

OIG MISSION STATEMENT AND VALUES

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

OIG values are as follows:

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

INSPECTOR GENERAL'S MESSAGE

In September 1998, on the twentieth anniversary of the enactment of the Inspector General Act, the Senate Committee on Governmental Affairs held a hearing on "The State of the Inspector General Community." Each of the Inspector General panelists was asked, among other things, to describe the ideal relationship between an agency head and an Inspector General. My answer was as follows:

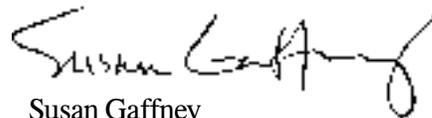
Ideally, the relationship between an IG and the agency head is characterized by mutual respect, a common commitment to the agency mission, and a thorough understanding and acceptance of the vastly different roles of the IG and the agency head.

This type of relationship sets the tone for the agency as a whole: agency staff will tend to approach OIG findings and recommendations as opportunities for improvement, rather than gratuitous criticism; and OIG staff will be motivated to focus on finding ways to better support the agency mission, rather than nitpicking. With this type of relationship, the agency head should be comfortable asking for the OIG's views, on a formal or informal basis; and the OIG should be comfortable in knowing that those views will be respected as independent and objective assessments. In sum, this type of relationship serves the best interests of the agency by getting maximum value from OIG work.

I have worked in the Inspector General community for a long time, and I have never seen this ideal fully realized. But Secretary Martinez and his team are off to a very good start. They treat OIG people, including me, with respect, and they are taking our work seriously. Note, for instance, Chapter 6 of this Report, where we are now looking forward to resolution of a number of long-disputed audit recommendations.

As discussed in Chapter 1 of this Report, I believe that the Secretary and the OIG are both concerned about the fundamental problems that continue to plague HUD, and share a determination to fix them. The fixing won't be possible, however, without continuing Congressional attention and support. Change at HUD of course means change for the HUD bureaucracy. More importantly, it means change for the innumerable interest groups associated with HUD programs, interest groups with agenda that are firmly established and very divergent.

I look forward to reports of a Congressional/HUD/OIG collaboration that enables HUD not only to shed its high risk reputation, but to serve its intended beneficiaries well.



Susan Gaffney
Inspector General

Chapter 1

Major Challenges Confronting HUD



Major Challenges Confronting HUD

Chapters 2 through 5 of this Report discuss a large number of problems that were disclosed this reporting period through OIG audits and investigations. The problems occurred across the spectrum of HUD programs and operations, and in geographical locations throughout the country. These individual problems must be fixed, of course; but more fundamental action is necessary to prevent their recurrence. The OIG believes that systemic weaknesses related to HUD's mission and programs, organization, and management constantly undermine HUD's operations and HUD's efforts to improve its performance.

HUD's Mission and Programs

HUD is the principal federal agency responsible for programs concerned with housing needs, fair housing, and improving and developing the Nation's communities. It has a fiduciary responsibility over a multi-billion dollar housing business and a social mission to assist in serving the housing needs of millions of low- and moderate-income families. Indeed, HUD's mission is multifaceted and complex. For a relatively small agency of about 9,500 staff, it has a lot of work to do. The National Academy of Public Administration's report on HUD in 1994 summed it up well. "Because of the mismatch of goals and resources and its many communities of users, HUD faces a tandem performance deficit (the gap between what HUD is supposed to do and has the ability to accomplish) and expectations glut (unrealistic perceptions of what HUD can accomplish). The result is a prescription for problems."

It is important that HUD's mission bear some reasonable relationship to HUD's capability to meet that mission. HUD employees need a clear definition of their roles with respect to policy development, providing technical assistance, motivating the community, overseeing program implementation, and taking enforcement action for inadequate performance. The Congress and HUD's leadership must understand that HUD staff cannot be all things to all people. The OIG urges a tightened mission statement for HUD as a first step toward streamlining and consolidating HUD programs and activities.

In 1994, the OIG counted 240 separate HUD programs and activities. With new programs and activities added since 1994, that number is approaching 300. More often than not, when new HUD programs or activities have been announced, staff resources have not been discussed or considered. But it takes staff and resources to assure that programs are designed properly and that programs include proper checks and balances. Without the proper internal controls and oversight, new programs can, of course, be abused. We've observed this recently with the Officer Next Door Program.

HUD's proposed 2002 budget acknowledges this issue in a statement that "the budget emphasizes...minimizing the number of new initiatives that undermine HUD's capacity to administer its core programs...." The Administration needs to go much further in tightening HUD's mission statement and streamlining its programs. We recognize that such an effort would be enormously time-consuming and difficult, requiring the support of HUD's customers as well as the Congress. However, we believe it is a fundamental requirement for HUD's shedding its "high risk" reputation and better serving its intended beneficiaries.

HUD's Organization

In the last 4 years, HUD has changed significantly. The former Secretary's 2020 Management Reform Plan envisioned correcting long-standing HUD problems in areas such as resource allocation, financial management, procurement and information systems, and bringing the skill levels of HUD staff up to par. These planned reforms involved massive reorganizations that shook up nearly every Departmental component. When the changes started taking place late in 1997, the OIG asked the former Secretary to slow down the process, but our calls went unanswered. The push was on for rapid change. Indeed, that was the advice the Secretary received from various reinvention experts.

Unfortunately, at HUD, this meant that organizational and process changes were made before a sound management infrastructure was in place. The organizational/process changes were to be made while establishing the management infrastructure, without the benefit of program consolidation or empowerment and within the context of staff reductions. This was an extraordinarily complicated plan. It has resulted in many staff resources being moved to new, highly centralized organizational units in the Department such as the Real Estate Assessment Center, the Enforcement Center, the Troubled Agency Recovery Centers, and the Grants Management Center, as well as to the new Community Builder function.

Not surprisingly, given the scope of HUD 2020, OIG audits have noted several serious problems with the changes that have taken place. For example, job functions were moved to centers but many of the associated staff chose to remain at their old locations. Staff were not trained for new assignments. The projected workloads of some centers did not materialize, while we found other centers to be understaffed. Also, our audit of the Community Builder function questioned the use of HUD's limited staff resources for what we found to be largely a public relations activity.

Over the next months, as a priority matter, Secretary Martinez will need to decide if the HUD 2020 organizational changes meet his management needs. Existing performance data will assist his decision-making, but he will also need to consider the types of relationships he seeks within HUD and between HUD and its customers, and how HUD's current organization affects those relationships.

HUD's Management

HUD's proposed 2002 budget states that resolving the following management challenges will be a top Secretarial priority:

- Rationalizing the distribution of staff resources in light of program needs;
- Continuing to improve oversight of the local housing agencies and property owners that administer HUD's housing programs;
- Improving income and rent determinations to reduce subsidy overpayments;
- Insuring recipients' full and timely utilization of HUD funds; and
- Improving FHA internal systems and controls to reduce fraud in FHA programs.

HUD's acknowledgement of these problems and the Secretary's commitment to fix them is good news from the OIG's perspective, as these are management weaknesses that the OIG has been continually reporting in our annual audits of HUD's financial statements (see Chapter 3). The not so good news is that these problems have existed for many years, and they have proved to be intractable.

We would urge the Secretary to add one other intractable problem to his list of management priorities: financial systems improvement/integration.

***Rationalizing the
Distribution of Staff
Resources in Light of
Program Needs***

The OIG has long been concerned that HUD's downsizing proceeded without benefit of a workload/staffing analysis. Further, as noted previously, OIG audits have disclosed instances of both overstaffing and understaffing of organizational units established under HUD 2020. HUD's proposed FY 2002 budget notes that the new Resource Estimation and Allocation System will help the Department to assess where staffing should be increased or decreased to effectively administer its programs.

In October 1999, former Secretary Cuomo conveyed to the Congress that HUD needed a resource management system and that he planned to implement such a system by April 2001. We found that HUD, with the National Academy of Public Administration (NAPA), developed a methodology for resource estimation and allocation. Further, NAPA briefed each Assistant Secretary on the resource estimation and allocation methodology and the impact it would have on their programs. Also, HUD selected a contractor to do the measurement studies at various program offices throughout the Department to determine resource estimate requirements. Despite these efforts, our audit found the implementation of the Resource Estimation and Allocation System did not progress as planned. A contractor is now completing the first phase of this multi-phase project. We are very supportive of Secretary Martinez's commitment to completing this important activity.

***Continuing to Improve
Oversight of the Local
Housing Agencies and
Property Owners that
Administer HUD's
Housing Programs***

In its proposed 2002 budget, the Department recognizes that the physical inspections protocol used to assess public housing and multifamily assisted housing needs further refinement to ensure consistent and fair results. But, with this caveat, the Department commits to continued assessment of the physical condition of HUD assisted housing to ensure that it is decent and safe. Refining the protocol will be one challenge; making sure that assessment results are used to improve housing conditions will be another.

Last year, we conducted an audit of the Office of Housing's use of physical inspection assessments generated by HUD's Real Estate Assessment Center (REAC) on multi-family properties insured by the Federal Housing Administration and/or receiving project-based subsidy under the Section 8 Program. The purpose of the review was to evaluate actions taken to address and track corrections of the physical deficiencies disclosed through the REAC property inspections. We found that, although the Office of Housing utilizes the REAC property inspections within their servicing responsibilities, the Office of Housing does not have the proper assurances that corrective actions are completed by the owner to the extent of all the physical deficiencies reported by the property's REAC inspection. This includes assurances that exigent health and safety violations are corrected within the required time frame and that complete property surveys identifying the magnitude of the physical deficiencies are performed. Further, the Office of Housing needs to improve the current notification process to field office staff of completed property inspection reports and exigent health and safety violations released by REAC.

***Improving Income and
Rent Determinations to
Reduce Subsidy
Overpayments***

Subsidy overpayments are a problem that has plagued the Department for more than 20 years. Since HUD serves such a small portion of those in need of housing assistance, it is important that every dollar be spent properly. HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for-profits) and housing authorities (HAS). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$19 billion in FY 2000 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs. HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income, the improper calculation of tenant rent contributions, and the failure to fully collect all outstanding rent. We've reported this as a material weakness in our annual financial audit since we began this reporting process in 1991.

A recently completed contracted study of rent determinations under HUD's major housing assistance programs estimates that substantial errors are made by project owners and HAS. The study projected that annually, about \$1.9 billion in subsidies was overpaid on behalf of households paying too little rent and about \$0.7 billion in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements. In response to this high incidence of error, HUD's proposed 2002 budget commits to implementing a number of measures to resolve this problem, including the development of tools to assist HAS and assisted housing owners in the determination of income and calculation of rent, and the introduction of a quality control program to monitor the performance of these intermediaries. HUD also plans to review the current laws and regulations regarding income and rent determinations to ascertain whether their simplification would facilitate program compliance. This constitutes a broader scope approach than previous income matching efforts. This broader scope approach makes sense.

