and responsibilities in the single-family housing program and described common audit findings and problems with home equity conversion mortgages at the American Association of Residential Mortgage Regulators annual conference in **Minneapolis, MN**. Approximately 180 association members attended.



SAC Herschell Harvell, Jr., presented a plaque to Dallas Assistant District Attorney Alex Zocchi in **Dallas, TX**, in recognition of his continued support of the HUD OIG mission and his assistance with prosecuting mortgage fraud investigations.



SAC James Todak and Assistant Special Agent in Charge (ASAC) Tony Meeks provided an overview of HUD OIG's mission and described Federal Housing Administration (FHA)-insured mortgage issues and the FHASecure Initiative at an International Association of Financial Crimes Investigators meeting held in **Los Angeles, CA**. Approximately 60 members attended.



*From Left to Right: Herschell Harvell, Jr., Special Agent in Charge, Region 6; Robert Jones, Special Agent, Region 6; Dallas Assistant District Attorney Alex Zocchi, Chief of Special Crimes, Richard Zadina*



SAC Barry McLaughlin and RIGA Heath Wolfe provided an overview of HUD's role and responsibilities in the single-family housing program and described common audit findings and problems with home equity conversion mortgages at the Association of Certified Fraud Specialists annual conference held in **San Francisco, CA**. Approximately 75 members attended.



ASAC Juan Juarez provided an overview of the FHASecure and modernization programs at a Houston Mortgage Fraud Task Force meeting in **Houston, TX**. Approximately 30 Texas Real Estate Appraisal Board members and representatives from the U.S. Attorney's Office, the Harris County District Attorney's Office, and Federal and local law enforcement personnel attended.



ASAC Brad Geary discussed current real estate and mortgage fraud trends and provided an overview of HUD's role in the current lending crisis at a white-collar crime seminar sponsored by the Western District of Michigan U.S. Attorney's Office in **East Lansing, MI**. More than 300 financial institution and Federal, State, and local law enforcement personnel attended.



ASAC Wallace Merriman provided an overview of the FHASecure program and described HUD OIG's mission and mortgage fraud at an FHA lender training seminar hosted by the HUD Philadelphia Homeownership Center in **Springfield, VA**. Approximately 200 mortgage bankers, lenders, and underwriters from Virginia, Maryland, and Washington, DC, attended.



ASAC Ray Espinosa hosted an Illinois Mortgage Bankers Association Risk Management Committee meeting in **Chicago, IL**. Topics discussed included FHA lending and appraisals, lender options for risk management, quality control and compliance procedures, and changes in the lending industry. Approximately 16 Federal, State, and financial institution investigators and HUD program staff members attended.



ASAC Cary Rubenstein and Senior Special Agent (SSA) Daniel Ellis presented an overview of HUD OIG's mission and described HUD's role in mortgage and bankruptcy fraud investigations at a bankruptcy fraud training seminar hosted by the U.S. Trustee's Office in **Wilmington, DE**. Approximately 30 assistant U.S. attorneys, U.S. Trustees, and bankruptcy fraud task force members attended.



ASAC George Dobrovic and Assistant Regional Inspector General for Audit (ARIGA) Ron Farrell were panelists at a "HUD/FHA Ohio Partners Day 2008" conference held at Cleveland State University in **Cleveland, OH**. ASAC Dobrovic and ARIGA Farrell participated in panel discussions involving fraud, waste, and abuse in HUD programs; Inspector General initiatives; and the costs involved and tools available to fight fraud, including the HUD Enterprise Income Verification (EIV) system. Approximately 40 city council

members, State and local law enforcement officials, attorneys, mortgage and housing industry personnel, and HUD representatives attended.



ASAC Wallace Merriman provided an overview of HUD OIG's investigative mission as it relates to predatory lending, property flipping, equity skimming, appraisal fraud, and identity theft at an "FHASecure" community outreach forum hosted by the Columbia Housing Finance Agency and the HUD District of Columbia field office in **Washington, DC**. Approximately 90 representatives from State and local governmental agencies; community planning and development grantees; and housing counseling, community housing development, and faith-based organizations attended.



ASAC Brad Geary provided an overview of the current trends in rescue fraud and equity theft and described "red-flag" indicators and HUD's role in the current mortgage crisis at a mortgage and bankruptcy fraud training seminar sponsored by the U.S. Trustee's Office in **Grand Rapids, MI**. Approximately 25 U.S. Bankruptcy Court Chapter 7 Trustees attended.



ASAC Wallace Merriman and SA Neil McMullen provided an overview of HUD OIG's mission and described predatory lending, property flipping, equity skimming, appraisal fraud, and fraud schemes involving the home equity conversion mortgage program for Baltimore Housing Coalition members meeting in **Baltimore, MD**. Approximately 40 members representing State and local government agencies and mortgage and financial institutions attended.



ASAC Ray Espinosa and SA Jim Siwek provided a presentation, entitled "Latest Trends in Mortgage and Real Estate Fraud," and described property flipping, rescue and bankruptcy fraud, and HUD's role in the current lending crisis for bank and trust examiners attending an Illinois Department of Financial and Professional Regulations conference in **Bloomington, IL**. More than 130 bank and trust examiners and others attended.



ASAC Cary Rubenstein and SA Christopher Prout provided an overview of HUD OIG's mission and the home equity conversion mortgage program and described current fraud schemes and prevention techniques at a meeting of the Lower Bucks County AARP in **Middletown, PA**. Approximately 40 AARP members attended.



ASAC Wallace Merriman provided an overview of HUD OIG's mission and described predatory lending, property flipping, equity skimming, appraisal fraud, and home equity conversion mortgage fraud at meetings held with members of the Baltimore Homeownership Preservation Coalition and Maryland Homeownership



Preservation Task Force in **Baltimore, MD**. Approximately 20 State and local government agency representatives and mortgage and financial institution personnel attended.



ASAC Brad Geary described the latest trends in equity theft, mortgage rescue fraud, and "red flag" indicators at a mortgage and bankruptcy fraud training seminar sponsored by the U.S. Trustee's Office in **Minneapolis, MN**. At the conclusion of his presentation, ASAC Geary hosted a question and answer forum for the approximately 25 U.S. Bankruptcy Court Trustees in attendance.



ASAC Nadine Gurley described common mortgage fraud schemes as a panelist for a "Foreclosure Forum" hosted by Congressman John Lewis in **Atlanta, GA**. Additional panelists included representatives from HUD, the U.S. Attorney's Office, the Federal Reserve Bank, the Federal Trade Commission, the Georgia Real Estate Fraud Prevention Commission, and HUD-approved counseling agencies. Approximately 50 mortgage and real estate industry personnel attended.



ASACs Brad Geary and Ray Espinosa provided an overview of the mortgage crisis and FHA's role in mortgage insurance, refinancing, and block grant funding for foreclosed properties and described law enforcement efforts in mortgage and housing schemes for Crime Analysts of Illinois members meeting at the Illinois Department of Financial and Professional Regulation in **Chicago, IL**. Approximately 25 intelligence analysts and Federal and local law enforcement personnel attended.



ASAC Lisa Gore provided an overview of HUD OIG's mission and described efforts to address Government National Mortgage Association fraud trends and program flaws for members of the New York Mortgage Fraud Working Group meeting in **New York City, NY**. Approximately 20 U.S. Attorneys and Federal and State investigators attended.



ASAC Juan Juarez provided an overview of HUD OIG's mission and jurisdiction and described mortgage fraud investigations for members of the South West Automated Clearing House Association meeting in **Houston, TX**. Approximately 40 association members, along with Federal, State, and local law enforcement personnel, attended.



ASAC Brad Geary provided a presentation, entitled "How to Get Your Case Prosecuted," and described Federal and State mortgage fraud statutes, the referral process, report preparation, and overcoming prosecution obstacles at an Association of Certified Fraud Examiners meeting held in **Chicago, IL**. Approximately 75 individuals attended.



ASAC Wallace Merriman provided an overview of HUD OIG's mission and described predatory lending, property flipping, equity skimming, appraisal fraud, and identity theft for Coalition for Homeownership Preservation members meeting in **Prince Georges County, MD**. Approximately 35 members representing State and local government agencies, mortgage and financial institutions, and nonprofit and community faith-based organizations attended.



ASAC Brad Geary provided a presentation, entitled "Practice and Ethics," and described the latest trends in mortgage and real estate fraud schemes and HUD's role in the national foreclosure crisis at a Ticor Title Company meeting in **Chicago, IL**. More than 300 Ticor Title officials, attorneys, and employees attended.



SA Karen Gleich provided an overview of mortgage fraud schemes, described HUD OIG's role in mortgage fraud investigations, and hosted a question and answer forum for First American Title Company personnel in **Joplin, MO**. Approximately 10 employees attended.



SA Jim Siwek described the latest trends in foreclosure scams at a seminar, entitled "Bridging the Gap III, Foreclosure Crisis in Chicago's Communities," held in **Chicago, IL**, and sponsored by the Chicago Police Department and the Chicago Housing Authority. Approximately 30 nonprofit representatives and community leaders attended.



SA James Carrieres provided an overview of mortgage fraud and described Arizona mortgage fraud prosecutions at a Las Vegas Chapter of the Appraisal Institute meeting in **Las Vegas, NV**. Approximately 25 appraisers attended.



SA Matthew Nutt provided an overview of HUD OIG, illustrated public corruption, and described fraudulent activities in the HUD FHA, real estate-owned, and rental assistance programs for Rotary Club members meeting in **Plymouth, MI**. Approximately 40 district court judges, attorneys, and business leaders attended.



SA Jim Siwek provided a presentation, entitled "Latest Trends in Mortgage and Real Estate Fraud," and described property flipping, rescue and bankruptcy fraud, and HUD's role in the current lending crisis during a Financial Crimes seminar for Chicago Metropolitan Identity Fraud Task Force members meeting in **Vernon Hills, IL**. More than 55 Federal, State, and local law enforcement personnel, along with financial and retail representatives, attended.



SA James Carrieres provided a presentation, entitled "Arizona Mortgage Fraud," and described successful Arizona mortgage fraud investigations at an Arizona Trustee Association meeting held in **Gold Canyon, AZ**. Approximately 40 U.S. Trustees attended.

### *Public Housing and Rental Assistance Programs*

Assistant Inspector General for Investigation (AIGI) John McCarty and SAC Rene Febles were guest speakers at the HUD Public Housing Director's national conference held in **Nashville, TN**. AIGI McCarty and SAC Febles spoke about the partnership between HUD and HUD OIG and working together to affect positive changes in HUD programs.



SAC James Todak provided an overview of fraud, waste, and abuse and described HUD OIG's perspective on the "Project Safe Neighborhood" initiative in public housing developments at a Project Safe Neighborhood-Public Housing workshop hosted by the U.S. Attorney's Office in **Las Vegas, NV**. Approximately 350 Federal, State, and local law enforcement and other officials attended.



RIGA Heath Wolfe and SAC Barry McLaughlin provided an overview of HUD OIG, the audit process, and common audit findings and fraud schemes in the Housing Choice Voucher and Home Investment Partnerships programs for Indiana Housing and Community Development Authority contractors and staff members meeting in **Indianapolis, IN**. Approximately 15 housing representatives attended.