***Improving Recipients'
Full and Timely
Utilization of HUD
Funds***

In evaluating HUD's internal controls for monitoring obligated/unliquidated balances, we have found a number of weaknesses. Specifically, we have found that: (1) HUD reviews of these balances were not considering specific statutory or other requirements relating to particular programs; and (2) because of data inconsistencies and inaccurate data, HUD's financial systems do not support the process for identifying excess budget authority for the Section 8 Programs.

With respect to specific statutory requirements, we found that HUD is not properly enforcing the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998 (the Act) requirements relating to HAS' timely expenditure and obligation of public housing modernization funds. This is an unresolved issue from our audit report on HUD's FY 1999 financial statements. In August 2000, the OIG forwarded the issue to the Comptroller General of the United States for a legal opinion and resolution.

The Act provides that public housing modernization assistance shall be spent not later than 4 years after the date on which funds become available for obligation. The Secretary is responsible for enforcing this requirement through various default remedies. Our review of expenditures of FY 1996 and prior years' public housing modernization funds showed \$193 million in unexpended funds as of September 20, 2000. For FY 1999, we had reported the same deficiency, with HAS having \$337 million in unexpended FY 1995 and prior fiscal year funds.

The previous HUD leadership took the position that the Act's expenditure provisions did not become effective until FY 2000, and the sanction and recapture provisions therefore did not apply to FY 1997 and prior fiscal year funds. HUD also asserted that a December 22, 2000 Federal Register Notice providing policy on the funds was a legal and reasonable exercise of HUD's authority to prescribe remedies for the unobligated FY 1997 and prior funds. We agree that HUD can impose any number of improvised performance remedies; but we believe that HUD must impose the Congress' mandated remedy. We are awaiting the Comptroller General's ruling on this issue.

In the Section 8 Programs, we found that HUD has been hampered in its attempts to evaluate unexpended Section 8 budget authority balances. Data discrepancies and inconsistencies between systems have resulted in the need for field office verification of data, necessitated separate budget reviews of data in different systems, and impaired HUD's ability to evaluate unliquidated balances. In FY 2000, HUD identified a total of \$2.1 billion in unliquidated obligation balances to deobligate and recapture. However, HUD's analyses excluded a significant number of contracts because of data discrepancies. Our testing as part of the audit of HUD's FY 2000 financial statements identified an additional \$20 million in excess project-based Section 8 funds available for immediate recapture. In addition, HUD excluded data relating to 111 housing authorities from its tenant-based recapture analysis. These 111 housing authorities had available budget authority totaling \$18 million. Finally, for the Section 8 Moderate Rehabilitation Program, HUD excluded data relating to housing authorities having \$43 million in available budget authority.

***Improving FHA
Internal Systems and
Controls to Reduce
Fraud in FHA
Programs***

HUD's proposed 2002 budget recognizes the need to strengthen the integrity of FHA internal systems and controls to reduce fraud in FHA programs. Promised actions include improving the loan origination process and providing better monitoring of lenders and appraisers.

In the last few years, the OIG audit and investigative staffs have been actively involved in examining many aspects of the FHA single family operations. We've identified rampant origination frauds, property flipping scams, and scandals in the sale of HUD owned properties. Needless to say, all these problems have an impact on the soundness of FHA's Mutual Mortgage Insurance Fund (MMI). There are many factors beyond HUD's control—such as interest rates and unemployment rates—that affect the soundness of the MMI Fund. But assuring that programs are run efficiently and effectively and that programs are sufficiently managed to minimize the opportunities for fraud and abuse is within HUD's control.

We have performed numerous audits of FHA operations in the last 2 years, including a comprehensive audit of loan origination activity and a nationwide review of property disposition operations. FHA Single Family Program personnel are in the process of taking corrective actions on most of our audit recommendations. We appreciate the Secretary's commitment to continuing these actions.

Recognizing that HUD's single family staff have been through downsizing, reorganization, and heightened workload expectations, HUD urgently needs to make the internal control requirements that are on HUD's books actually work to prevent fraud and abuse. However, internal controls will not work without sufficiently trained staff to assure that checks and balances are in place.

Improving and Integrating HUD Financial Systems

The Department's plans for improving its core financial systems have been under continuous development for nearly 10 years. Several major strategy changes during this period have delayed schedules and resulted in tens of millions of dollars in cost overruns. Even today, management's plans remain unclear and the plans are not supported by an adequate analysis of costs vs. benefits. Consequently, HUD continues to rely on numerous legacy systems that work independently of each other. An integrated financial system would enable transactions to be processed and reported in a timely fashion, thus enabling informed management decisions on a continuing basis.

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

Chapter 2

Housing Fraud Initiative



Housing Fraud Initiative

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

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

Our collaborative work has resulted in major indictments and convictions of those perpetrating fraud in HUD programs. Fraud in single family loan origination continues to be the most pervasive problem uncovered by HFI investigations. The following are examples of HFI results during this reporting period.

Central District of California

In **Los Angeles**, Andres Martinez, Jr. was sentenced to 88 months imprisonment, fined \$100,000, and ordered to pay a \$3,100 special assessment. Raul Miranda was sentenced to 46 months imprisonment and ordered to pay a \$1,900 special assessment. Martinez and Miranda were also ordered to prepare letters admitting their fraud to credit reporting services. Co-conspirator Joseph Gonzalez was sentenced to 8 months imprisonment and 5 years probation. In total, the 3 were also ordered to pay \$2,676,329 in restitution (\$2,104,441 to HUD and \$571,888 to a commercial bank). The 3 individuals, charged with a variety of crimes including conspiracy, mail fraud, wire fraud, false statements, money laundering, and aiding and abetting, were involved in a scheme to dupe more than 15 individuals with previously clean credit records into becoming strawbuyers of flipped properties. These individuals were all high school and college students between 18 and 22 years old, and were part of a baseball team. The government hopes the letters will repair these young men's credit that is now destroyed due to foreclosure actions. Martinez was the kingpin of the flipping scheme in which at least 30 properties were purchased at \$80,000 to \$100,000 and sold to strawbuyers at inflated prices of \$200,000 to \$300,000. These purchases involved the use of forged documents that the co-conspirators bought in order to obtain FHA insured mortgages. Additional properties were sold with mortgages from commercial banks. To date, 28 FHA insured loans totaling over \$6,500,000 have gone into foreclosure, and Housing Fraud Initiative staff have calculated HUD's losses at over \$3,100,000.

Six other defendants in this case have also signed plea agreements. Previously in this case, a mortgage broker responsible for over \$3,600,000 in foreclosed FHA insured loans with losses to HUD of over \$2,200,000 was sentenced to 2 years in jail and ordered to pay \$957,000 in restitution to HUD. Additional co-conspirators responsible for over \$1,800,000 in foreclosed FHA loans, with losses to HUD of

over \$1,000,000, are also being charged. This investigation was conducted by the FBI, IRS, and OIG.

Hadi Kailani, a real estate agent doing business as Kailani Real Estate, was sentenced in **Los Angeles** to 27 months incarceration and 3 years supervised release, and ordered to pay \$1,448,750 in restitution to HUD and a \$225 special assessment. Kailani previously pled guilty to bribing a HUD employee and tax evasion. An investigation by the FBI, OIG, and IRS Criminal Investigation Division disclosed that from July 1996 through August 1998, Kailani purchased 20 HUD real estate owned properties at far below their appraised value and HUD's asking price with the assistance of Karen Christensen, a former quality assurance specialist in the HUD Santa Ana Homeownership Center, and a single family housing specialist in Los Angeles. The appraised value of the properties purchased by Kailani was approximately \$2.1 million. However, Christensen sold the properties to Kailani for approximately \$700,000. HUD also paid Kailani \$48,750 in the form of real estate broker's commissions on the properties. Kailani resold the properties for \$2.2 million. Kailani paid Christensen over \$80,000 in bribe payments and gave her a BMW convertible.

Several individuals, who were responsible for over \$75,000,000 in fraudulent loans involving approximately 500 properties, were convicted and/or sentenced in **Los Angeles**. John Joseph Edgington and Leslie Ray Rapozo were each sentenced to 5 years probation and 250 hours of community service, and ordered to pay \$180,000 in restitution and a \$100 special assessment for committing fraud against HUD. According to the terms of the sentence, as owners of Avenue Mortgage in Cerritos, CA, Edgington and Rapozo must provide to the U.S. Probation Office a list of all their customers. The Probation Office will then notify those customers that they are dealing with convicted felons. From 1997 to 1999, Edgington and Rapozo were employed as licensed loan officers at Capital Funding Group. During that period, they falsified gift letters, employment information, and credit references on FHA insured home loan applications so that otherwise unqualified borrowers were able to obtain loans.

Brothers Jorge Gomez and Pasqual Gomez, along with family friend Frank Gomez, were sentenced in U.S. District Court. The Gomez brothers were each sentenced to 2 years probation, fined \$2,000, and ordered to pay a special assessment fee. Frank Gomez was sentenced to 2 years probation, fined \$1,200, and ordered to pay a special assessment fee. In August 2000, the Gomezes each pled guilty to six counts of structuring transactions to evade reporting requirements. From 1996 to 1997, the Gomezes were real estate agents working at RE/MAX-Southeast Properties, then at RE/MAX-Specialist. They participated in a scheme that involved the cashing of First State Bank cashiers' checks in amounts just below the reporting level of \$10,000, but with an aggregate totaling more than \$10,000. At the time, the defendants knew of the reporting requirements of Title 31, U.S. Code § 5313 (a), but intentionally ensured that the cashiers' checks were in amounts less than \$10,000.

Finally, John Charles Miller was sentenced to 5 months imprisonment, 5 months home detention, and 3 years probation, and was ordered to pay \$675,000 in restitution. He was also forced to forfeit another \$300,000. In March 2000, Miller pled guilty to four counts of wire fraud. On the same day, Kip Christopher

Cyprus was sentenced to 6 months home detention, 5 years probation, and \$675,000 in restitution, and was forced to forfeit \$300,000. Cyprus pled guilty in March 2000 to five counts of wire fraud. From 1997 to 1998, Miller and Cyprus were real estate investors. They hired appraisers to artificially inflate the value of properties they bought for investment. They would then recruit low-income buyers to purchase the properties with FHA insured home mortgages. To complete the scheme, Miller and Cyprus used forged signatures, forged documents, and false gift letters in an attempt to get otherwise unqualified borrowers to qualify for the FHA insured loans. This investigation was conducted jointly by the FBI, OIG, and IRS Criminal Investigation Division.

Martina Estrada Barbato pled guilty to two counts of mail fraud. From January 1993 to at least January 1998, Barbato participated in a scheme at Sun State Mortgage in **Los Angeles** to defraud lending institutions and HUD. Barbato's scheme involved the submission of false and fraudulent proofs of employment, pay stubs, credit letters, and bank cashiers' checks in applications for federally insured home mortgages. Barbato obtained the false and fraudulent documents from a forger whom she paid a fee ranging from \$25 to \$150 per forged document. She caused the forged documents to be placed in FHA loan applications to create the appearance that the borrowers qualified for the loans. In fact, the borrowers could not meet minimum FHA income standards without the fraudulent information. Barbato received a substantial commission for each FHA loan application she processed. Losses as a result of Barbato's scheme exceed \$5,000,000. Sentencing is scheduled for April 2001. The investigation was conducted jointly by OIG and the FBI.

Brian Hultman was sentenced to 3 years probation and 200 hours of community service for mail fraud. From 1992 to 1999, Hultman was an owner and manager of Sun America in **Covina**. In 1999, Hultman left Sun America and began working as the manager of Granite Home Mortgage. While at Sun America and Granite Home Mortgage, Hultman conspired with a forger to create false W-2s, pay stubs, tax returns, and credit reference letters, and caused those false documents to be submitted to HUD so that otherwise unqualified borrowers were able to obtain FHA insured home mortgages. As owner of Sun America and manager of Granite Home Mortgage, Hultman also assisted his loan officers in obtaining false documents for FHA insured home loans. In this supervisory capacity, Hultman was responsible for over \$3,000,000 in fraudulent loans. This was a joint FBI/OIG investigation.

Elizabeth Estrada pled guilty in **Los Angeles** to one count of mail fraud. Estrada worked as a loan officer in the Los Angeles area office of Friendly Hills Mortgage. From February 1997 to at least February 1999, Estrada conducted a scheme that involved the submission of false and fraudulent proofs of employment, pay stubs, credit letters, and bank cashier's checks to commercial lenders and HUD. She obtained the false and fraudulent documents from a forger whom she paid a fee ranging from \$25 to \$150 per forged document. She then inserted the forged documents in FHA loan applications to create the appearance that the borrowers were qualified for FHA loans when in fact they could not meet minimum FHA income standards without the fraudulent information. Estrada submit-

ted those fraudulent loan applications to commercial lenders and to HUD so that she would be paid a substantial commission for each transaction. HUD's loss is calculated at \$1,300,000. This was a joint investigation by the FBI and OIG.

One individual was sentenced and two pled guilty for their part in a real estate property flipping scheme to defraud HUD by falsifying loan documents. Mortgage broker Bernard Allen was sentenced to 8 months imprisonment and ordered to pay \$183,169 in restitution to HUD and a \$200 special assessment. Allen previously pled guilty to conspiracy, mail fraud, and false statements. He fraudulently sold properties to strawbuyers who had no intention of residing in the properties. He then paid individuals to place their names on titles, obtained FHA insured loans in the names of the strawbuyers, and provided the down payment money necessary to purchase the properties while concealing the actual source of funds as a gift. Allen received the profits from the sale of these properties. All of the properties went into foreclosure and were subsequently resold by HUD.

In the same case, real estate agents Ostes Hernandez and Benjamin Hernandez pled guilty to mail fraud and aiding and abetting. From 1994 to January 1997, Ostes and Benjamin participated in a scheme at Bankers First Realty in **South Gate** that involved the submission of false and fraudulent proofs of employment, pay stubs, credit letters, and bank cashiers' checks in support of FHA insured mortgages. The two caused forged documents to be placed in FHA loan applications to create the appearance that the borrowers qualified for the loans. They also provided the down payment money necessary to purchase the properties while concealing the actual source of funds as a gift. All of the properties went into foreclosure and were subsequently resold by HUD. In total, Allen and Ostes and Benjamin Hernandez originated in excess of \$1,000,000 in fraudulent loans. This investigation was conducted jointly by the FBI and OIG.

Erick Suarez pled guilty to one count of making a false statement. Suarez was employed by the Southern California area office of Capital Funding Group in **Los Angeles**. He participated in a scheme that involved the submission of false and fraudulent pay stubs, W-2's, credit letters, and bank cashiers' checks to commercial lenders and HUD. Suarez obtained the documents from a forger and subsequently inserted the forged documents in FHA loan applications to create the appearance that the borrowers were qualified for the loans. In reality, the borrowers could not meet minimum FHA income standards without the fraudulent information. The total loss to HUD was more than \$300,000. This investigation was conducted by the FBI and OIG.

Following a joint investigation by the FBI and OIG, Jesus Gaxiola was sentenced to 5 years probation and ordered to pay \$28,000 in restitution. In March 2000, Gaxiola pled guilty to two counts of mail fraud. While he was employed by the **Southern California** area offices of Magic Home Realty and RE/MAX-All Cities, he participated in a scheme that involved the submission of false and fraudulent pay stubs, W-2's, credit letters, and bank cashiers' checks to commercial lenders and HUD. Gaxiola obtained and inserted forged documents in FHA loan applications to create the appearance that borrowers were qualified when in fact they were not. The HUD loss attributed to Gaxiola was \$49,000.

Isaac Powell pled guilty to one count of maintaining nuisance conditions on a property, one count of failure to comply with an order issued by the Department of Building and Safety, and one count of failure to file a statement of intent. The charges stemmed from an investigation by the FBI, OIG, and Los Angeles City Attorney's Office into the physical condition of a property purchased from HUD by Sounds of Young Los Angeles, a nonprofit corporation. Citizen complaints and law enforcement concerns over graffiti and the condition of the building prompted action by the City. Powell is president of the corporation and was held responsible for the condition of the property. The **Los Angeles** Housing Fraud Initiative conducted an investigation into the activities of Sounds of Young Los Angeles and other nonprofit corporations associated with Powell in conjunction with the City Attorney. Powell received 36 months probation, must make the property safe and sanitary, and must ensure that all properties associated with Powell and Sounds of Young Los Angeles comply with building codes and regulations.

In **Los Angeles**, two mortgage brokers were indicted by a Federal Grand Jury for mail fraud, false statements, and aiding and abetting. The charges involve approximately \$12 million in loans for 46 properties on which HUD, to date, has paid claims of \$2 million. One of the individuals indicted was the president and co-owner of Pacific Investment Capital (PIC). PIC was a mortgage brokerage company in the business of originating conventional home mortgage loans and Title I home improvement loans. PIC and Blade Runner Management Company, a management company set up by Allstate Mortgage Company, are alleged to have conspired to originate fraudulent Title I and Title II loans. The alleged scheme entailed creating false verifications of employment, W-2s, and pay stubs, and using information from the same strawbuyers who were involved with Allstate Mortgage's scheme for originating both Title I and II loans. This case was initiated and conducted by the OIG with the assistance of the FBI.

A Federal Grand Jury in **Los Angeles** indicted the president and the vice president of Continental Investments on 19 counts of wire fraud, false statements, money laundering, and aiding and abetting. The indictment charges that the two individuals, through their company, defrauded the FHA by illegally providing the necessary down payments on behalf of unqualified borrowers. Both individuals have been arrested. One was released on a \$50,000 bond, while the other remained in custody pending a \$200,000 secured bond. In addition, Continental's business bank account was seized. Continental Investments has caused more than \$11 million in fraudulent loans to be funded. The was a joint investigation by OIG and the FBI.

District of Columbia

Real estate agents Jerry Austin and Larry Kraft pled guilty to conspiracy to submit false statements to HUD. The guilty pleas were the result of an OIG investigation which disclosed that from 1995 through 1999, Austin and Kraft used cashiers' checks and fraudulent gift letters to qualify unqualified buyers for FHA insured mortgage loans. The two are associated with the sale of at least 183 homes with FHA insured mortgages totaling over \$23 million. To date, estimated losses to HUD are more than \$350,000.

Northern District of Illinois

Following a joint FBI/OIG investigation, Roderick Martens pled guilty to 1 count of mail fraud in connection with his role in a 20-defendant/60-property land flipping scheme in **Chicago**. He was sentenced to 18 months incarceration, to be served concurrently with his 15-month prison sentence for a similar property flip conviction in the District of Minnesota. Martens was also sentenced to 36 months supervised release and ordered to pay \$785,936 in restitution. This total was divided into \$234,000 in repayments to HUD and the remaining \$551,936 to various banks and mortgage companies. Martens' role was twofold. First, he was responsible for finding buyers who would act as second buyers in the flip scheme. In the process, Martens falsified numerous loan documents in order to ensure that these buyers were qualified. In return for Martens' participation in the loan application process, he would receive a portion of the inflated loan proceeds from the subsequent sales. Second, he personally acted as a mortgagor and falsified his identity, credit, and income in order to obtain an FHA insured loan, which subsequently went into foreclosure after he made no mortgage payments. In his plea, Martens accepted responsibility for 8 fraudulent loans totaling \$1,167,000.

Janet Dockett, Charles Crawford, and Ida Reed were sentenced in federal court in **Chicago** after previously pleading guilty to their roles in a scheme to defraud conventional lenders, homeowners, and HUD. They falsified deeds for vacant homes, some of which were HUD owned properties, and subsequently used the properties for collateral, as rental properties, or to sell and cash out the equity. Dockett was sentenced to 33 months incarceration and 24 months supervised release, and was ordered to pay \$392,305 in restitution. Crawford was sentenced to 44 months incarceration and 36 months probation, and was ordered to pay \$389,262 in restitution. Reed received 6 months incarceration and 24 months probation, and was ordered to pay \$68,422 in restitution. A fourth co-conspirator was sentenced during the last semiannual reporting period for his part in this scheme. This was a joint investigation by the FBI, OIG, and Postal Inspection Service.

Four individuals were indicted on five counts of mail fraud and five counts of wire fraud. The indictment also contained a forfeiture allegation by which one of those indicted would ultimately forfeit interest in any personal property that may have been obtained from proceeds derived from the scheme. The indictment alleged that the four participated in a scheme to obtain short-term rehabilitation balloon mortgages for properties in disrepair on **Chicago's** south side and refinance them with mortgages obtained through the Section 203(k) Rehabilitation Home Mortgage Insurance Program. The indictment further alleged that the 203(k) mortgages had inflated appraisals and contained false information relative to the identity, income, employment, and rental income of the buyers. Following closings on the properties, false certifications were provided to obtain escrow checks for work that was never completed. HUD's total exposure on the loans, all of which went into foreclosure, was approximately \$386,000. This was an OIG/FBI investigation.