SAC Peter Emerzian, ASACs Michael Wixted and Diane DeChellis, and ARIGA Kevin Smullen provided an overview of HUD housing assistance fraud schemes and detection methods at a Massachusetts Association of Section 8 Administrators meeting in **Dedham, MA**. At the conclusion of their presentation, a question and answer forum was held for the approximately 100 Section 8 administrators and HUD personnel in attendance.



SAC Rene Febles, ASAC Louis Mancini, and Supervisory Forensic Auditor Mark Klein provided an overview of HUD OIG's Rental Assistance, Fugitive Felon, and Sex Offender Initiatives at a meeting with New York State Department of Housing and Community Renewal representatives in **New York City, NY**. Approximately 50 personnel attended.



SAC Phyllis Robinson and SAs Melissa McFadden and Karen Gleich described HUD OIG's mission and authority and provided presentations, entitled "Tenant Fraud," at three HUD-sponsored EIV seminars held in **Kansas City, KS**, and **Lincoln, NE**. At the conclusion of their presentations, SAC Robinson and SAs McFadden and Gleich hosted question and answer forums for approximately 231 HUD and housing industry personnel in attendance.





SAC Barry McLaughlin and RIGA Heath Wolfe described public housing fraud schemes and recent audits at an Illinois Association of Housing Authorities conference in **Decatur, IL**. More than 25 housing authority representatives attended.



SAC Rene Febles provided an overview of HUD OIG's mission and described rental assistance fraud and public corruption within HUD programs at the New York State Division of Housing and Community Renewal annual conference held in **Saratoga, NY**. Approximately 75 individuals attended.



SAC Peter Emerzian, ASAC Diane DeChellis, and SAs Jessica Piecuch and Alex Rosania assisted HUD personnel with EIV training sessions for Massachusetts and Maine National Association of Housing and Redevelopment Officials (NAHRO) members in **Boston, MA**. In addition, SAC Emerzian and ASAC DeChellis provided guidance for reporting EIV discrepancies to HUD OIG, and SAs Rosania and Piecuch answered questions relating to EIV fraud. More than 120 NAHRO members participated.



RIGA Heath Wolfe provided an overview of the HUD OIG audit process and common audit findings in public housing authority nonprofit development activities at the annual Indiana NAHRO conference held in **Lafayette, IN**. Approximately 25 housing representatives attended.



SACs Rene Febles and Joseph Clarke provided an overview of HUD OIG fraud referrals and investigations as panelists at the MidAtlantic NAHRO regional conference in **Galloway Township, NJ**. Approximately 50 NAHRO members representing housing authorities in New Jersey, Pennsylvania, Maryland, and Delaware attended.



SAC James Todak, ASAC Herschell Harvell, and SAs John Rodriguez and David Carter provided an overview of HUD OIG rental assistance fraud investigations at a Southern California NAHRO seminar in **Los Angeles, CA**. Approximately 40 NAHRO members attended.



SAC Rene Febles provided an overview of HUD OIG's mission and described rental assistance fraud and public corruption within HUD programs at a New Jersey Association of Housing and Redevelopment Officials conference held in **Atlantic City, NJ**. Approximately 30 housing representatives attended.



ARIGA Fred Smith provided an overview of HUD OIG and described current initiatives and fraud detection methods at the Kansas NAHRO conference held in **Kansas City, KS**. Approximately 40 housing representatives attended.





ASAC Gene Westerlind and SA Karen Gleich provided an overview of HUD OIG's mission and authority and described rental assistance fraud schemes and "red flag" indicators at a Missouri NAHRO conference held in **Jefferson City, MO**. At the conclusion of their presentation, a question and answer forum was held for the 110 housing representatives in attendance.



ASAC Michael Wilson provided an overview of HUD OIG's mission for the Arkansas Chapter of NAHRO meeting in **Little Rock, AR**. Approximately 100 housing officials attended the conference.



ASACs Michael Wilson and Cortez Richardson provided an overview of HUD OIG's mission and described rental assistance, multifamily FHA insurance, and Community Development Block Grant (CDBG) investigations at the annual Texas NAHRO conference held in **Fort Worth, TX**. Approximately 25 NAHRO members attended.



ASAC Timothy Mowery and SA Malinda Antonik presented an overview of HUD OIG's mission, investigations, and fraud prevention methods at a HUD 2008 Partners and Planning seminar held in **Tampa, FL**. Approximately 150 individuals representing public housing authorities, State and local governments, the mortgage industry, nonprofit organizations, and a congressional representative attended.



ASAC Michael Wixted, ARIGA Kevin Smullen, and SA Brian Gosselin provided an overview of public housing fraud schemes and detection methods at a Vermont housing authority executive directors meeting held in **Rutland, VT**. At the conclusion of the presentation, a question and answer forum was held for approximately 20 Vermont public housing authority executive directors and HUD personnel in attendance.



ASAC Kathleen Hatcher was the lead presenter during a workshop, entitled "The IG - Our Partner," at the Maryland Association of Housing and Redevelopment Agencies annual conference in **Ocean City, MD**. ASAC Hatcher described HUD OIG's mission and priorities, assisted housing fraud schemes and avenues to identify fraud, and the fraud referral and administrative and judicial processes. In addition, ASAC Hatcher hosted a question and answer forum for approximately 70 housing representatives in attendance.



ASAC Tony Meeks provided a presentation, entitled "Preventing and Identifying Section 8 Fraud," at a housing authority colloquium held at the Hawaii Government Employees Association in **Honolulu, HI**. ASAC Meeks provided an overview of HUD OIG initiatives relating to rental assistance programs and described fraud indicators; criminal and civil statutes; administrative remedies; general fraud prevention measures; and investigations involving sex offenders, unreported income, and unauthorized tenants. Approximately 60



representatives from the housing authorities in the Hawaiian Islands, Guam, Saipan, American Samoa, and the Commonwealth of the Northern Mariana Islands attended.



SA Anthony Troeger provided a presentation, entitled "Selling Honesty," at the North Carolina Program Integrity Investigators annual conference in **Asheville, NC**. In addition, SA Troeger presented an overview of HUD OIG, discussed program administration improvement, and described fraud detection methods. Following the conference, SA Troeger was the keynote speaker at the conference banquet. Approximately 140 North Carolina Department of Social Services investigators attended.



SA James Carrieres participated as a panelist and provided information on Native American fraud investigations at a Native American Indian Summit held in **Scottsdale, AZ**. Approximately 45 tribal representatives and Federal prosecutors attended.



SAs Trevor Christensen and Michael White provided an overview of HUD OIG and described rental assistance fraud at the annual Tennessee Association of Housing and Redevelopment Agency conference held in **Franklin, TN**. Approximately 325 association representatives attended.



SAs Edward Redmond and Stephen Tufts provided an overview of HUD OIG's mission and described current and future HUD OIG initiatives at the New England Regional Council of NAHRO conference held in **Dixville Notch, NH**. Approximately 133 participants representing 53 public housing agencies (PHA) from New Hampshire, Maine, and Vermont attended.



SA Jeffrey Pittano provided an overview of HUD OIG's mission and role in rental assistance fraud investigations at a Maryland Association of Housing and Redevelopment Agency conference held in **Crownsville, MD**. More than 50 association members attended.



SA Alexander Rosania provided an overview of HUD OIG's mission and priorities and described the HUD EIV system and rental assistance fraud for multifamily management agents, board members, and residents meeting at Mandela Homes Apartments, a HUD-subsidized multifamily housing development in **Boston, MA**. Approximately 50 individuals attended.



SA Theron Hanes provided an overview of HUD OIG's mission and authority and described investigative referrals and prosecutions at the annual Mountain Plains NAHRO conference held in **Helena, MT**. Approximately 60 NAHRO members and others attended.







SAC Rene Febles and ARIGA Joseph Vizer described how HUD OIG can work with community development organizations to prevent fraud, waste, and abuse at a monthly meeting of the New Jersey Community Development Organizations held in **Elizabeth, NJ**. The New Jersey CPD division director Kathy Naymola and 30 directors from New Jersey community development organizations attended.



ARIGA Fred Smith and Senior Auditor Beth Archibald met with staff members from the Office of the Auditor for both the city and county of **Denver, CO**. ARIGA Smith and Senior Auditor Archibald provided information on determining risks and developing objectives for city and county performance audits of CPD programs.



SAs Frank Aeillo and Dennis Madarang provided an overview of HUD OIG's mission and described housing and CPD programs for New Castle County Abatement Project members meeting in **New Castle, DE**. Approximately 20 State and local prosecutors, investigators, and law enforcement officers attended.



SA Frank Aeillo provided an overview of HUD OIG's mission and described CDBG program fraud at a meeting hosted by the Delaware County Housing and Community Development Office in **Media, PA**. Approximately 40 representatives from nonprofit organizations and the Delaware County Housing and Community Development Office attended.

### *Audit Outreach*

Assistant Inspector General for Audit (AIGA) James Heist provided a presentation, entitled "Challenges Facing the Accountability Community," at the 2008 Spring Mid-America Intergovernmental Audit Forum held in **Kansas City, MO**. AIGA Heist described succession planning, training, and technology challenges and solutions. In addition, AIGA Heist participated as a panelist and described HUD OIG audit results of manufactured housing foundations and community service and self-sufficiency requirements during a session that addressed significant audits. Approximately 85 Federal, State, and local government audit representatives and individuals from State societies of certified public accountants attended.



ARIGA Ronald Farrell and Auditor Julie Piotrowski participated in the Raj Soin College of Business recruiting day held at Wright State University in **Dayton, OH**. ARIGA Farrell and Auditor Piotrowski described HUD OIG's mission and student volunteer positions with the HUD OIG Office of Audit. Approximately 40 students attended the presentation.



ARIGA Kim Randall and Senior Auditor Ashley Eis participated in a career fair held at the University of Missouri in **Kansas City, MO**. ARIGA Randall and Senior Auditor Eis described HUD OIG's mission and

provided information relating to student volunteer and career positions with the HUD OIG Office of Audit. More than 40 students attended.



ARIGA Kim Randall participated in a career fair held at Missouri State University in **Springfield, MO**. ARIGA Randall provided students with information about internships and careers with the HUD OIG Office of Audit.



Computer Audit Specialist (CAS) Cliff Cole participated as a guest speaker in the Mid-America Intergovernmental Audit Forum's annual spring/summer conference in **Kansas City, MO**. The Forum is a consortium of Federal, State, and local audit executives from audit organizations in the States of Iowa, Kansas, Missouri, and Nebraska. CAS Cole provided an overview of HUD OIG's organizational structure and mission and a detailed discussion on OIG's progressive use of data mining techniques and computer-assisted analytics focused on geographic information systems and complex geospatial audit analyses. He applied this information to his recent experiences in assisting Region 5 auditors in identifying HUD-insured single-family properties located in designated flood zones.