In **Chicago**, mortgagor Eric Duncan pled guilty to one count of bank fraud. Duncan made false statements involving names, Social Security numbers, and employment information to federally insured banks in order to obtain FHA insured

mortgages. In the same case, two individuals were indicted on one count of submitting false statements to HUD, one count of mail fraud, five counts of bank fraud, one count of possession of counterfeit security, and one count of intent to defraud through the use of counterfeit devices. The two allegedly operated a counterfeit check and credit card plant in order to fraudulently obtain new identities for the purpose of defrauding banks, private mortgage lenders, and credit card companies. They also allegedly obtained a \$128,000 FHA insured loan by fraudulent means. This indictment has a stipulation for forfeiture relative to the property used for the manufacturing of these fraudulent items and \$75,000 from proceeds of the counterfeit plant. This was a joint investigation by OIG and the Secret Service.

Eleven recipients of the **DuPage County** Housing Authority's Section 8 Program were indicted on charges of felony theft and state benefits fraud. Included in the 11 were a landlord who collected Section 8 benefits on behalf of a deceased resident, a resident who failed to report her income from her job as a manager of a multifamily project, a resident who obtained an FHA insured mortgage, and a resident who simultaneously resided in and rented a market rate unit in another city. Two of the 11 individuals pled guilty and were sentenced. Ellen Turnage, also known as Ellen Mayberry, was sentenced to 3 years probation and ordered to pay \$26,000 in restitution to the Housing Authority. Jennifer Preyer was sentenced to 2 years probation and 100 hours of community service, and was ordered to pay \$5,000 in restitution to the Authority. The loss to HUD in this case is in excess of \$120,000. This was a joint investigation by OIG and the DuPage County State Attorney's Office.

Brett O'Neil, the former finance director for the **Winnebago County** Housing Authority, pled guilty to one count of official misconduct following his earlier indictment on charges of embezzlement from the Authority. He was ordered to pay \$14,540 in restitution and was sentenced to 3-1/2 years incarceration, to run concurrently with his sentence for a probation violation. O'Neil previously had his probation revoked as a result of his original criminal indictment for embezzlement. This investigation was conducted by OIG and the Illinois State Police.

Following her guilty plea to mail fraud and making false statements on loan applications, June Stark was sentenced in **Chicago** to 24 months supervised release and ordered to pay \$2,000 in restitution. Stark had been indicted along with three others for participating in a loan origination fraud scheme and causing the creation and submission to lending institutions of false documents purporting to establish the eligibility of prospective buyers of properties with FHA insured mortgages. These documents included false gift letters and false existence of earnest money on deposit. This was a joint FBI/OIG investigation.

District of Maryland

In one of the first equity skimming cases prosecuted in Maryland, Monte Greenbaum, a former multifamily property manager who managed seven HUD subsidized low-income housing complexes through his company, Maryland Property Associates Inc. in **Baltimore**, was sentenced to 18 months incarceration and 2 years probation, and ordered to pay \$900,000 in restitution. Greenbaum previously pled guilty to conspiracy for his role in skimming money from the projects

that he managed. He began diverting money in 1993, eventually skimming more than \$1.2 million from project accounts by the time losses were discovered in 1997. At that point, the properties had deteriorated because there was not enough money for repairs. One of the projects has since been taken over by HUD. Besides creating false documents, forging signatures on documents, and making false entries, Greenbaum created false businesses, opened bank accounts for nonexistent companies, and had project funds transferred to these accounts for fraudulent repairs. The money skimmed came from project accounts set up for security deposits, repairs, and renovations. Greenbaum used the money for alimony payments and for work on his home. In addition, some of the money went into an investment account and was used for personal business dealings. This was a joint investigation by OIG and the FBI.

Marcia McNeil, a property speculator in **Baltimore**, was convicted of 4 counts of wire fraud and 1 count of mail fraud for her role in a property flipping scheme that cost lenders approximately \$1.5 million. Carl Schulz pled guilty to 2 counts of a 21-count wire fraud indictment in the same case. McNeil and Schulz purchased inexpensive houses for the purpose of fraudulently reselling them, sometimes after making cosmetic improvements. They recruited investors to buy packages of houses at much higher prices, promising to sell the properties with little or no down payment and also paying the buyers' settlement expenses. In addition to generating false documentation for potential homebuyers, McNeil and Schulz also obtained appraisals of the properties for amounts much higher than the prices they paid. The two were responsible for flipping approximately 120 properties. This investigation was conducted by OIG and the FBI.

Property speculator Andrew Michael Bogdan pled guilty to one count of conspiracy to commit mail fraud and wire fraud and making false statements for his role in illegally flipping 68 properties in **Baltimore**. Beginning in 1995, Bogdan entered into an agreement with others to obtain FHA insured loans by submitting false and fraudulent documentation as part of the loan applications. Initially, Bogdan's falsification usually took the form of false gift letters or false employment verifications to enhance the apparent creditworthiness of the buyers, or false termite inspection reports and false certifications that the properties were to be owner occupied. In addition, inflated appraisal reports enabled Bogdan to flip properties he owned to new buyers for prices in excess of the properties' value. Typically, Bogdan would buy a house for one price, make a few cosmetic repairs, and sell it at a considerably higher price to a first-time buyer, one who was usually not creditworthy. In order for the buyer to obtain a loan, Bogdan and others would make false statements on the loan application. Loss to the government in this case is approximately \$1.6 million. This was a joint investigation by OIG and the FBI.

In **Greenbelt**, Jean Almond Jean-Pierre and Norma Diaz pled guilty to, and Francois Pierre was sentenced for, conspiracy, mail fraud, wire fraud, and money laundering for their role in using HUD real estate owned (REO) properties in order to defraud mortgage lenders. Francois Pierre was sentenced to 6 months incarceration and 3 years probation. A joint investigation by OIG and the FBI disclosed that the three individuals purchased nine REO properties and then falsified documents relating to the purchases, including the deeds and appraisals.

Jean-Pierre would purchase a REO property using a bogus name and then falsify the deed by significantly increasing the value of the property. He would then fill out a loan application to refinance the property, falsifying the application by declaring that there was an existing mortgage on the property, with Norma Diaz as the mortgagee. The pay-off funds for the loan were wire transferred to an account owned jointly by Jean-Pierre and Diaz. The total amount of fraudulently refinanced loans was \$700,000. Proceeds from several of the fraudulent loans were used to purchase five of the nine REO properties.

G. Samson Ugorji, a real estate appraiser accused of providing more than 300 inflated appraisals for property flips in **Baltimore**, was sentenced to 33 months incarceration to be followed by 250 hours of community service. Ugorji was found guilty in October 2000 of seven counts of wire fraud and mail fraud for conducting appraisals on houses bought and resold at much higher prices by speculator Robert Beeman. Ugorji was responsible for as much as \$800,000 in losses to lenders. Beeman usually paid between \$10,000 and \$20,000 for houses and sold them in the \$80,000 range. The buyers were low-income individuals with flawed credit who were told they could own a home for a \$500 down payment and monthly mortgage payments of roughly \$400. Beeman, along with co-conspirators Robert Ness, a settlement attorney, and Michael Fishman and Scott Shinskie, majority owner/president and minority owner, respectively, of Macallan Funding Company, were also sentenced as a result of this investigation. These sentences included 36 months incarceration and 3 years probation for Beeman, 12 months home detention and 3 years probation for Ness, 30 months incarceration and 3 years probation for Fishman, and 18 months incarceration and 2 years probation for Shinskie. This was a joint investigation by the OIG, FBI, IRS, and the Postal Inspection Service.

Following an investigation by OIG and the FBI, a property flipper in **Greenbelt** pled guilty to one count of making false statements in connection with FHA insured loans. From March 1998 through November 1999, the individual purchased and resold at least 14 properties to persons who obtained FHA insured loans with the individual's assistance. The property flipper purchased properties to which he made minor improvements and then resold the properties within a short time to third parties at a profit. He assisted the third-party buyers in purchasing the homes by creating false documents to support the loans. Specifically, the property flipper, sometimes with the assistance of others, created false loan documentation including verifications of employment, W-2s, and pay stubs, which were then submitted to mortgage lenders in support of the loans. In addition, the property flipper created false gift letters purporting a sum of money designated as a gift to the buyer from a relative of the buyer's, when in fact the money was supplied by the property flipper. Loss to the government is approximately \$250,000.

Michael D. Clarke, a HUD approved property inspector in **Baltimore**, was sentenced to 4 months home confinement and 5 years probation. In January 2000, Clarke pled guilty to conspiracy to defraud the United States. From March 1995 through March 1997, Clarke conspired with Jerry Miller, Weddina Miller, and Warren Rollman to divert \$135,836 from HUD's Section 203(k) Rehabilitation Home Mortgage Insurance Program. The 203(k) funds were obtained through the use of false and fraudulent inspection reports, which verified the completion of

rehabilitation work that had never been performed. The court ordered Clarke to pay \$119,000 in restitution to HUD. Jerry and Weddina Miller are former loan originators with Atlantic First Mortgage Corporation. This was an OIG investigation.

John Katsafanas was sentenced to 1 year and 1 day incarceration and 2 years supervised probation, and was ordered to pay \$110,864 in restitution for his role in failing to file tax returns from 1995 through 1997. This investigation, conducted by OIG and the IRS Criminal Investigation Division, was initiated as the direct result of two previous investigations involving the HUD Section 203(k) Rehabilitation Home Mortgage Insurance Program during which several people were indicted. Katsafanas was a former loan officer at First Preference Mortgage Company; he was involved in obtaining approval for a large volume of HUD insured 203(k) loans in and around **Baltimore City**. He was also host of a local radio show on mortgage financing heard throughout the Baltimore area.

In **Greenbelt**, a federal grand jury returned a 15-count indictment charging the owner of 15 rental properties in the District of Columbia and Maryland with obstruction of justice and submitting false documents to HUD in order to conceal his alleged failure to notify tenants of the presence and hazards associated with lead based paint. This indictment is the first criminal prosecution in the nation relating to lead hazard warnings required under the Lead Hazard Reduction Act of 1992. After the owner failed to produce records demonstrating that he was in compliance with the tenant notification requirement, he sought to obstruct HUD's investigation and conceal his failure to properly notify tenants of the presence of any lead based paint hazards by giving HUD lead paint disclosure forms that were false and misleading. He allegedly directed resident building managers to have tenants sign and backdate the lead disclosure forms, and also backdated his own signature as well as tenants' signatures representing that all available lead based paint information had been provided. The owner presented lead hazard notification forms to HUD purporting that he had notified tenants that he had no specific information regarding certain apartments, when in fact he had been issued housing deficiency notices. This investigation was conducted by the OIG, EPA Criminal Investigation Division, and the FBI.

Stacey Sims, a former Prince George's County Police Officer, pled guilty to one count of making a false statement to HUD in connection with his participation in the Officer Next Door Program (ONDP). This program encourages law enforcement officers to live in economically distressed communities. In January 1999, Sims purchased a **Forrestville** property for 50 percent of its value. However, Sims leased the property to a third party approximately 8 months after the purchase. In December 1999, Sims returned a letter to HUD falsely certifying that he resided in the property when in fact he did not. This was an OIG investigation.