ARIGA Kevin Smullen and SAC Peter Emerzian made a presentation to the staff of the Vermont Housing Finance Agency in **Burlington, VT**, on HUD OIG's mission, role, and responsibility with regard to detecting and investigating fraud, waste, and mismanagement in programs administered by the Agency. They discussed HUD programs, including the CDBG, HOME Investment Partnerships, Section 8, multifamily, and FHA programs. Also discussed were Agency origination of FHA loans, FHA-insured multifamily developments to assist with the mortgage crisis in Vermont, and OIG's role in monitoring these programs.



RIGA Heath Wolfe and ARIGA Ronald Farrell participated in the Office of Personnel Management's Federal Career Fair at Ohio State University in **Columbus, OH**. They spoke to students about HUD OIG's mission and the benefits of pursuing student volunteer and auditing positions with HUD OIG. Students were informed that OIG has student volunteer opportunities in its Chicago, IL, Detroit, MI, and Columbus, OH, offices. RIGA Wolfe and ARIGA Farrell accepted resumes from students interested in career and student volunteer positions with HUD OIG.

### *Law Enforcement Outreach*

SAs Amy Trebino and Malinda Antonik staffed the HUD OIG exhibit booth and provided information relating to HUD OIG's mission and investigations at the Ninth Annual Women in Federal Law Enforcement Leadership conference held in **Tampa, FL**. Approximately 700 Federal law enforcement personnel and others attended.





SA Julien Kubesh described the latest trends in mortgage and real estate fraud, flipping and rescue fraud, and HUD's role in the national foreclosure crisis for the Hennepin County Crime Prevention Advisory Committee in **Minneapolis, MN**. More than 30 Hennepin County law enforcement representatives attended.



SAs Neil McMullen and Jeffrey Lowery provided an overview of HUD OIG's mission and authority and described the HUD OIG Sex Offender Initiative for subcommittee members of the Alexandria Community Criminal Justice Board in **Alexandria, VA**. Approximately 12 representatives from the Commonwealth of Virginia Attorney's Office and State and local law enforcement personnel attended.



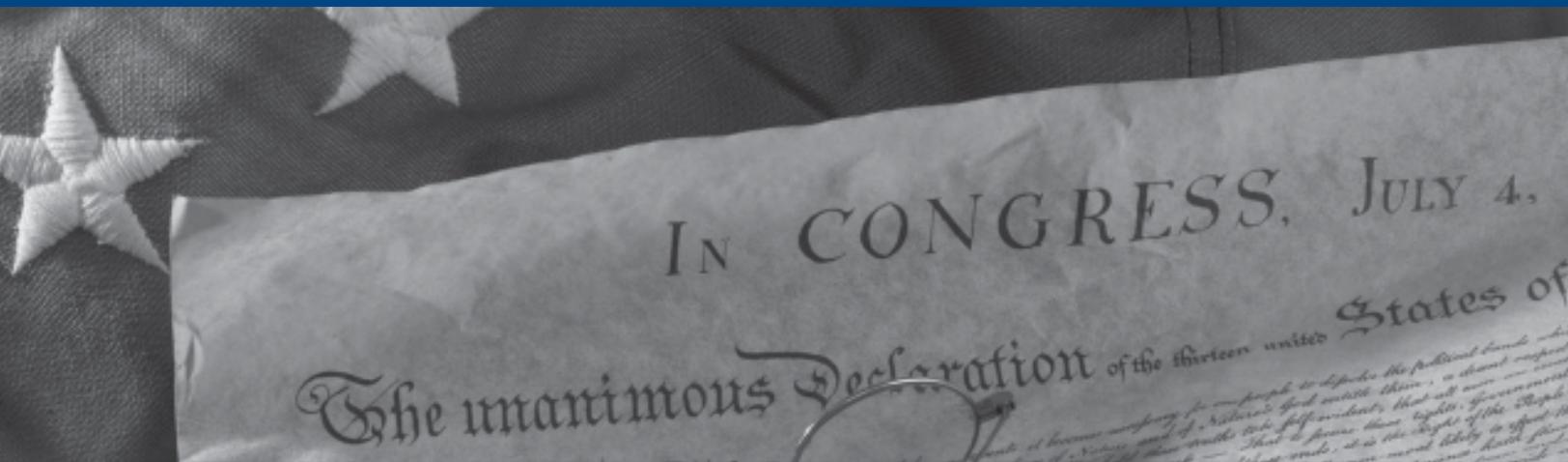
Special agents from HUD OIG participated in a "National Marrow Donor Drive" at the University of Kansas Hospital in **Kansas City, KS**. Organized by SAs Amy Durso and Francis Novak, HUD OIG special agents were tested and registered in a national database for a potential match with Leukemia victims.



SA Carissa Barnes and 11 team members from the Federal Bureau of Investigation participated in a 181-mile relay race from **Logan, UT**, to **Park City, UT**. Proceeds from the relay race, known as the "Wasatch Back Ragnar Relay Race," were donated to Operation Kids, an organization that supports disadvantaged youth.



*Chapter 8*  
**Review of  
Policy Directives**





Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG reviewed 149 issuances. This chapter highlights some of OIG's prior comments on notices, comments for this reporting period, and other policy directives.

## *Enacted Legislation Related to Single-Family Housing*

Due to the collapse of the subprime mortgage market and resulting increase in foreclosures, Congress and the President approved the Housing and Economic Recovery Act of 2008. The legislation contained two significant new programs for the U.S. Department of Housing and Urban Development (HUD): the Neighborhood Stabilization Program (\$3.92 billion) and the Hope for Homeowners Program. The programs and their related rules create new challenges and risks to the Department and its partners. OIG plans to closely monitor proposed guidance and regulations and to work in cooperation with the Department on these new programs.

In addition, the Housing and Economic Recovery Act of 2008 provided four items that OIG believes will reduce fraud and strengthen the Federal Housing Administration (FHA) single-family mortgage programs. Specifically,

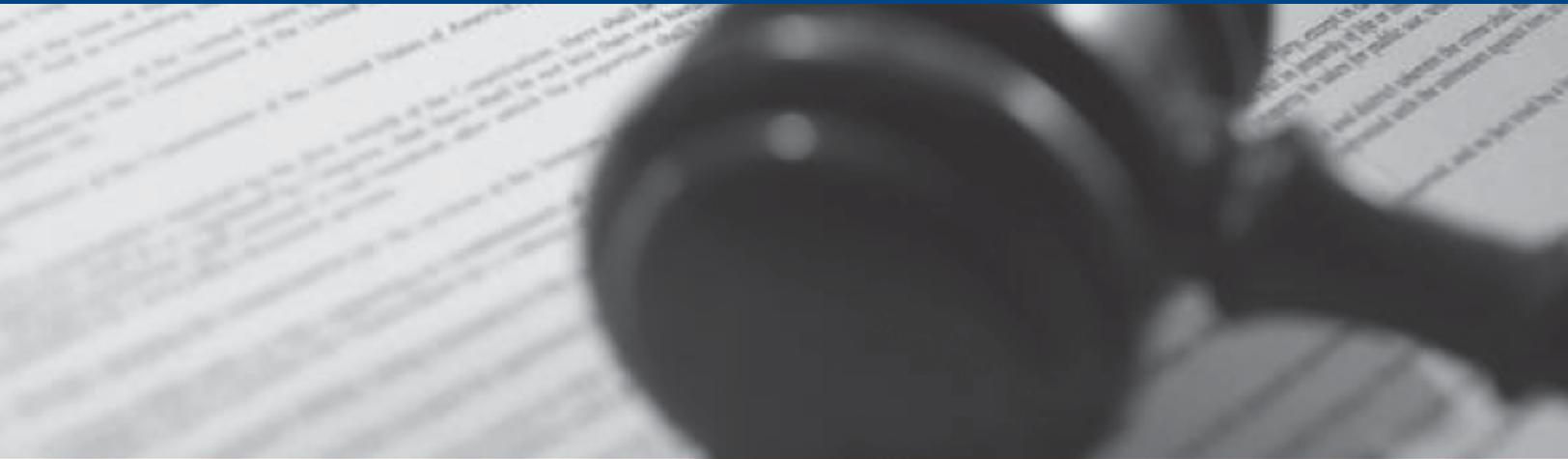
- Section 2129 amended Title 18, Section 1014, to include FHA loans. Therefore, it is a criminal offense for a person to make a false statement on an FHA loan commitment, insurance agreement, or application for insurance or guarantee. The person may receive up to 30 years in jail and/or up to a \$1 million fine.
- Section 2113 prohibited seller-funded downpayment assistance. Seller-funded downpayment assistance has resulted in substantial losses to the FHA fund.
- Section 2113 increased the cash investment of the buyer. Therefore, buyers must have an equity investment in the FHA loan.
- The Act also placed a moratorium on FHA's proposed risk-based insurance premium structure, thus maintaining the current treatment of program participants.

## *Proposed Rules*

OIG nonconcurred on a number of HUD proposed rules. Working cooperatively with the Department, OIG was able to reach agreement on these nonconcurrences, which in turn strengthened HUD's oversight role, resolved inconsistencies between the proposed rule and OIG recommendations, and put into place mechanisms to better assess risks for new programs. OIG continues to work cooperatively with HUD to resolve other outstanding nonconcurrences.



*Chapter 9*  
**Audit  
Resolution**





In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon the needed actions and timeframes for resolving audit recommendations. Through this process, OIG hopes to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant management decisions with which OIG disagrees. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 2, table B, "Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of September 30, 2008."

## *Audit Reports Issued before Start of Period with No Management Decision as of September 30, 2008*

### *Office of Housing, Washington, DC*

*Single-Family Mortgage Insurance Claims, Issued July 11, 2006.* The Inspector General referred this issue to the Deputy Secretary on December 4, 2006, because agreement could not be reached with the Office of Housing. The three recommendations relate to the Office of Housing's not independently determining that mortgage loans insured under the Mutual Mortgage Insurance Fund met program requirements after paying billions in single-family insurance claims. During the period October 1, 2003, through June 3, 2005, HUD received and paid claims on loans for which the lender did not show that the borrower (1) was able to make the required monthly payments, (2) made the minimum investment in the property, and (3) was creditworthy. HUD paid the claims and did not subsequently review the loan files for compliance with the program requirements, fraud, and/or misrepresentations. HUD relied upon lender certifications that loans were eligible and contained all required supporting documents, a preendorsement review of the insurance applications for key documents, and risk-based compliance testing of recently insured loans. We estimate that final HUD costs for claims that HUD's files did not support as meeting program requirements during the period reviewed totaled \$356 million on those claims for which all revenues and expenses were finalized.

In his February 23, 2007, response, the Deputy Secretary stated support of OIG's objective and agreed with the overall conclusions reached. The Deputy Secretary directed the Office of Housing to immediately begin implementing procedures in conjunction with and acceptable to OIG to effect the recommendations. However, the Office of Housing did not submit its plan to implement the Deputy Secretary's directive until March 30, 2007. Even then, the plan was unacceptable. Then on June 11, 2007, the Office of Housing submitted an additional proposal, which was also rejected by OIG. OIG met again with Office of Housing officials on September 30, 2008, and an agreement was reached on proposed actions by the Office of Housing that satisfied two of the three outstanding recommendations, 1A and 1C. However, recommendation 1B remains open until the Office of Housing seeks recovery of or provides adequate documentation in support for claims paid on 39 of the loans from OIG's audit sample that did not meet FHA eligibility requirements. (Report No. 2006-SE-0001).