Janis S. Goss and Amanda F. Rainville pled guilty to committing theft against the **Baltimore** County Housing Authority. Goss and her daughter, Rainville, falsified their personal declarations and recertifications by failing to report changes in their household composition and income. Goss was sentenced to 4 years in prison, suspended, and 5 years probation, and was ordered to pay

\$19,000 in restitution to the Authority. Rainville was placed on 3 years probation and ordered to pay \$2,700 in restitution. This was an OIG investigation.

Eastern District of New York

In **Brooklyn**, Carlos Sanchez, a licensed mortgage broker in the State of New York, was sentenced to 46 months incarceration and 5 years probation. A money judgment for \$700,000 was ordered as forfeiture and \$4,234,655 was ordered as restitution, with the first \$500,000 due in 60 days and the remaining amount due over the span of 6 years. Sanchez is jointly and severally liable for this amount. Sanchez must also voluntarily surrender to U.S. Marshals on April 27, 2001. The sentencing follows Sanchez's conviction on all 13 counts of a September 2000 indictment. The counts included conspiracy, bank fraud, and false statements to HUD.

Sanchez is responsible for the origination of at least 87 fraudulently flipped properties that were insured by the FHA in 1995 and 1996. Of the mortgages on those properties, only one is current and only three had their insurance terminated. To date, 3 loans are in default, 22 are in foreclosure, and 58 have already had claims paid by HUD totaling over \$10.72 million. Of the 58 properties conveyed to HUD after claims were paid, HUD has resold 42 properties for a net loss of \$4,383,844. Based on these numbers, the OIG Housing Fraud Initiative staff projects an estimated net loss on all properties, excluding active and terminated loans, of over \$8,536,424.

The OIG, U.S. Attorney's Office, Eastern District of New York, and the Manhattan District Attorney's Office conducted a lengthy investigation of fraud associated with HUD's Section 203(k) Rehabilitation Home Mortgage Insurance Program that involved lenders, attorneys, appraisers, loan officers, and numerous nonprofit organizations, primarily on **Long Island**. Several indictments, convictions, and sentencings have resulted from the investigation, including the following.

Robert Dosch, owner of Steuben Hill Realty and an employee of the CLA, Inc. real estate appraisal company, pled guilty to false statement charges. A warrant of arrest for \$199,000 was subsequently issued against Dosch, who agreed to forfeit the \$199,000.

Francis Boccagna, a real estate investor, pled guilty in U.S. District Court, Eastern District of New York, to mortgage fraud, and in Supreme Court of the State of New York to falsifying business records in the first degree. Boccagna will also criminally forfeit \$150,000, which was derived from proceeds traceable to loan and credit application fraud.

A Federal Aviation Administration air traffic controller surrendered to the Manhattan District Attorney's Office and was charged with six counts of falsifying business records in the first degree. The air traffic controller acted as signatory for a nonprofit company on numerous fraudulent Section 203(k) loans and received payments for his actions. The controller agreed to forfeit \$27,000.

A loan officer of Mortgage Lending of America surrendered to the Manhattan District Attorney's Office and was charged with 20 counts of falsifying business records in the first degree and 3 counts of bribery.

Gary Gluskin, a former employee of the law firm of Bank, Tanen, and Bank, pled guilty in Supreme Court of the State of New York to falsifying business records in the first degree. Two days later, Gluskin pled guilty in U.S. District Court to mortgage fraud. While employed at Bank, Tanen, and Bank, Gluskin

represented several nonprofit organizations, including but not limited to Helpline Soul Rescue Ministry, Family Preservation Center, and St. Stephen's Baptist Church, on numerous loan closings. Specifically, Gluskin represented the nonprofits in the purchase of real estate with Section 203(k) loans. On each of these transactions, the loans were provided by Mortgage Lending of America. As the legal representative of these nonprofits, Gluskin participated in the loan closings and assisted in the preparation of documents contained in the closing files, which were subsequently filed with HUD. Gluskin knew that the closing documents contained fraudulent representations and that the nonprofits he represented were only able to qualify for the loans because of these false documents.

Eight individuals surrendered to the OIG and/or the Manhattan District Attorney's Office. The individuals included a residential real estate investor, who buys and sells properties using various real estate companies incorporated by his attorney. Using his companies, this investor sold numerous properties to a not-for-profit, Advance Local Development Corporation, under the Section 203(k) Program. The properties were sold a short time after they were purchased, at artificially inflated sales prices justified by fraudulent appraisals. In addition to this, the investor paid a kickback to the loan officer of the mortgage company. The investor was charged with two counts of commercial bribery in the first degree. The other seven individuals were charged with several counts of falsifying business records in the first degree and submitting false statements to HUD.

James Corbett, president of a not-for-profit, Homes For Families, pled guilty to mortgage fraud and falsifying business records in the first degree. Corbett will forfeit \$100,000, which was derived from proceeds traceable to loan and credit application fraud. The next day, an officer of Homes for Families surrendered to the Manhattan District Attorney's Office and was charged with falsifying business records in the first degree.

Phil Lowe, owner of Southdown LLC, a real estate corporation, pled guilty in Supreme Court of the State of New York to falsifying business records in the first degree, and in U.S. District Court, Eastern District of New York, to mortgage fraud. In addition, Lowe will forfeit \$50,000 which was derived from proceeds traceable to loan and credit application fraud. Both state and federal judges will sentence Lowe at a later date; the sentences will run concurrently.

The owner of Steuben Hill Management, a realty company, surrendered to the Manhattan District Attorney's Office. The owner was charged with three counts of falsifying business records in the first degree.

An officer of the Family Preservation Center, a nonprofit organization, pled guilty in both U.S. District Court, Eastern District of New York, and Supreme Court of the State of New York to mortgage fraud and falsifying business records. In addition, the officer will criminally forfeit \$143,000, which was derived from proceeds traceable to loan and credit application fraud.

In **Brooklyn**, two rabbis, Jacob Bronner and Efroim Stein, pled guilty to one count of conspiracy to defraud the United States. Bronner and Stein controlled the nonprofit entity, Project Social Care, a charity organization that was supposed to use a HUD Special Purpose Grant in the amount of \$2.5 million for support and counseling tailored to meet the needs of elderly Holocaust survivors. Instead, Bronner and Stein conspired to use hundreds of thousands of dollars of the Project Social Care grant funds for their personal financial benefit and the benefit of others who were not the intended beneficiaries of the grant. Sentencing for both

Bronner and Stein is scheduled for June 2001. In a signed plea agreement, Bronner and Stein agreed to spend a maximum of 33 months in prison and pay restitution totaling \$325,000, \$100,000 of which has already been paid to the Department.

Following a joint investigation by the FBI, OIG, and IRS, several people were sentenced for defrauding the Town of **Huntington** Housing Authority. David McKay, former chairman of the Authority, was sentenced to 37 months in prison and 3 years supervised release, and was ordered to pay \$251,000 in restitution, \$206,000 of which is to be paid to HUD. McKay previously pled guilty to multiple counts of conspiracy to defraud HUD, extortion, and income tax evasion. McKay, using his position of public trust as chairman of the Authority, caused the theft of \$206,000 in HUD funds through multiple schemes over a 10-year period. In one scheme, McKay hid his ownership interest in a house and used nominee landlords to collect rent on behalf of a Section 8 tenant who did not reside there. In addition, he fraudulently obtained \$170,000 in Section 8 assistance for friends, the Watkins and the Mizells, who did not qualify. McKay also used his position as a union shop steward and safety officer for Laborers Union Local 66 to threaten violence and labor shutdowns in order to extort thousands of dollars from construction companies that were forced to pay McKay for no-show jobs. The construction companies performed renovations to industrial chimneys and smokestacks on Long Island. McKay allegedly derived his power from his association with the Luchese organized crime family. McKay's plea to income tax evasion stemmed from his failing to report the embezzled HUD funds and extortion payments to the IRS.

Zachary Watkins and Jessie Scott Watkins were sentenced on charges of defrauding \$67,500 from the Authority. Zachary Watkins was sentenced to 6 months house arrest, 3 years probation, and 300 hours of community service. Jessie Scott Watkins was sentenced to 2 years probation. They were both ordered to pay a total of \$67,500 in restitution. With the assistance of McKay, Jessie Scott Watkins applied for rental assistance benefits at a residence she jointly owned with Zachary Watkins. They did not disclose the wife's ownership and actual annual income, causing benefits to be paid to the husband as landlord on the wife's behalf.

Joseph and Katherine Mizell were sentenced for defrauding HUD of \$109,000. Joseph Mizell was sentenced to 6 months house arrest, 3 years probation, and 300 hours of community service. Katherine Mizell was sentenced to 1 year probation. They were also ordered to pay a total of \$109,000 in restitution to HUD. Again with the assistance of McKay, the Mizells fraudulently applied for and received rental assistance over a 10-year period. They did not disclose their actual income and family composition at the time of their initial application and annually thereafter.

In October 1999 in **New York City**, Benjamin Berger, Jacob Elbaum, David Goldstein, and Kalmen Stern were sentenced to 30, 57, 70, and 78 months incarceration, respectively. They were required to pay over \$11 million in restitution for their conviction on charges of conspiring to defraud the Departments of HUD and Education, the Small Business Administration, the Social Security Administration, and the Internal Revenue Service. The investigation leading to the conviction spanned over 6 years and required months of trial preparation. The trial lasted 9 weeks. More than 10 Special Agents from 7 different agencies were assigned to

the investigation. During the trial, the government produced over 10,000 exhibits and directly examined over 30 witnesses.

On January 20, former President Clinton commuted the sentences of all 4 individuals to 30 months incarceration. All 4 defendants have already spent at least 12 months in prison.

A former loan officer from Community Home Mortgage Bank (CHM) in **Melville, Long Island**, was arrested and arraigned for submitting false statements to HUD. The arrest stems from an investigation of the mortgage company, its corporate officers, employees, and appraisers, and two not-for-profit organizations. The investigation revealed that the former loan officer allegedly arranged for the staging of down payment money to be deposited into the bank accounts of a not-for-profit organization by a third party in order to make it appear that the not-for-profit was making the down payments with its own funds. In addition, other CHM employees allegedly committed fraud by staging asset money on behalf of the second not-for-profit. All of the Section 203(k) Rehabilitation Home Mortgage Insurance Program loans have gone into default or foreclosure since their origination by CHM. The FBI and the VA and HUD OIGs conducted this investigation.

Northern District of Texas

Wallace Chambers, an individual doing business as Equity Mortgage Association, was charged with and pled guilty to one count of mail fraud. Mary Anyango Omolo, an individual doing business as MBC Financial Group, was charged with and pled guilty to one count of mail fraud. These actions are the result of a joint investigation by OIG and the FBI which disclosed that both Chambers and Omolo purchased monthly lists for properties in the **Dallas/Fort Worth** area to identify homeowners facing foreclosure. They mailed, via the U.S. Post Office, advertisements to these distressed homeowners representing that their companies could help them avoid losing their homes. Upon being contacted by the homeowners, the investors falsely represented that they could save their homes either by making payments to the mortgage companies on the homeowners' behalf or by renegotiating the terms of the loans. Chambers and Omolo took money from the homeowners, promised to negotiate with the mortgage companies to have other late payments and fees rolled to the end of the mortgage, and then instructed the homeowners to make future mortgage payments to their companies. The payments were never made to the mortgage companies, resulting in the foreclosure of the properties. Losses to the government on these FHA insured loans was \$278,000.

A Federal Grand Jury in **Dallas** returned a 1-count indictment against a borrower who represented herself as her 10-year old daughter on an application for an FHA insured mortgage. An OIG investigation disclosed that the borrower applied for and received a \$120,000 FHA insured mortgage in the name of her daughter. She allegedly provided a false state identification card bearing her photograph but the name of her daughter and represented that, as the applicant, her daughter was earning over \$64,000 in annual income. Neither the borrower nor her spouse would have qualified for the mortgage using their actual incomes and credit histories. Nine days after closing on the fraudulent FHA insured mortgage, the borrower and her spouse filed for bankruptcy using their true identities, and seeking to discharge over \$50,000 in debts.

Tonya Raper, a former employee of Infinity Mortgage Company, was sentenced to 10 months imprisonment and 5 years supervised release, and ordered to pay restitution of \$147,827 to HUD and \$48,500 to Frost Bank, and a \$100 special assessment. Raper participated in a scheme to submit false information to HUD. She previously pled guilty to false statements and bank fraud. An OIG investigation found that while employed by Infinity Mortgage, Raper provided false income information in order to qualify for an FHA insured mortgage for which she would not otherwise have been eligible. The mortgage went into default and foreclosure.

The indictment and sentencing are the latest legal actions in an investigation involving Infinity Mortgage Company. To date, the investigation has uncovered over 127 fraudulent loans representing over \$11 million.

A superseding indictment was issued against a former HUD employee in **Dallas**. The 46-count indictment charges the individual with 4 counts mail fraud, 14 counts of theft of government funds, 14 counts of theft of program funds, 11 counts of money laundering, and 1 count of filing a false individual income tax return. A joint investigation by the FBI, OIG, and the IRS Criminal Investigation Division disclosed that the former employee allegedly stole over \$340,000 in rents from a HUD coinsured multifamily housing project by diverting the rents to several bank accounts, including accounts used for money laundering purposes; paid for remodeling and air conditioning work for a personal residence; and paid legal fees on a personal lawsuit that resulted in a \$500,000 settlement to the employee. The employee used the stolen funds to purchase a lakefront home, a condominium, automobiles, and watercraft, and paid college and high school tuition and fraternity dues for his children. In addition, the employee failed to fully report his income on a 1995 individual income tax return, and failed to inform personal accountants of the \$500,000 settlement. HUD's Enforcement Center subsequently suspended the individual, who was the Director of Housing Management in the HUD Dallas Office in the early 1980s, from participation in procurement and non-procurement transactions with HUD and throughout the executive branch of the Federal Government.

Milton K. Raybould, a former closing attorney, was sentenced after his conviction on charges of theft of public funds. Raybould received 20 months incarceration and 3 years supervised release, and was ordered to pay full restitution of \$561,602 and a \$100 special assessment. The sentencing was the result of a joint investigation by OIG and the FBI which disclosed that Raybould closed a total of 9 HUD single family properties and kept HUD's closing proceeds of \$427,044 for his own use. Raybould admitted keeping the funds because he was in arrears on other HUD closing contracts in **Houston** and needed the money to pay off various other debts as well. Raybould also pled guilty to stealing an additional \$134,557 in title policy money and bank overcharges, and a kickback scheme involving a tax certificate company.

A Federal Grand Jury in **Dallas** returned a three-count indictment against the former executive director and a former employee of the City of Lancaster Housing Authority (CLHA) on charges of theft and conspiracy. The indictment is the result of a joint investigation by OIG and the FBI which disclosed that from 1992 to 1999, the defendants allegedly conspired to steal over \$300,000 in HUD Section 8 funds from CLHA. In an effort to conceal the theft, the defendants altered tenant income

forms to lower certain tenants' reported income and show that the rents of these tenants were 100 percent subsidized by HUD. The defendants required the tenants to pay them rent, and then paid various landlords with checks written from the HUD funded account at CLHA. The defendants subsequently split the tenants' rents after cashing tenant checks or depositing the checks in their personal bank accounts. The stolen funds were used for personal expenses and to pay off credit card debts. No further judicial proceedings have been scheduled at this time.

Nicholas P. Valenzuela, a former Police Officer with the **Dallas** Independent School District, was sentenced for submitting false statements to HUD. Valenzuela was sentenced to 1 year supervised release and 60 hours of community service, and was ordered to pay \$35,000 in restitution to HUD in a lump sum payment within 120 days of sentencing. In August 1999, Valenzuela obtained a house through the Officer Next Door Program. Valenzuela signed a HUD form certifying that he had not purchased a HUD owned property within the past 24 months as an owner/occupant, when in fact he had purchased 2 properties within 14 months of each other.

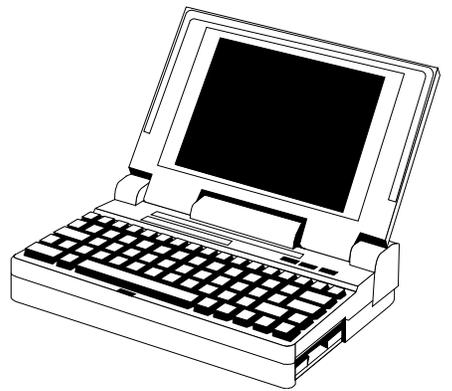
Also in **Dallas**, two Police Officers were charged with making false statements to HUD. The Officers were allegedly living for free in Dallas area apartment complexes by serving as "Courtesy Officers" at the same time they should have been living in the HUD homes they purchased through the Officer Next Door Program. One of the Officers purchased a \$61,000 HUD home for \$25,010; the other purchased a \$90,500 HUD home for \$36,200.

On the same day, a one-count indictment was filed charging a former **Dallas** Police Department Officer with false statements. The former Officer purchased a \$69,000 home for \$34,500 under the Officer Next Door Program, sold the home less than 2 years later for \$80,000, and then allegedly made false statements when questioned about the sale of the home prior to the end of the 3-year commitment.

These investigations were conducted by the FBI and OIG.

Chapter 3

Audits



In addition to evaluating HUD's management reform issues, conducting audit work in support of the Housing Fraud Initiative and Operation Safe Home, and commenting on regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 9 reports and 8 audit-related memoranda on internal HUD operations, and 23 reports and 11 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports and memoranda issued.) Collections amounted to \$14.1 million, with another \$13.5 million in management decisions on audits with questioned costs. Investigative recoveries (out of court settlements, court ordered fines, penalties, and restitution) totaled \$355,310.

Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local governments pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

During this reporting period, we reviewed HUD's handling of an ineligible housing project, the Drug Elimination Technical Assistance Program, and HUD's environmental assessment determination about a possibly historically significant building. Additionally, we reviewed some PHA's administration of the Comprehensive Grant, HOPE VI, Section 8, Low-Income, Low-Rent, Single Room Occupancy, and Drug Elimination Programs and the validity of various complaints concerning these programs. We also attempted to assess the progress of HUD's receivership of the Chester, PA Housing Authority, and reviewed the general administrative activities of other PHAs.

HUD Activities

Complaints received by our office led to an OIG review which found that HUD officials: approved an ineligible **Cook Inlet, AK** Housing Authority student housing project by approving pre-development costs as a standard activity without adequate justification for doing so; did not timely notify the Authority once it found out the project was not a standard activity; approved the project as a model activity without any evidence that there was a need for the project; improperly waived HUD cost guidelines, and did not adhere to statutory subsidy layering requirements that limit project funding to reasonable costs. In addition, the Authority did not fully comply with certain eligibility requirements pertaining to its local cooperation agreement and the tax-exempt

status of the student housing project. As a result of these actions, the Authority spent almost \$1.4 million in pre-development costs for an ineligible project, and HUD authorized \$9.5 million for a project that it estimated should not cost more than \$2.28 million. We believe these improper actions occurred because HUD officials based their decisions primarily on political considerations rather than statutory and regulatory requirements. Also, noncompliance with local cooperation agreement and tax-exempt status requirements may result in public services and facilities not being provided along with housing units, as well as increased costs.

The audit recommended, among other things, that HUD issue written Departmental guidance regarding procedures for dealing with political influences that may conflict with statutory and regulatory requirements; ensure that the Office of Native American Programs provides additional guidance to its staff regarding reviews of standard and non-standard activities; notify the Cook Inlet Housing Authority that its student housing project is not a model activity eligible for funding under the Native American Housing Assistance and Self-Determination Act; and investigate the actions of current and former HUD officials responsible for violating statutory waiver requirements and take appropriate disciplinary action. (Report No. 2001-SE-107-0001)

In **Washington, DC**, in response to a citizen complaint, the OIG audited the Public and Indian Housing Drug Elimination Technical Assistance Program (DETAP) and found that the complaint was valid because the DETAP consultant referral process was not administered in a fair and equitable manner. The consultant database restricted each consultant to only eight skill codes and searches made to the database were arbitrarily limited to three skill codes. Referral lists showed inconsistencies, favoritism, improper referrals, and possible discrimination. In addition, consultants were not evaluated based on individual skill codes and the evaluations were not used in the referral process. As a result, the integrity of the DETAP referral process has been compromised, and because consultants were not treated in a fair and equitable manner, some may have lost contractual opportunities.

The audit recommended that HUD notify all consultants to update their skill codes; record all consultant skills in the database; evaluate the entire application in determining skill codes to use in the database search; require the removal of contractor employees who do not properly administer DETAP; develop specific procedures for preparing and managing consultant referral lists; redesign the consultant evaluation and use the ratings as part of the referral process; execute a Government Technical Manager (GTM) appointment memorandum with specific DETAP responsibilities; ensure that the GTM is allowed to closely monitor the contractor by periodically reviewing the referral process; ensure that the GTM receives formal training; and ensure that revisions made to all guidance are correct and approved prior to issuance. (Report No. 2001-AO-0001)

Based on a citizen complaint, the OIG reviewed the HUD **Pittsburgh, PA** Public Housing Office's (PIH's) environmental assessment determination of the Joshua Meeks House (property) in connection with a HUD funded HOPE VI project, Forest Green Commons Townhouse Development. Specifically, the

complainant alleged that PIH and the developer did not properly apply the requirements of Section 106 of the National Historic Preservation Act in their review process.