## *Significantly Revised Management Decisions*

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significantly revised management decisions made during the reporting period. During the current reporting period, there were significantly revised management decisions on two audits.

### *Domicile Property Management, Inc. - San Antonio, TX*

*Issue Date: November 19, 2004.* In violation of the properties' regulatory agreements, Domicile Property Management diverted property income totaling more than \$771,000 to pay its own expenses and paid nearly \$1.5 million from property accounts without documentation to show that the payments were for necessary and reasonable operating costs. Further, Domicile did not abide by the 1995 settlement agreement for a previous HUD claim involving project overcharges during 1992 and 1993. Under that agreement, Domicile paid more than \$272,000 but did not report and pay an additional \$49,000 for self-funded health insurance. Because of Domicile's current diversions and failure to pay the previous settlement obligation, it deprived the properties of operating funds, thereby reducing HUD's security interests and increasing HUD's risks.

We recommended that HUD, through the Office of Regional Counsel and the United States Attorney's Office, require Domicile and Mr. John T. Condit, owner of Domicile, to repay nearly \$2.3 million and pay audit costs of more than \$352,000. We also recommended that HUD take administrative action against Domicile and Mr. Condit.

On October 24, 2004, the United States Attorney's Office filed a civil complaint against Mr. Condit, alleging false claims and equity skimming seeking the above amounts.

In a separate matter, Washington Mutual Bank filed suit in a Federal district court on August 29, 2001, for the repayment of debts owed by the Condit family. Washington Mutual Bank received a judgment against the Condit family on February 27, 2002, and the court appointed a receiver for the Condit family assets on April 10, 2003. The receiver took control of Mr. Condit's assets on July 24, 2003.

Mr. Condit filed for bankruptcy protection on December 24, 2003, listing no appreciable assets. After extensive discussions among all parties, including the United States Attorney, HUD, OIG, the receiver, and Mr. Condit, an agreement was reached on February 13, 2006. Mr. Condit agreed to a 10-year voluntary exclusion. The receiver agreed to the Government's unsecured nonpriority claim against Mr. Condit's assets held by the receiver. The Government agreed to drop the civil false claim and equity skimming complaint.

Following various communications between HUD and OIG, on March 13, 2008, HUD requested that OIG write off the disallowed costs due to the above events. On April 23, 2008, disallowed costs of more than \$2.6 million were written off, and the audit was closed. (Audit Report: 2005-FW-1002)

### *United States Veterans Initiative, Inc. - Inglewood, CA*

*Issue Date: September 27, 2004.* HUD OIG conducted an audit, which disclosed that contrary to Federal regulations and grant requirements, United States Veterans Initiative, Inc., was unable to support that it met cash matching funds requirements for any of the more than \$7.2 million in Supportive Housing Program (SHP) grant funds expended during the audit period. U.S. Veterans Initiative also spent more than \$633,000



in SHP funds for ineligible and unsupported salaries and other expenses. In addition, it did not administer its SHP grants in accordance with requirements because it failed to (1) develop an adequate financial management system, (2) comply with procurement and contract administration requirements, (3) establish and implement indirect cost rates as required, and (4) close out expired grants.

We recommended that HUD require U.S. Veterans Initiative and/or its continuums, Los Angeles Homeless Services Authority and the City of Long Beach, to (1) repay HUD from nonfederal funds for nearly \$6.6 million in SHP grant expenditures that did not have the required matching funds unless it can provide the supporting documentation, (2) comply with Federal requirements in carrying out its SHP grant activities, (3) reimburse the SHP grants and/or repay HUD from nonfederal funds for the more than \$633,000 in ineligible and unsupported expenses, (4) revise U.S. Veterans Initiative's financial management system, (5) competitively procure the services in the business services agreement, (6) develop and/or update the indirect cost rates, and (7) submit financial closeout reports for expired grants.

On April 6, 2005, OIG reached management decisions on all of the findings with the Office of Community Planning and Development (CPD). With regard to finding 1, in September 2006, CPD stated that it had sent letters to the U.S. Departments of Labor and Veterans Affairs and also to AmeriCorps asking for legal opinions regarding whether their funds could be used to match CPD's SHP. This action was necessary, as the Comptroller General has ruled that in order for a Federal agency's funds to be used as a match, its statutes must explicitly permit it. CPD had not received definitive responses from the agencies. Nevertheless, it determined that a decision on any possible repayment due to the unauthorized use of matching funds could no longer be prolonged. CPD determined that the noncompliance resulted from ambiguities in the program regulations and applicable Office of Management and Budget (OMB) circulars. At that time, CPD concluded that it would not seek repayment from U.S. Veterans Initiative. Instead, it plans to request approval from the U.S. Department of Justice to write off any debt associated with the confusion over match requirements. In addition, CPD plans to revise its regulations to clearly reflect the Comptroller General's opinions.

On April 23, 2008, CPD proposed a revised course of corrective action. It stated that it would take two final steps. The first was to issue a letter to U.S. Veterans Initiative requiring it to secure and provide to CPD written documentation from each Federal source used as match for its SHP grants, stating whether that agency prohibits the use of its program funds as match for SHP grants. CPD had already sent the letter to U.S. Veterans Initiative on April 7, 2008. At OIG's request, it agreed to also inform any Federal agency that states that its funds are a prohibited match source that it is incumbent upon that agency, not HUD, to pursue collection activities as appropriate. The second requirement was that CPD would commit to issuing a regulation pertaining to cash match. The regulation should state that homeless assistance grantees are responsible to use only allowable sources of Federal funds as cash match. This regulation would put grantees on notice to use only allowable cash match sources. If HUD becomes aware of any Federal program that is prohibited by the cognizant agency as a cash match source, HUD will specifically cite that program in the next annual notice of funding availability for the continuum of care homeless assistance programs competition. Based on this commitment to issue a regulation, the audit recommendations were closed, and the unsupported costs were written off.

With regard to the second finding, U.S. Veterans Initiative has established a repayment agreement with HUD for more than \$363,000 and is currently repaying the disallowed expenses. The final payment should be made by April 15, 2013. The recommendations for finding 3 have been closed. (Audit Report: 2004-LA-1008)



## *Significant Management Decision with Which OIG Disagrees*

There are no reports issued before the beginning of the reporting period for which a management decision had not been made by the end of the period.

### *Federal Financial Management Improvement Act of 1996*

In fiscal year 2008, HUD did not fully comply with FFMIA. Specifically, HUD's financial management systems did not substantially comply with Federal financial management system requirements.

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with Federal financial management system requirements within 3 years or obtain OMB concurrence if more time is needed.

FFMIA requires OIG to report in its Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its mediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of 2008, the Department reported that 2 of its 42 financial management systems were not in substantial compliance with FFMIA. These two systems are the HUD Procurement System and Small Purchase System.



*Appendix 1*  
**Audit Reports  
Issued**



# Internal Reports

## 22 Audit Reports

### Administration (1 Report)

2008-CH-0003 HUD Needs to Improve Its Existing Procedures and Controls Regarding Its Management of Human Capital, 09/30/2008.

### Chief Information Officer (3 Reports)

2008-DP-0005 Review of Controls over the Removal of Local and Remote User Access, 07/21/2008.

2008-DP-0006 Review of HUD's Information Technology Security Program, 07/23/2008.

2008-DP-0007 Evaluation of HUD's Security Controls over Databases, 09/11/2008.

### Community Planning and Development (2 Reports)

2008-BO-0002 Maintenance of Effort Requirements Are Needed to Ensure Intended Use of CDBG Program Funds, 05/21/2008.

2008-FW-0001 HUD's CDBG Set-Aside for Colonias Was Not Used for Its Intended Purposes, 07/29/2008. Questioned: \$8,448,000; Unsupported: \$8,448,000; Better Use: \$2,816,000.

### Fair Housing and Equal Opportunity (1 Report)

2008-NY-0002 Weaknesses in the Office of Fair Housing and Equal Opportunity's 2007 Award Process for the Fair Housing Initiative Program, National-Based Media Campaign, 08/27/2008.

### Housing (8 Reports)

2008-CH-0001 HUD Did Not Always Ensure That FHA Lenders Complied with Federal Requirements Regarding Home Equity Conversion Mortgages, 09/29/2008.

2008-CH-0002 HUD Did Not Always Ensure That FHA Lenders Complied with Federal Requirements When Submitting Loans for New Construction Properties Located in FEMA's Designated Special Flood Hazard Areas, 09/29/2008. Questioned: \$432,058; Unsupported: \$432,058; Better Use: \$260,670.

2008-DP-0004 Review of Selected FHA Major Applications' Information Security Controls, 06/12/2008.

2008-KC-0004 HUD's Office of Single Family Housing Could Improve the Reliability of Its Process for Reporting Performance Measure Results, 06/24/2008.

2008-KC-0005 HUD's Office of Multifamily Housing Generally Met Requirements While Administering the Opt-Out Process for Section 8 Projects, 07/15/2008.

2008-KC-0006 HUD's Office of Single Family Housing Had Not Fully Implemented an Internal Control Structure in Accordance with Requirements, Washington, DC, 09/08/2008.

2008-KC-0007 HUD Inappropriately Authorized the Use of Residual Receipts in Lieu of Reserve for Replacement or Operating Funds, 09/29/2008. Questioned: \$3,203,135.

2008-LA-0003 Implementation Weaknesses Existed in All Major Phases of the FHA Appraiser Review Process, 09/04/2008.



## Public and Indian Housing (4 Reports)

- 2008-AT-0002 The Miami-Dade Housing Agency Did Not Maintain Adequate Controls over Its Capital Fund Program, 04/24/2008. Questioned: \$13,912,124; Unsupported: \$13,912,124.
- 2008-AT-0003 HUD Lacked Adequate Controls over the Physical Condition of Section 8 Voucher Program Housing Stock, 05/14/2008.
- 2008-AT-0004 The Miami-Dade Housing Agency Did Not Maintain Adequate Controls over Capital Fund Program Drawdowns, Miami, FL, 09/17/2008. Questioned: \$730,137; Unsupported: \$668,014; Better Use: \$257,694.
- 2008-KC-0003 EIV Users Did Not Always Take Advantage of HUD's Training and Guidance, 04/14/2008.

## Audit-Related Memorandums<sup>1</sup>

### Chief Information Officer (1 Report)

- 2008-DP-0802 OIG Response to Questions from the OMB under the FISMA, 09/30/2008.

### Public and Indian Housing (2 Reports)

- 2008-AT-0802 Corrective Action Verification, Opelika Housing Authority, Public Housing Programs, Audit Report 2004-AT-1011, 05/12/2008. Questioned: \$57,900.
- 2008-AT-0803 Corrective Action Verification, Housing Authority of the City of Cuthbert, GA, Public Housing Programs, Audit Report 2004-AT-1001, 09/30/2008. Questioned: \$283,914.



## External Reports

### 68 Audit Reports

#### Community Planning and Development (19 Reports)

- 2008-AO-1003 The Mississippi Development Authority's Homeowners Assistance Program Contract Included Ineligible Provisions, Jackson, MS, 04/25/2008. Questioned: \$3,907,378; Better Use: \$243,210.
- 2008-AO-1005 State of Louisiana, Road Home Program, Did Not Ensure That All Additional Compensation Grant Applicants Were Eligible, Baton Rouge, LA, 08/07/2008. Questioned: \$263,959; Unsupported: \$118,885.
- 2008-AT-1008 The Municipality of Carolina Needs to Improve Procurement of Its Housing Rehabilitation Activities, Carolina, PR, 06/06/2008. Questioned: \$81,143; Unsupported: \$81,143.

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<sup>1</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, to report results, or to report the results of civil actions or settlements.

- 2008-AT-1009 The City of Augusta's Controls over Its HOME Program Were Inadequate, Augusta, GA, 06/09/2008. Questioned: \$566,697; Unsupported: \$196,657; Better Use: \$477,373.
- 2008-AT-1011 The City of Durham Did Not Comply with HOME Investment Partnerships Requirements, Durham, NC, 08/07/2008. Questioned: \$113,103; Unsupported: \$99,831; Better Use: \$258,392.
- 2008-AT-1012 The City of Jacksonville Lacked Adequate Controls over Its HOME Program, Jacksonville, FL, 09/05/2008. Questioned: \$2,780,433; Unsupported: \$500,000.
- 2008-AT-1015 The City of Durham Did Not Comply with All Federal Procurement Requirements, Durham, NC, 09/24/2008. Questioned: \$790,364; Unsupported: \$790,364.
- 2008-CH-1004 The City of Muncie Lacked Adequate Controls over Its HOME Investment Partnerships Program, Muncie, IN, 04/07/2008. Questioned: \$221,652; Unsupported: \$215,575; Better Use: \$1,120,325.
- 2008-CH-1009 Cook County Lacked Adequate Controls over Its HOME Investment Partnerships Program Income and Administrative Costs, Chicago, IL, 06/07/2008. Questioned: \$63,852; Unsupported: \$55,527; Better Use: \$5,852,258.
- 2008-CH-1010 The City of Cincinnati Lacked Adequate Controls over Its System Reporting and Rental Rehabilitation Projects for Its HOME Investment Partnerships Program, Cincinnati, OH, 06/11/2008. Questioned: \$1,990,846; Unsupported: \$590,458; Better Use: \$792,283.
- 2008-CH-1014 The City of Cincinnati Did Not Adequately Manage Its HOME Investment Partnerships Program, Cincinnati, OH, 09/26/2008. Questioned: \$4,600,968; Unsupported: \$1,822,102; Better Use: \$12,146.
- 2008-CH-1015 The City of Dayton Lacked Adequate Controls Regarding Staff Salaries Paid from Its CDBG Program, Dayton, OH, 09/26/2008. Questioned: \$556,455; Unsupported: \$556,455.
- 2008-DE-1003 The State of Colorado Did Not Comply with CDBG Program Requirements, Denver, CO, 09/23/2008. Questioned: \$4,635,464; Unsupported: \$2,887,423.
- 2008-FW-1012 The City of Tulsa Allowed Its Largest Subrecipient to Expend \$1.5 Million in Unsupported CDBG Funding, Tulsa, OK, 08/04/2008. Questioned: \$1,506,582; Unsupported: \$1,391,367; Better Use: \$8,982,150.
- 2008-KC-1007 The City of St. Louis Used HOME Program Funds to Provide Excessive Development Subsidies, St. Louis, MO, 09/30/2008.
- 2008-LA-1016 The City of Los Angeles Housing Department Did Not Comply with HOME Affordability Monitoring and Inspection Requirements for Its HOME-Assisted Rental Housing, Los Angeles, CA, 09/18/2008. Questioned: \$38,102,707; Unsupported: \$38,102,707; Better Use: \$226,483.
- 2008-NY-1006 The City of Troy Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Troy, NY, 05/21/2008. Questioned: \$1,418,088; Unsupported: \$1,232,000; Better Use: \$288,874.

- 2008-NY-1007 The County of Essex Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Verona, NJ, 05/29/2008. Questioned: \$2,567,327; Unsupported: \$517,125; Better Use: \$3,678,823.
- 2008-PH-1008 The State of Maryland Did Not Always Administer Its HOME-Assisted Single-Family Owner-Occupied Rehabilitation Program in Accordance with Federal Regulations, Crownsville, MD, 04/30/2008. Questioned: \$2,319,124; Unsupported: \$2,276,834; Better Use: \$74,648.

**Government National Mortgage Association (1 Report)**

- 2008-AT-1014 Doral Bank Needs to Improve Controls over Its Mortgage-Backed Securities Program, San Juan, PR, 09/22/2008. Questioned: \$291,094.

**Housing (15 Reports)**

- 2008-AT-1010 Meridian Lending, Inc., Did Not Follow HUD Requirements in Originating Two Insured Loans, Monroe, GA, 07/25/2008. Questioned: \$34,172; Better Use: \$50,720.
- 2008-AT-1013 Bethany Housing, Inc., Did Not Conduct Proper Oversight of Project Operations Resulting in Financial Harm to the Project, South Pasadena, FL, 09/18/2008. Questioned: \$106,686; Unsupported: \$12,994.
- 2008-BO-1007 Countrywide Bank, Milford and Madison, CT, Did Not Comply with Certain HUD Requirements in Administering Its FHA Insured Loan Programs, 07/24/2008. Questioned: \$5,767.
- 2008-DE-1004 First National Bank Did Not Follow HUD Requirements in Originating and Underwriting Insured Loans and Did Not Have a Quality Control Plan, Gillette, WY, 09/24/2008.
- 2008-FW-1010 Senior Reverse Mortgage Services Generally Complied with HUD Regulations but Could Improve, Bedford, TX, 07/14/2008.
- 2008-FW-1013 Wells Fargo Mortgage Loans Generally Complied with Reverse Mortgage Requirements, San Antonio, TX, 09/25/2008. Questioned: \$239,750; Unsupported: \$5,000.
- 2008-KC-1004 Peoples Bank Did Not Follow HUD's Requirements When Underwriting Nine FHA Loans and Implementing Its Quality Control Program, Overland Park, KS, 08/20/2008. Questioned: \$41,938; Better Use: \$353,304.
- 2008-KC-1005 James B. Nutter Did Not Meet HUD's or Its Own Quality Control Requirements Regarding the Number of Loans to Review, Kansas City, MO, 09/03/2008.
- 2008-KC-1006 Heartland Funding Corporation Violated the Real Estate Settlement Procedures Act and Did Not Fully Comply with HUD's Underwriting, Quality Control, or Employee Compensation Requirements, Springfield, MO, 09/08/2008. Questioned: \$138,170; Better Use: \$885,291.
- 2008-LA-1013 First Magnus Financial Corporation Violated the Real Estate Settlement Procedures Act When Paying Incentives to Brokers for Generating FHA Mortgages, Tucson, AZ, 07/14/2008.

- 2008-LA-1014 First Magnus Financial Corporation Violated the Real Estate Settlement Procedures Act When Paying Builders and Real Estate Companies Marketing Fees and Noncompetition Fees in Exchange for FHA Mortgage Business, Tucson, AZ, 08/01/2008.
- 2008-NY-1005 Mortgage Access Corporation Did Not Always Comply with HUD/FHA Loan Origination Requirements, Morris Plains, NJ, 05/12/2008. Questioned: \$93,500; Better Use: \$480,897.
- 2008-NY-1010 Wells Fargo Bank NA, Rochester, NY, Branch Office, Did Not Always Comply with HUD/FHA Loan Origination Requirements, 08/26/2008. Questioned: \$50,297; Better Use: \$514,134.
- 2008-PH-1011 Wells Fargo Home Mortgage Did Not Always Comply with HUD Requirements in the Origination of FHA-Insured Single-Family Loans, Newark, DE, 07/31/2008. Better Use: \$318,596.
- 2008-SE-1004 A Plus Mortgage, Inc., Overcharged Borrowers and Allowed Independent Contractors and Unapproved Branches to Originate Loans, Tukwila, WA, 05/07/2008. Questioned: \$185,146.

**Public and Indian Housing (32 Reports)**

- 2008-AT-1007 The Municipality of Caguas Needs to Improve Controls over Its Section 8 Program, Caguas, PR, 05/30/2008. Questioned: \$15,043; Unsupported: \$1,957; Better Use: \$7,792.
- 2008-BO-1006 Woonsocket Housing Authority Housing Choice Voucher Program and Public Housing Program Deficiencies Resulted in Cost Exceptions Totaling \$904,494, Woonsocket, RI, 05/14/2008. Questioned: \$663,413; Unsupported: \$660,805; Better Use: \$241,081.
- 2008-BO-1008 The State of Connecticut Department of Social Services Significantly Underleased Its Housing Choice Voucher Program and Did Not Always Comply with Its Annual Contributions Contracts and HUD Regulations, Hartford, CT, 09/04/2008. Questioned: \$1,643,809; Unsupported: \$1,629,369; Better Use: \$1,033,400.
- 2008-CH-1005 The Peoria Housing Authority Did Not Effectively Administer Its Section 8 Housing Choice Voucher Program, Peoria, IL, 04/10/2008. Questioned: \$256,962; Unsupported: \$72,235; Better Use: \$296,822.
- 2008-CH-1006 The Indianapolis Housing Agency Did Not Effectively Operate Its Section 8 Housing Choice Voucher Program, Indianapolis, IN, 04/15/2008. Questioned: \$878,328; Unsupported: \$587,022; Better Use: \$9,967,963.
- 2008-CH-1007 The Housing Authority of the City of Fort Wayne Needs to Improve Its Section 8 Housing Choice Voucher Program Administration, Fort Wayne, IN, 04/18/2008. Questioned: \$1,405,669; Unsupported: \$1,269,955; Better Use: \$4,143,788.
- 2008-CH-1008 The Lansing Housing Commission Failed to Follow HUD's Requirements for Its Nonprofit Development Activities, Lansing, MI, 04/30/2008. Questioned: \$753,842; Better Use: \$2,096,824.