Based on our review of the complaint issues, documentation, and federal regulations governing the demolition of the property, we determined that HUD Pittsburgh PIH followed appropriate regulations. In conformance with the National Historic Preservation Act, HUD verified that the site was not listed on the National Historic Register, and asked for and received the State Historical Preservation Officer's (SHPO) opinion regarding the historical significance of the property. According to the SHPO, due to significant property alterations and additions affecting the historical integrity of the property, it was not eligible for listing in the National Register of Historic Places. Additional historic information submitted by Moon Township residents did not alter the opinion of the Pennsylvania Historical and Museum Commission regarding the property's historic significance. Since the property was not listed as eligible, there was no assessment of adverse affects and the HOPE VI project was approved. (Report No. 2001-PH-0802)

Public Housing Programs

Comprehensive Grant Program

In order to address concerns expressed by the Director of Public Housing in the **San Francisco, CA** HUD Office, the OIG reviewed selected aspects of the San Francisco Housing Authority's (SFHA) force account modernization activities under the Comprehensive Grant Program (CGP). (Under certain restrictions, CGP allows housing authorities the option of using their own in-house labor — force account — to perform modernization work, as opposed to independent contractors.) We identified \$18.2 million of possibly excessive force account costs involving three developments. However, due to deficient SFHA records, all modernization costs could not be estimated accurately. In addition to insufficient records, there were indications of poor workmanship. Also, the program did not sufficiently emphasize high priority modernization, and some of the low priority work performed cannot be adequately maintained by the SFHA. These problems primarily occurred due to inadequate management. The SFHA's neglect of high priority work resulted in emergency conditions requiring additional HUD funding.

We also found that the SFHA did not adequately record and track its assets and expenditures. The general ledger recording was inadequate to fully assess CGP force account expenditures. Expenditures were charged or moved to incorrect project accounts, making the general ledger unreliable. In addition, the SFHA did not consistently follow required procedures over the generation of its purchase orders relating to force account work; the inventory system over CGP purchased equipment was insufficient to accurately track all items; and the SFHA was charging ineligible payroll costs to the CGP grant, while failing to maintain adequate documentation to substantiate additional payroll costs attributed to the grants. These problems occurred because the SFHA did not develop sufficient procedures and controls, or was not following existing procedures. As a result, \$98,102 of ineligible and \$73,210 of inadequately supported maintenance expenses were charged to the CGP.

The findings in this audit include recommendations to avoid the continuance of these problems and to lessen their effects. The more significant recommendations call for HUD to require the SFHA to terminate the use of force account

for comprehensive modernization; stop using force account for non-routine maintenance until the SFHA can demonstrate that it is cost effective; require new procedures and controls to be put in place over record maintenance in the general ledger, inventory, and purchase order system; and return ineligible and excessive costs. (Report No. 2001-SF-1001)

HOPE VI Program

In **San Juan, PR**, we attempted to audit the HOPE VI Program of the Puerto Rico Public Housing Administration. The program was an initiative to revitalize the New San Juan Gateway to be funded with a total of \$38.8 million from HOPE VI, Comprehensive Grant Program (CGP), and Economic Development and Supportive Services grants. Our audit disclosed a total breakdown of the PHA's administration of the New San Juan Gateway project. The PHA lacked effective management and accounting controls over its federal funds and did not effectively monitor the activities of its project manager, Carrero and Associates. Due to the unreliability of the amounts reported in the grant program accounts, we were unable to determine total program expenditures. Our report disclosed:

- The PHA failed to provide full and open competition when it awarded a sole source contract to the project manager of the Gateway project and did not perform a price or cost analysis when procuring the services. In addition, the PHA made payments in excess of the contract limits and did not maintain proper disbursement control. The PHA acquired property on which to develop replacement housing that was still sitting vacant after 5 years.
- The project manager, Carrero and Associates, did not comply with federal or the PHA's procurement requirements. It did not: (1) follow established procedures; (2) use the proper procurement methods; (3) maintain procurement files; and (4) perform price or cost analyses. The project manager obtained goods and services without full and open competition and charged unrelated and unnecessary costs to the HOPE VI project.
- Carrero and Associates selected a subcontractor, Freeman and Associates, as a sole source without justifying the lack of competition or the validity of the cost. Further, the PHA did not review invoices submitted by Carrero for the services provided by Freeman. Had it done so, the PHA would have found unnecessary, unrelated, and unsupported charges.
- The PHA failed to properly administer payments of CGP funds. It approved \$3.8 million as project management fees without proper solicitation of the vendor and without cost analysis and justification. In addition, the PHA did not maintain adequate documentation to support the disbursements to Carrero and Associates, paid excessive charges, and failed to obtain proper approval prior to disbursement.
- The PHA had no system of internal control. It had an inadequate accounting system, inadequate disbursement control and recordkeeping, and commingled cash from the various grants. It failed to meet matching state requirements and used federal funds to overcome a shortfall in state funds. The PHA executed no inventory control over purchases of goods and services for the HOPE VI Program.

These conditions existed, in our opinion, because the PHA's management was unprepared or incapable of administering the program. It failed to monitor its project manager and disregarded program requirements. Consequently, HUD has no assurance of economy or efficiency of this project. We identified \$5.4 million of ineligible expenditures, \$10.5 million of unsupported costs, and \$3.8 million in cost efficiencies. We recommended HUD declare the PHA in default of its grant agreements for the HOPE VI Program and take steps to oversee completion of the Gateway initiative as planned. We also recommended HUD take administrative action against former PHA officials who disregarded program requirements and failed to take corrective action on known deficiencies. HUD also needs to work closely with the newly appointed PHA administration to rebuild its management and internal controls systems. In response, the new PHA administration stated its commitment to resolve the problems facing this PHA and set forth the actions being taken to correct the deficiencies created by the prior administration. (Report No. 2001-AT-1004)

Section 8 Program

The Housing Authority of **Baltimore City** (HABC) is not properly administering its Section 8 Program according to the terms and conditions of its Annual Contributions Contribution (ACC) and federal requirements. An OIG audit found that:

- There are fundamental weaknesses in the HABC's overall financial management of its Section 8 Program in the areas of gathering, recording, and reporting accurate data to HUD, accurately and timely disbursing housing assistance payments to owners, and accounting of program receipts and disbursements. Because of HABC's inability to effectively meet its financial responsibilities, financial reports submitted to HUD are often inaccurate. In Fiscal Years 1999 and 2000, the HABC submitted claims for excessive administrative fees of more than \$3.2 million, and HUD paid at least \$279,952 in excess fees to the HABC. In addition, the HABC paid landlords/owners more than \$730,000 in excess rental assistance during the same period.
- The HABC does not have adequate controls and procedures in place to manage its Section 8 Program according to HUD requirements. We observed fundamental deficiencies in HABC's file maintenance and record keeping, tenant income verification and file documentation, the inspection process over housing quality standards, waiting list administration, accounting for Section 8 portable units, and staff assignments and training.
- The HABC is not fully utilizing its Section 8 resources in providing affordable housing to its low-income residents. In 1997/1998, HUD recaptured \$74 million of unused Section 8 operating reserves, and another \$50 million of unused operating reserves have accrued in its accounts between 1997 and 2000.
- The HABC does not currently have an automated management information system (MIS) that supports its Section 8 Program. Even though HABC management was aware that its previous computer system was not Y2K compliant in 1997, it has not been able to successfully develop, test, and implement a

replacement system, and has been operating its Section 8 Program without an MIS since December 1999. Further, adequate contingency plans were not developed and implemented to ensure program operations would not be adversely affected during an interim period during which the HABC was working to install its new system. Unfortunately, the HABC continues to experience delays in its efforts to install a new MIS, and the reliability of program data now being processed manually by temporary employees continues to erode.

During the course of our audit, the Greater Baltimore Committee (GBC) and the Presidents' Roundtable completed a citywide report, entitled "Managing for Success," which included a review of the HABC's Section 8 Program. The GBC cited similar problems and characterized the HABC's Section 8 Program as barely functional. Because of the continuing problems at the HABC, the new Mayor of Baltimore pledged to adopt many of the recommendations contained in the GBC report. In addition, the Mayor recently asked for and received the HABC executive director's resignation and hired a new executive director on December 4, 2000. Although the initial actions taken by the Mayor are encouraging, much more work will need to be done to turn the HABC's program around.

Our audit recommended that HUD take appropriate administrative actions against the HABC, as prescribed in the ACC. In addition, HABC should repay over \$1 million in questioned expenditures, and improve its overall operation of the Section 8 Program. (Report No. 2001-PH-1003)

Pursuant to our current audit of the Housing Authority of **Baltimore City's** (HABC's) Section 8 Program, we completed an assessment of HABC's progress in implementing the Section 8 component of the Thompson Partial Consent Decree (Decree). Specifically, we reviewed the HABC's progress in creating and implementing a Mobility Counseling Program designed to assist residents, through the use of Special Section 8 Vouchers awarded under the Decree, to move from areas of minority concentration to non-impacted areas in Baltimore City and surrounding counties according to the terms and conditions of the Decree. The Thompson Court Decree was the result of a lawsuit brought by Carmen Thompson and five other public housing families alleging that the HABC and HUD engaged in racial and economic segregation through site selection and development of public housing in Baltimore City since 1937. On June 25, 1996, the parties entered into a Partial Consent Decree, approved by a U.S. District Court Judge in Maryland. The Partial Consent Decree called for: complete demolition and replacement within 5 years of all of Baltimore City's family high-rise public housing projects and Fairfield Homes, a vacant low-rise project; and replacement of the approximately 3,000 demolished units with 1,200 new or rehabilitated public housing units in Baltimore City, 800 new or rehabilitated units for project-based rental and home ownership, and issuance of 1,342 new tenant-based Section 8 Special Vouchers.

We found the HABC has made little progress in implementing the terms and conditions of the Section 8 component of the Decree. Specifically, the HABC had planned to release the entire 1,342 Special Section 8 Vouchers over a 6-year period, or approximately 225 vouchers per year since the Decree was

executed in 1996. However, based on records provided by the HABC and its mobility counselor, we found the HABC has assisted no more than 51 families in moving from impacted to non-impacted areas. Further, we found the HABC misreported the actual number of families assisted in its FY 2000 PHA Plan submitted to HUD, stating they had served 285 families. As a result of not complying with the terms and conditions of the Thompson Court Decree, public housing families continue to be racially and economically segregated within defined areas of the City of Baltimore.