- 2008-CH-1011 The Portage Metropolitan Housing Authority Needs to Improve Its Section 8 Housing Choice Voucher Program Administration, Ravenna, OH, 06/30/2008. Questioned: \$142,360; Unsupported: \$51,490; Better Use: \$609,504.
- 2008-CH-1012 The Cincinnati Metropolitan Housing Authority Did Not Effectively Operate Its Section 8 Housing Quality Standards Inspection Program, Cincinnati, OH, 09/23/2008. Questioned: \$35,594; Better Use: \$5,870,016.
- 2008-CH-1013 The Highland Park Housing Commission Lacked Adequate Controls over Unit Conditions and Maintenance Program, Highland Park, MI, 09/24/2008. Questioned: \$75,626; Better Use: \$399,120.
- 2008-CH-1016 The Springfield Housing Authority Did Not Always Ensure That Section 8 Units Met HUD's Housing Quality Standards, Springfield, IL, 09/29/2008. Questioned: \$59,770; Better Use: \$591,815.
- 2008-CH-1017 The Chicago Housing Authority Needs to Improve Its Controls over Housing Assistance and Utility Allowance Payments, Chicago, IL, 09/30/2008. Questioned: \$276,983; Unsupported: \$163,794; Better Use: \$7,141.
- 2008-FW-1009 The Shreveport Housing Authority Made Excessive Housing Assistance Payments in Its Section 8 Housing Choice Voucher Program, Shreveport, LA, 05/08/2008. Questioned: \$18,517; Better Use: \$155,674.
- 2008-FW-1011 The Dallas Housing Authority Mismanaged Its Housing Choice Voucher Program, Dallas, TX, 07/31/2008. Questioned: \$19,584,256; Unsupported: \$19,330,423.
- 2008-KC-1003 The Des Moines Municipal Housing Agency Did Not Always Assign Proper Voucher Sizes or Accurately Calculate Overpayments from Unreported Income in Its Section 8 Housing Choice Voucher Program, Des Moines, IA, 04/22/2008. Questioned: \$99,347; Better Use: \$206,064.
- 2008-LA-1009 The Housing Authority of the City of Eloy Did Not Have Adequate Internal Controls to Safeguard Assets and Ensure Compliance with HUD's Requirements, Eloy, AZ, 05/05/2008. Better Use: \$755,365.
- 2008-LA-1010 The Housing Authority of the City of San Buenaventura Did Not Manage HUD Program Funds in Accordance with HUD Requirements, San Buenaventura, CA, 05/28/2008. Questioned: \$496,137; Better Use: \$243,352.
- 2008-LA-1011 The City of Phoenix Housing Department's Controls over Section 8 Tenant Eligibility and Rent Determinations Were Not Adequate, Phoenix, AZ, 06/17/2008. Questioned: \$384,085; Unsupported: \$371,469; Better Use: \$540,427.
- 2008-LA-1012 The Housing Authority of the City of Calexico Did Not Comply with Public Housing Program Rules and Regulations, Calexico, CA, 07/01/2008. Questioned: \$1,446,319; Unsupported: \$840,586; Better Use: \$1,210,852.
- 2008-LA-1015 The Housing Authority of the City of Los Angeles Could Not Show That It Used HUD Program Funds in Accordance with HUD Requirements, Los Angeles, CA, 08/21/2008. Questioned: \$27,801,379.
- 2008-NY-1008 Tuckahoe Housing Authority Had Weaknesses in the Administration of Its Low-Rent Housing and Nonprofit Entity Activities, Tuckahoe, NY, 06/19/2008. Questioned: \$262,557; Unsupported: \$182,547.

- 2008-NY-1009 Union County Had Weaknesses in Its Housing Choice Voucher Program, Elizabeth, NJ, 06/30/2008. Questioned: \$105,338; Unsupported: \$83,476; Better Use: \$762,000.
- 2008-PH-1006 The Richmond Redevelopment and Housing Authority Did Not Effectively Operate Its Housing Choice Voucher Program, Richmond, VA, 04/15/2008. Questioned: \$430,441; Unsupported: \$346,432; Better Use: \$3,361,534.
- 2008-PH-1007 The Harrisburg Housing Authority Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards, Harrisburg, PA, 04/15/2008. Questioned: \$44,909; Better Use: \$884,917.
- 2008-PH-1009 The Housing Authority of the City of Allentown Did Not Ensure That Its Section 8 Housing Choice Voucher Program Units Met Housing Quality Standards, Allentown, PA, 07/14/2008. Questioned: \$88,820; Better Use: \$1,278,005.
- 2008-PH-1010 The District of Columbia Housing Authority Did Not Implement Effective Controls for Its Leased Housing under Its MTW Program, Washington, DC, 07/30/2008. Questioned: \$410,046; Unsupported: \$51,258; Better Use: \$435,140.
- 2008-PH-1012 The Delaware County Housing Authority Did Not Adequately Administer Its Housing Assistance Payments, Woodlyn, PA, 08/15/2008. Questioned: \$85,584; Unsupported: \$26,596; Better Use: \$929,688.
- 2008-PH-1013 The Housing Authority of Baltimore City Did Not Ensure That Its Program Units Met Housing Quality Standards under Its MTW Program, Baltimore, MD, 09/19/2008. Questioned: \$47,862; Better Use: \$3,457,428.
- 2008-PH-1014 The Housing Authority of the City of Pittsburgh Did Not Adequately Administer Its Housing Assistance Payments for Leased Housing, Pittsburgh, PA, 09/30/2008. Questioned: \$75,461; Unsupported: \$58,470; Better Use: \$1,708.
- 2008-SE-1003 Salish and Kootenai Housing Authority Did Not Properly Recognize and Account for Program Income from 1937 Act Housing Projects, Pablo, MT, 04/28/2008. Better Use: \$184,226.
- 2008-SE-1005 Renton Housing Authority Overpaid Rental Assistance and Did Not Have Sufficient Controls over Rent Reasonableness, Renton, WA, 06/03/2008. Questioned: \$11,024.
- 2008-SE-1006 The Richland Housing Authority Did Not Adequately Account for Housing Choice Voucher Funds, Richland, WA, 07/07/2008. Questioned: \$57,574; Unsupported: \$15,391.

## Audit-Related Memorandums<sup>1</sup>

### General Counsel (1 Report)

- 2008-LA-1801 Actions under PFCRA, First Source Financial USA, Henderson, NV, 09/03/2008. Questioned: \$1,405,201.




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<sup>1</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, to report results, or to report the results of civil actions or settlements.

# Appendix 2

## Tables



## Table A

Audit reports issued prior to start of period  
with no management decision at September 30, 2008

*\* Significant audit reports described in previous semiannual reports*

Report number and title	Reason for lack of management decision	Issue date/target for management decision
*2006-SE-0001 Single Family Mortgage Insurance Claims	See chapter 9, page 130	07/11/2006

## Table B

### Significant audit reports in which final action had not been completed within 12 months after the date of the Inspector General's report

Report number	Report title	Issue date	Decision date	Final action
1997-AT-1003	Municipality of Mayaguez, CDBG and Section 108 Loan Guarantee Assistance Programs, Mayaguez, PR	07/01/1997	10/29/1997	06/30/2009
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	04/30/2010
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	12/31/2008
2002-PH-1005	Philadelphia Regional Alliance of HUD Tenants, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grant, Philadelphia PA	09/30/2002	03/31/2003	11/03/2008
2003-SE-1002	Tenants Union, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant, Seattle, WA	12/02/2002	03/31/2003	11/03/2008
2004-PH-0001	Procedures for Filing Uniform Commercial Code Continuation Statements	11/26/2003	04/14/2004	05/31/2009
2004-BO-1004	Danbury Housing Authority, Capital Fund Program, Boston, MA	12/05/2003	04/05/2004	12/01/2008
2004-PH-1003	The Congress of National Black Churches, Incorporated, Housing Counseling Program, Washington, DC	02/19/2004	06/18/2004	11/15/2008
2004-DP-0002	Application Control Review of the Tenant Rental Assistance Certification System	02/25/2004	07/14/2004	02/28/2009
2004-PH-1008	Safe Haven Outreach Ministry, Incorporated, Washington, DC	06/03/2004	08/31/2004	10/31/2008

Report number	Report title	Issue date	Decision date	Final action
2004-CH-1803	Somerset Point Nursing Home, Multifamily Equity Skimming, Shaker Heights, OH	08/09/2004	08/09/2004	07/31/2009
2004-PH-1012	Mortgage America Bankers, LLC, Nonsupervised Loan Correspondent, Kensington, MD	09/10/2004	01/06/2005	Note 1
2004-FW-1009	Mays Property Management, Inc., Multifamily Management Agent, Little Rock, AR	09/17/2004	02/23/2005	10/01/2008
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-CH-1003	Royal Oak Township Housing Commission, Public Housing Program, Ferndale, MI	11/29/2004	03/29/2005	10/31/2008
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance with HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	11/30/2008
2005-CH-1017	Flint Housing Commission, Section 8 Housing Program, Flint, MI	09/23/2005	01/20/2006	01/20/2016
2005-CH-1020	Housing Authority of the City of Gary, Section 8 Housing Program, Gary, IN	09/29/2005	01/25/2006	12/31/2052
2006-CH-0001	Real Estate Assessment Center's Physical Condition Assessment Was Compromised	11/30/2005	01/10/2006	11/30/2008
2006-AT-1001	Miami-Dade Housing Agency Did Not Ensure Section 8 Assisted Units Met Housing Quality Standards, Miami, FL	12/21/2005	05/31/2006	01/01/2009
2006-AT-1004	The Housing Authority of the City of Prichard Did Not Ensure Section 8 Subsidy Payments Were for Eligible Units, Tenants, and Landlords, Prichard, AL	01/13/2006	04/25/2006	06/30/2010

Report number	Report title	Issue date	Decision date	Final action
2006-SE-1001	Idaho Housing and Finance Association Did Not Monitor Subsidized Multifamily Projects in Accordance with Regulations or Its Annual Contributions Contract with HUD, Boise, ID	01/26/2006	05/23/2006	12/31/2008
2006-NY-1003	The Housing Authority of the City of Newark's Controls over Bond Financing Activities, Obtaining Supporting Documentation, and Legal Settlements Require Improvement, Newark, NJ	02/14/2006	08/17/2006	01/01/2015
2006-LA-1009	Fontana Native American Indian Center Did Not Adequately Administer Its Supportive Housing Program Grant, Fontana, CA	03/03/2006	03/17/2006	03/15/2009
2006-LA-1010	The Owner and Agent of Holiday Apartments, LA PRO 30, and Two Worlds II Mismanaged Project Finances and Operations, Los Angeles, CA	03/03/2006	06/23/2006	01/01/2013
2006-LA-1011	Sundial Care Center Used \$659,746 in Project Funds for Ineligible and Undocumented Costs and Was Unable to Account for Revenue Totaling \$407,454, Modesto, CA	05/18/2006	09/14/2006	01/20/2009
2006-PH-0002	HUD Improperly Admitted the Housing Authority of Baltimore City into the MTW Demonstration Program, Baltimore, MD	05/31/2006	10/24/2006	01/01/2009
2006-NY-0001	HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate	06/08/2006	01/08/2007	01/31/2009
2006-KC-1011	The Owner of Wellston Townhouses in St. Louis County Violated Its Regulatory Agreement, Wellston, MO	06/29/2006	09/06/2006	10/28/2008
2006-KC-1012	The Owner of HDC Retirement Village in St. Louis Violated Its Regulatory Agreement, St. Louis, MO	06/29/2006	08/31/2006	10/30/2008

Report number	Report title	Issue date	Decision date	Final action
2006-BO-1009	The Rhode Island Housing and Mortgage Finance Corporation Incorrectly Made More Than \$1.8 Million in Section 8 Subsidy Payments and Released More Than \$900,000 from Restricted Residual Receipts Accounts, Providence, RI	07/06/2006	10/24/2006	12/01/2009
2006-BO-0001	HUD Incorrectly Approved \$42 Million in Operating Subsidies for Phase-Down for Demolition Add-On Funding	07/11/2006	10/13/2006	10/01/2008
2006-CH-0002	PIH Is Taking Action to Oversee the Section 202 Mandatory Conversion Program, Washington, DC	07/13/2006	07/13/2006	12/31/2009
2006-CH-1013	The Ann Arbor Housing Commission's Administration of Its Section 8 Housing Choice Voucher Program Needs to Be Improved, Ann Arbor, MI	07/21/2006	11/15/2006	12/31/2016
2006-AT-1016	The Municipality of Humacao Did Not Administer Its CDBG in Accordance with HUD Requirements, Humacao, PR	07/28/2006	11/17/2006	01/30/2009
2006-CH-1014	National City Mortgage Company, Nonsupervised Lender, Did Not Comply with HUD's Requirements Regarding Underwriting of Loans and Quality Control Reviews, Miamisburg, OH	07/31/2006	01/31/2007	09/08/2009
2006-SE-0002	The Office of Single Family Housing Expanded Late Endorsement Eligibility without Studying Associated Risks	08/16/2006	03/30/2007	Note 1
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2012
2006-DP-0005	Review of HUD's Information Technology Contingency Planning and Preparedness	08/31/2006	11/17/2006	12/15/2008

Report number	Report title	Issue date	Decision date	Final action
2006-AT-1019	The Municipality of Toa Baja Did Not Administer Its Section 108 Loan Guarantee Assistance Program in Accordance with HUD Requirements, Toa Baja, PR	09/06/2006	12/11/2006	12/31/2008
2006-DP-0802	Assessment of HUD's Compliance with OMB Memorandum M-06-16, "Protection of Sensitive Agency Information"	09/21/2006	11/24/2006	10/01/2009
2006-CH-1018	Saginaw Housing Commission Improperly Used Public Housing Funds to Purchase Property, Saginaw, MI	09/28/2006	01/19/2007	12/31/2021
2007-AT-1002	Pine State Mortgage Company Did Not Always Comply with FHA Underwriting and Quality Control Requirements, Atlanta, GA	11/03/2006	03/02/2007	12/31/2008
2007-LA-0001	Tax Credit Project Owners Are Allowed to Charge Higher Rents for Tenant-Based Section 8 Voucher Households Than Nonvoucher Households	11/08/2006	07/05/2007	10/01/2010
2007-PH-1002	The Montgomery County Housing Authority Improperly Used HUD Funds to Purchase, Renovate, and Maintain Its Main Office, Norristown, PA	12/13/2006	04/12/2007	02/06/2009
2007-DP-0002	Review of HUD's Information Technology Services Contracts	01/18/2007	05/25/2007	Note 1
2007-CH-1002	Benton Harbor Housing Commission Did Not Effectively Manage Its Public Housing Program and Has Not Used Special Purpose Grant Funds It Received More Than Nine Years Ago, Benton Harbor, MI	01/25/2007	05/25/2007	05/13/2009
2007-DP-0003	Review of HUD's Procurement Systems	01/25/2007	05/25/2007	09/30/2010

Report number	Report title	Issue date	Decision date	Final action
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts to Reduce Housing Assistance Payments	01/29/2007	01/29/2007	01/31/2011
2007-CH-1003	The Housing Authority of the City of Evansville Needs to Improve Its Section 8 Housing Choice Voucher Program Administration, Evansville, IN	02/13/2007	06/11/2007	12/31/2016
2007-LA-1005	Oakland Housing Authority Did Not Comply with Procurement and Contracting Requirements, Oakland, CA	02/14/2007	06/14/2007	10/31/2008
2007-DP-0004	FY 2006 Review of Information Systems Controls in Support of the Financial Statements Audit	02/22/2007	06/21/2007	12/30/2008
2007-AT-1004	The Wilmington Housing Authority Needs to Improve Internal Controls over Its Program, Wilmington, NC	03/09/2007	06/25/2007	06/28/2010
2007-BO-1003	The Office of Community Development, City of Chicopee, Did Not Properly Award and Administer CDBG and HOME Funds Used for its Housing Activities, Chicopee, MA	03/21/2007	07/19/2007	01/16/2009
2007-DP-0005	Review of HUD's Information Technology Security Program	04/05/2007	08/03/2007	11/30/2008
2007-LA-1008	The Navajo Housing Authority Should Discontinue Its Use of Subgrantees for Development Projects or Implement Additional Program Controls, Window Rock, AZ	04/09/2007	08/02/2007	Note 1
2007-AT-1007	The Municipality of Toa Baja Needs to Improve Its CDBG Program Administration, Toa Baja, PR	04/11/2007	07/16/2007	05/30/2009
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	01/31/2009

Report number	Report title	Issue date	Decision date	Final action
2007-BO-0002	HUD Did Not Process Multifamily Accelerated Processing Applications within Established Processing Goals and the Multifamily Accelerated Processing Guide Is Outdated	05/21/2007	09/07/2007	10/15/2009
2007-LA-1011	Suburban Mortgage Company Did Not Comply with HUD Requirements in the Origination of FHA-Insured Single-Family Mortgages, Phoenix, AZ	05/29/2007	12/31/2007	12/31/2008
2007-LA-1012	Central City Lutheran Mission Did Not Properly Administer Its Supportive Housing Program Grants, San Bernardino, CA	06/04/2007	09/21/2007	Note 1
2007-SE-0001	HUD Did Not Ensure That Payments to Contract Administrators Were for Work Performed or That Interest Was Earned on Advances and Recovered	06/07/2007	10/05/2007	10/31/2008
2007-NY-1008	The City of Newark Did Not Always Administer Its CDBG Program in Accordance with HUD Requirements, Newark, NJ	06/22/2007	10/17/2007	10/17/2008
2007-FW-1011	Capmark Finance, Inc., Misrepresented Asbury Square Apartments' Financial and Physical Condition When Underwriting the \$9.098 Million Loan, Tulsa, OK	07/02/2007	10/23/2007	10/29/2008
2007-FW-1012	Fallbrook Apartments' Owner and/or Management Agent Made Unauthorized Distributions of the Project's Funds, Houston, TX	07/06/2007	10/10/2007	12/31/2008
2007-CH-1009	The Boyne City Housing Commission Failed to Follow HUD's Requirements for Its Nonprofit Development Activities, Boyne City, MI	07/17/2007	11/06/2007	10/31/2017

Report number	Report title	Issue date	Decision date	Final action
2007-CH-1010	The Madison County Housing Authority Did Not Effectively Administer Its Section 8 Housing Choice Voucher Program, Collinsville, IL	07/20/2007	11/16/2007	11/14/2008
2007-CH-1011	The Indianapolis Housing Agency Lacked Adequate Controls over Expenses Charged to Its Section 8 Program, Indianapolis, IN	07/23/2007	11/19/2007	11/18/2008
2007-LA-1014	The Housing Authority of the County of San Mateo Did Not Use HUD Program Funds in Accordance with HUD Requirements, San Mateo, CA	07/27/2007	11/23/2007	11/24/2017
2007-CH-1012	The Plymouth Housing Commission Needs to Improve Its Section 8 Housing Choice Voucher Program Administration, Plymouth, MI	08/03/2007	11/23/2007	11/30/2008
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	12/31/2008
2007-PH-1011	The Housing Commission of Anne Arundel County Did Not Always Operate Its Housing Choice Voucher Program in Accordance with Federal Requirements, Glen Burnie, MD	08/14/2007	12/11/2007	11/03/2008
2007-NY-1011	The Hoboken Housing Authority Requires Improved Controls over Its Capital Fund Program and Cash Disbursement Process, Hoboken, NJ	08/17/2007	12/11/2007	10/31/2008
2007-PH-0002	HUD's Oversight of Contractors' Marketing of Its Real Estate-Owned Properties	08/17/2007	12/12/2007	12/31/2008
2007-DP-0006	Review of HUD's Personal Identity Verification and Privacy Program	08/28/2007	12/20/2007	04/30/2009

Report number	Report title	Issue date	Decision date	Final action
2007-NY-1012	The City of Passaic's Community Development Department Has Weaknesses in Its HOME Investment Partnerships Program, Passaic, NJ	09/12/2007	12/17/2007	12/12/2008
2007-AT-0001	HUD Needs to Improve Controls over Its Contract Administration Processes	09/19/2007	09/19/2007	09/30/2009
2007-DP-0007	Vulnerability Assessment of HUD's Computer Network	09/19/2007	01/28/2008	12/15/2008
2007-LA-1016	A Community of Friends Did Not Always Administer Its Cash Match in Compliance with HUD Requirements, Los Angeles, CA	09/21/2007	01/18/2008	01/17/2009
2007-CH-1014	The Peoria Housing Authority Did Not Effectively Administer Its Section 8 Housing Choice Voucher Program, Peoria, IL	09/24/2007	01/14/2008	11/14/2008
2007-KC-0004	More Than 80 Percent of Recently Insured Title II Manufactured Housing Loans Are on Homes with Substandard Foundations	09/24/2007	03/28/2008	11/30/2008
2007-KC-0801	Lenders Submitted Title II Manufactured Housing Loans for Endorsement without the Required Foundation Certifications	09/24/2007	03/11/2008	03/07/2009
2007-AT-1011	The Wilmington Housing Authority Did Not Follow HUD Requirements for Its Nonprofit Development Activities, Wilmington, NC	09/26/2007	01/24/2008	01/01/2011
2007-CH-1015	Cook County Lacked Adequate Controls over Its HOME Investment Partnerships Program, Chicago, IL	09/26/2007	01/24/2008	10/30/2008
2007-PH-1013	The Harrisburg Housing Authority Did Not Properly Administer Its Low-Rent Public Housing Program, Harrisburg, PA	09/27/2007	11/28/2007	11/26/2008

Report number	Report title	Issue date	Decision date	Final action
2007-CH-1016	The Plymouth Housing Commission Failed to Adequately Administer Its Section 8 Housing Choice Voucher Program, Plymouth, MI	09/28/2007	01/24/2008	01/24/2009
2007-FW-0001	Overpayments in the Housing Choice Voucher Program Occurred When Public Housing Agencies Subsidized Rental Units with More Bedrooms Than Authorized	09/28/2007	01/24/2008	12/31/2008
2007-CH-1017	The City of Cincinnati Lacked Adequate Controls over Its HOME Investment Partnerships Program, Cincinnati, OH	09/30/2007	01/28/2008	10/15/2008
2007-CH-1018	The City of Milwaukee Needs to Improve Existing Controls over Its HOME Program Regarding Housing Conditions and Contracting, Milwaukee, WI	09/30/2007	03/20/2008	10/30/2009
2007-SE-1004	The Tacoma Consortium Did Not Properly Administer Its HOME Investment Partnerships Grants, Tacoma, WA	09/30/2007	01/25/2008	12/31/2008

**Significant audit reports issued within the past 12 months  
that were described in previous semiannual reports in which final action had not  
been completed as of 09/30/2008**

Report number	Report title	Issue date	Decision date	Final action
2008-DP-0001	Review of Unisys Performance and Security Controls	10/19/2007	02/08/2008	01/30/2009
2008-NY-0801	CDBG Disaster Recovery Assistance Funds Lower Manhattan Development Corporation	10/23/2007	04/03/2008	10/10/2008
2008-FW-1001	The Housing Authorities of the City of Konawa, City of Langston, City of Pauls Valley, City of Wynnewood, Town of Cheyenne, and Caddo Electric Cooperative Improperly Awarded Their Management Contracts and Did Not Manage Certain Operations or Administer Funds Properly, Ada, OK	10/26/2007	02/22/2008	05/01/2009
2008-SE-1001	Accounting for Program Income from NAHASDA-Assisted 1937 Act Housing Projects at Warm Springs Housing Authority, Warm Springs, OR	10/30/2007	07/23/2008	03/31/2009
2008-DP-0002	Review of FHA Controls over Its Information Technology Resources	10/31/2007	02/26/2008	12/05/2008
2008-LA-0001	The Los Angeles Multifamily Hub Did Not Properly Monitor Its Performance-Based Contract Administrator, Los Angeles LOMOD	11/05/2007	03/03/2008	03/02/2009
2008-BO-1001	The City of Chicopee Did Not Properly Administer More Than \$4.3 Million in CDBG Funds, Chicopee, MA	11/07/2007	09/24/2008	02/15/2009
2008-AT-1001	The Municipality of Ponce Needs to Improve Controls over Its Section 8 Program, Ponce, PR	11/08/2007	01/16/2008	12/31/2008
2008-FO-0003	Additional Details to Supplement Our Report on HUD's FY 2007 and 2006 Financial Statements	11/14/2007	05/14/2008	12/31/2008
2008-AT-1002	The Municipality of Canovanas Needs to Improve Administration of Its CDBG Program, Canovanas, PR	11/15/2007	03/07/2008	11/14/2008

Report number	Report title	Issue date	Decision date	Final action
2008-CH-1001	The Housing Authority of the City of Michigan City Failed to Follow Federal Requirements for Its Nonprofit Development Activities, Michigan City, IN	11/19/2007	03/10/2008	01/23/2023
2008-DE-1001	The Housing Authority of the City of Colorado Springs Improperly Managed Contracts and Improperly Maintained Its Section 8 Waiting List, Colorado Springs, CO	11/27/2007	01/10/2008	01/31/2009
2008-FW-1002	The Shreveport Housing Authority Did Not Ensure That Section 8 Units Met Housing Quality Standards, Shreveport, LA	11/28/2007	03/27/2008	03/01/2009
2008-AO-0001	HUD Had a Less Than 1 Percent Error Rate in Housing Ineligible Participants for Katrina Disaster Housing Assistance Program and Disaster Voucher Program Disaster Housing Assistance	12/04/2007	04/01/2008	12/31/2009
2008-FW-1003	The Dallas Housing Authority Mismanaged Its Portable Vouchers, Dallas, TX	12/05/2007	03/19/2008	03/31/2011
2008-NY-1002	Richard A. Hutchens and Associates, Management Agent, Used Project Funds for Ineligible and/or Unsupported Costs, Buffalo, NY	12/05/2007	03/05/2008	11/14/2008
2008-FW-1004	Community Development Corporation of Brownsville Did Not Use Its Housing Counseling Grants for the Intended Purpose, Brownsville, TX	12/18/2007	04/16/2008	03/09/2009
2008-LA-1003	Home for Life Foundation Did Not Properly Administer Its Supportive Housing Program Grants, Los Angeles, CA	12/18/2007	02/26/2008	02/22/2009
2008-NY-0001	HUD's Monitoring Controls and Procedures Regarding the CDBG Program Were Not Adequate	12/31/2007	03/27/2008	06/30/2009

Report number	Report title	Issue date	Decision date	Final action
2008-FW-1005	The Housing Authority of the City of McKinney Inappropriately Advanced Funds and Transferred Real Estate to Its Not-for-Profit Affiliate, McKinney, TX	01/07/2008	04/24/2008	03/25/2009
2008-AT-1004	The City of West Palm Beach Did Not Properly Administer Its CDBG Program, West Palm Beach, FL	01/09/2008	05/05/2008	01/09/2009
2008-CH-1002	The Akron Metropolitan Housing Authority Lacked Adequate Controls over Its 5(h) Homeownership Proceeds, Akron, OH	01/09/2008	03/12/2008	12/31/2008
2008-AT-0001	The Atlanta PIH Did Not Ensure That the Housing Authority of DeKalb County Accurately Implemented Its Memorandum of Agreement	01/10/2008	01/10/2008	12/31/2008
2008-AT-1005	The City of Fort Lauderdale Did Not Properly Administer Its CDBG Program, Fort Lauderdale, FL	01/11/2008	05/05/2008	01/11/2009
2008-KC-0001	HUD's Quality Assurance Division Did Not Always Resolve Materially Deficient or Potentially Fraudulent Loans Consistently	01/14/2008	06/05/2008	12/31/2008
2008-LA-1004	The City of Los Angeles Housing Department Did Not Adequately Monitor HOME Program-Assisted Rehabilitation Construction, Los Angeles, CA	01/15/2008	05/14/2008	05/14/2009
2008-NY-1003	The City of New York's Department of Housing Preservation and Development Had Administrative Weaknesses in Its HOME Program, New York, NY	01/23/2008	05/21/2008	12/01/2008
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	11/30/2008
2008-LA-1006	Phoenix Apartments Did Not Use Project Funds in Accordance with HUD Requirements, Concord, CA	02/04/2008	05/28/2008	05/28/2009

Report number	Report title	Issue date	Decision date	Final action
2008-LA-1007	The Housing Authority of the County of Los Angeles Did Not Adequately Administer Its Section 8 Voucher Program, Los Angeles, CA	02/08/2008	09/24/2008	09/24/2009
2008-KC-1001	The Douglas County Housing Authority Improperly Encumbered and Spent Its Public Housing Funds, Omaha, NE	02/11/2008	05/28/2008	03/31/2017
2008-CH-1003	The Highland Park Housing Commission Did Not Effectively Administer Its Public Housing and Capital Fund Programs, Highland Park, MI	02/15/2008	03/19/2008	04/01/2009
2008-KC-1002	The Schuyler Housing Authority Improperly Used Public Housing Funds to Support a Non-HUD Assisted Living Program, Schuyler, NE	02/20/2008	06/11/2008	02/28/2018
2008-SE-1002	Oneida Housing Authority Did Not Properly Recognize and Use Program Income from Native American Housing Assistance and Self-Determination Act-Assisted 1937 Act Housing Projects, Oneida, WI	02/20/2008	06/10/2008	03/31/2009
2008-DP-0003	FY 2007 Review of Information Systems Controls in Support of the Financial Statements Audit	03/04/2008	06/26/2008	12/30/2008
2008-LA-0002	HUD Did Not Have Adequate Internal Controls over Its FHA Appraiser Roster	03/04/2008	06/17/2008	10/31/2008
2008-LA-1008	The Housing Authority of the County of San Joaquin Did Not Administer Capital Funds in Accordance with HUD Requirements, Stockton, CA	03/06/2008	05/08/2008	05/08/2009
2008-AT-1006	Fulton County Lacked Adequate Controls over Its HOME Program, Atlanta, GA	03/07/2008	06/13/2008	06/01/2009
2008-DE-1002	The Housing Authority of the City of Brighton Did Not Maintain Proper Inventory Records and Improperly Awarded Contracts, Brighton, CO	03/18/2008	03/18/2008	11/30/2010

Report number	Report title	Issue date	Decision date	Final action
2008-FW-1006	Dallas Housing Authority Management Failed to Implement Internal Controls over Its Housing Choice Voucher Program, Dallas, TX	03/20/2008	07/07/2008	12/15/2009
2008-FW-1008	The Owner of Century Mission Oaks Violated Its Regulatory Agreement with HUD, San Antonio, TX	03/21/2008	06/26/2008	07/11/2009
2008-KC-0002	HUD Did Not Ensure That Housing Authorities Properly Administered the Community Service and Self-Sufficiency Requirement	03/24/2008	07/22/2008	10/01/2011
2008-AO-0801	Review of Duplication of Participants Benefits under HUD's Katrina Disaster Housing Assistance Program and Disaster Voucher Program	03/28/2008	08/01/2008	08/01/2009
2008-PH-1005	Elders Place, Incorporated, Did Not Administer Project Operating Funds in Accordance with HUD Requirements, Philadelphia, PA	03/28/2008	07/23/2008	07/10/2009



### Audits excluded

46 audits under repayment plans  
 32 audits under formal judicial review, investigation, or legislative solution

### Notes

1 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 September 30, 2008

(thousands)

Audit 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	28	125,644	76,787
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	8	21,423	14,768
A3 For which additional costs were added to reports in beginning inventory	-	3,288	813
A4 For which costs were added to noncost reports	0	0	0
B1 Which were issued during the reporting period	66	153,802	100,656
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	102	304,157	193,024
C For which a management decision was made during the reporting period	56 <sup>1</sup>	193,609	100,822
(1) Dollar value of disallowed costs:			
- Due HUD	14 <sup>2</sup>	24,400	8,690
- Due program participants	48	160,584	85,577
(2) Dollar value of costs not disallowed	13 <sup>3</sup>	8,625	6,555
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	6	14,317	11,524
E For which no management decision had been made by the end of the reporting period	40 <96> <sup>4</sup>	96,231 <95,897> <sup>4</sup>	80,678 <80,671> <sup>4</sup>

<sup>1</sup> 38 audit reports also contain recommendations with funds be put to better use.

<sup>2</sup> 7 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 12 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level.  
See explanations of tables C and D.

## Table D

### Inspector General-issued reports with recommendations that funds be put to better use at September 30, 2008 (thousands)

Audit reports	Number of audit reports	Dollar value
A1 For which no management decision had been made by the commencement of the reporting period	21	1,401,634
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	8	87,487
A3 For which additional costs were added to reports in beginning inventory	-	7,779
A4 For which costs were added to noncost reports	0	0
B1 Which were issued during the reporting period	48	67,616
B2 Which were reopened during the reporting period	0	0
Subtotals (A+B)	77	1,564,516
C For which a management decision was made during the reporting period	45 <sup>1</sup>	1,297,490
(1) Dollar value of disallowed costs:		
- Due HUD	8 <sup>2</sup>	940,972
- Due program participants	35	33,243
(2) Dollar value of costs not disallowed	7 <sup>3</sup>	323,275
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	15,863
E For which no management decision had been made by the end of the reporting period	28 <45> <sup>4</sup>	251,163 <36,736> <sup>4</sup>

<sup>1</sup> 38 audit reports also contain recommendations with questioned costs.

<sup>2</sup> 1 audit report also contains recommendations with funds due program participants.

<sup>3</sup> 4 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level.  
See explanations of tables C and D.



## 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.



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*This Semiannual Report to Congress is dedicated to the brave men and women of the armed forces. We especially honor those who have been wounded and pay tribute to those who have paid the ultimate price to defend our country.*



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**April 1, 2008, through September 30, 2008**

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