The audit recommended that HUD ensure that the HABC develops appropriate policies and procedures to successfully implement the relocation, mobility services, and the Special Section 8 Vouchers component of the Thompson Court Decree; designates management personnel who will have overall responsibility for implementing the Decree; provides sufficient staff resources to accurately account for the Special Section 8 Vouchers leased and issued; monitors the performance of its mobility counselor; and expediently recruits a new mobility counselor who can adequately implement the Decree. (Report No. 2001-PH-1801)

***Low-Rent,
Section 8,
Single Room
Occupancy,
Low-Income, and
Drug Elimination
Grant Programs***

At the request of the Director, Troubled Agency Recovery Center North, and the Director, Office of Public Housing, HUD Michigan State Office, the OIG audited the **Muskegon, MI** Housing Commission's financial operations, including its Low-Rent Public Housing, Section 8, and Single Room Occupancy Programs. We found that the Housing Commission transferred \$836,893 from its Public Housing Program to fund the Single Room Occupancy Program and operating expenses of the Family Investment Center without HUD authorization. In addition, we estimated that \$298,970 of Section 8 subsidy funds were improperly used by the Commission to pay operating expenses of the Low-Rent Public Housing Program. The Commission obtained two loans, one from First of America Bank for \$480,000 secured by the Family Investment Center building, and a second from the Michigan Housing Trust Fund for \$140,000. To secure the second loan, the City of Muskegon, acting on behalf of the Housing Commission, executed a blanket mortgage covering 14 Low-Rent Public Housing Program homes, and pledged future income expected to be received from the sale of the homes. This is prohibited by the Annual Contributions Contract. In addition, the Housing Commission did not cease these activities after being instructed by HUD to do so.

We also found that the Commission used \$51,233 of Public Housing Program funds to pay employee health insurance premiums for the same coverage the employees were also receiving from the City of Muskegon. In addition, the Housing Commission could not provide supporting documentation for \$12,989 in expenses charged to its credit card accounts.

As of August 1, 2000, HUD was in the process of instituting a limited denial of participation action against the executive director of the Housing Commission. On the same date, the City of Muskegon board of housing commissioners terminated the executive director's employment.

The audit recommended that the Director, Troubled Agency Recovery Center, ensure that the Muskegon Housing Commission sells the Family Investment Center building to pay off any outstanding mortgages, implements a plan to repay the Public Housing Program for funds transferred to other programs, and strengthens controls to ensure compliance with HUD regulations and its own procurement policy. (Report No. 01-CH-202-1002)

At the request of the Office of Public Housing, HUD San Antonio Area Office, the OIG audited the Section 8 and Low-Rent Programs of the **Uvalde, TX** Housing Authority. Before the OIG audit, the Office of Public Housing, San Antonio Area Office, had already identified significant Annual Contributions Contract violations and the severe financial condition of the Authority. Specifically, the Authority had over-requisitioned Section 8 funds and had incurred excessive administrative expenses over what they had earned.

Our audit found that the Authority's former executive director (ED) ignored HUD's instructions and violated HUD requirements by using \$563,702 in HUD program funds to pay for excessive and questionable expenses. The Authority incurred \$375,552 in excessive administrative costs in the Section 8 Program and \$188,150 in questionable costs in the Low-Rent Program. The former ED had an objective to develop properties not related to the Section 8 and Low-Rent Programs. To do this, he manipulated the Section 8 requisition process. The former ED was also the secretary/treasurer of the affiliate from which he arranged to receive a rent-free apartment, thus creating a conflict of interest. However, the former ED, acting as the ED of the Authority and the secretary/treasurer of the affiliate, severed the affiliate from the Authority in 1999. As a result, the Authority is currently in a severe financial condition. The Authority has reimbursed \$224,194 to the Section 8 and Low-Rent Programs, but still owes HUD \$262,925 in unearned Section 8 funds and \$76,583 to the Low-Rent Program for the excessive administrative expenses and questionable costs.

In addition to making a number of recommendations for corrective actions, the audit recommended that HUD consider taking administrative sanctions against the former ED. (Report No. 01-FW-203-1003)

At the request of HUD and as a result of a complaint, the OIG audited the Low-Income Housing, Section 8, and Drug Elimination Grant Programs of the **Saginaw, MI** Housing Commission. The complainant alleged that the president of the Board of Commissioners created a conflict of interest by voting on matters that benefited an outside organization of which he was the executive director. Our audit did in fact find that the president of the board and another board member had conflict of interest relationships with outside organizations, which they failed to disclose.

We also found that the Commission disbursed over \$19,500 in ineligible and unsupported Drug Elimination Grant funds and did not assure that one of its subrecipients properly administered its Drug Elimination Grant activities. Of the \$19,500, the Commission: did not obtain HUD approval before selling a parcel of land; paid over \$3,600 in unsupported payroll costs to the Saginaw Police Department; overpaid \$3,100 in scholarship money to a subrecipient college for 8 public housing residents; reimbursed the Saginaw Tenants Organization \$2,466 for excess payroll tax deductions; reimbursed the Tenant Organization \$4,350 for unapproved and unsupported financial consultant services; and allowed the Tenant Organization to spend \$5,947 after the Commission terminated its contract with the Tenant Organization. In addition, the Commission could not demonstrate the benefit or results of its drug elimination activities. We also found that the Commission did not maintain units in decent, safe, and sanitary condition. Our inspection of 18 Section 8 units found 278 housing quality standards violations.

Chester Housing Authority

The audit recommended that the Director, Office of Public Housing, HUD Michigan State Office, assure that the Commission obtains fair market value for the parcel of land that was sold, repays HUD for the ineligible and unsupported costs; seeks repayment from the Saginaw Tenants Organization for funds that should have been returned to HUD when its contract was terminated; implements a system to measure its Drug Elimination Grant activities; and corrects the health and safety violations in the 18 units inspected. In addition, HUD should consider taking appropriate action against the board members for not disclosing potential conflicts of interest. (Report No. 2001-CH-1003)

In November 1991, HUD designated the **Chester, PA** Housing Authority as troubled and took control of the Authority because of numerous and long-standing deficiencies. On April 29, 1994, the U.S. District Court for the Eastern District of Pennsylvania declared HUD liable for de facto demolition of housing units at the Authority. On August 31, 1994, the Court placed the Authority in Receivership. The Court appointed Receiver was to improve Authority operations so the Authority would provide its residents housing that is structurally sound and functionally adequate, along with appropriate services. The Court recognized that ineffective policies and procedures played a major role in the operational problems confronted by the Authority.

In January 2000, the OIG began an audit to assess the Receiver's and the Authority's progress. Unfortunately, the Court did not permit us free and open access to Authority personnel and records during the conduct of this audit. The impediments and limitations to our audit constituted an external impairment and affected our independence. Hence, we were unable to comply with government auditing standards regarding independence and the external impairment constrained our efforts to form independent and objective opinions and conclusions.

In spite of this, our audit found that: (1) although the Receiver made progress in updating Authority policies and some procedures, the Receiver did not update procedures for some fundamental operations; (2) the Receiver did not use free and open competition to procure legal services for the Authority; (3) the Receiver and the Authority did not employ adequate safeguards to oversee a conflict of interest situation involving the Authority's General Counsel; and (4) the Authority lacked adequate controls to ensure the Receiver's out-of-pocket expenses and credit card charges were appropriate and adequately supported. In addition, although the Receiver and the Authority have made progress in improving rent collections, the Authority did not evaluate prospective tenants thoroughly, apply its rent collection strategies consistently, or aggressively pursue collection of rents from delinquent vacated tenants receiving Section 8 assistance.

The audit recommended, among other things, that HUD direct the Authority to create a plan to train staff on standard operating procedures being developed by a consulting firm; establish a plan to monitor the effectiveness of new policies and procedures and make modifications as necessary; request the Court to direct the Receiver to improve the Authority's procurement policy manual by including federal and HUD requirements governing free and open competition for legal services; confirm that the Authority does not reimburse Receiver out-of-pocket expenses until it receives the Court's written notification that it has reviewed the expenses and that the Authority is authorized to pay the reimbursement; and ensure procedures under development prescribe the Authority to screen applicants. (Report No. 2001-PH-1002)

General Administration

At HUD's request, the OIG audited the Housing Authority of the City of **Miami Beach, FL** and found violations of HUD requirements and over \$1 million in questioned costs and \$9,000 in ineligible costs. Specifically, the Authority:

- Spent over \$795,000 of its Section 8 reserves for questionable police protection, recreation, and code enforcement activities. The costs were unreasonable and unnecessary because they were for public services the City should have provided from its local tax revenues.
- Spent over \$2 million in a failed effort to provide housing and social services. The project had been delayed for over 5 years and the Authority had lost or was at risk of losing almost all of its funding. We questioned nearly \$210,000 paid to the City for fees and permits because the fees were excessive considering the joint venture project was not constructed.
- Did not adhere to HUD requirements to assure the reasonableness of Section 8 rents. The Authority also did not timely execute new leases for tenants who moved from one assisted unit to another, and did not pay tenants the amounts by which their utility allowances exceeded the family's contribution for rent. We noted some cases where the Authority and owners provided false representations concerning rent reasonableness. These conditions caused HUD to pay over \$9,000 in excessive subsidy.
- Had not implemented corrective actions recommended by past reviews of its operations to comply with procurement requirements.

The audit recommended that HUD require the Authority to: (1) obtain additional supporting documentation or recover the questioned costs paid to the City; (2) reimburse HUD for excessive housing assistance payments made to owners; (3) submit evidence that it has the financial capability and commitment to complete construction of the joint venture project within a reasonable time; and (4) establish the necessary controls to improve its operations. If improvements are not made within a reasonable period of time, we recommended that HUD consider declaring the Authority in substantial default, and identify other entities that can effectively carry out its programs. We also recommended that HUD restrict the use of all Section 8 administrative fee reserves until the Authority has substantially resolved the systemic problems in its programs. (Report No. 01-AT-202-1001)

Based on the results of an Operation Safe Home probe, the OIG reviewed the operations of the **Youngstown, OH** Metropolitan Housing Authority. The Housing Authority's procurement process was generally performed correctly and the Authority had sufficient controls over inventory. However, the Authority lacked sufficient controls over safeguarding cash and other monetary assets. Specifically, the Authority used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; was undercharged \$32,586 for supplemental police services by the City; lacked documentation to support that \$8,210 in police services paid were reasonable and necessary expenses; failed to sufficiently pursue amounts

owed by current and former Section 8 tenants; did not properly account for \$32,300 of former Section 8 tenant accounts receivable; and lacked an acceptable cost allocation plan to support the allocation of indirect costs among its programs. While we found that the Authority's controls over Section 8 tenant accounts receivable were poor and offered the opportunity for its employees to misuse or divert funds, we found no evidence that funds were diverted.

The audit recommended that the Director of the Public Housing Hub, Cleveland Area Office, assure that the Housing Authority: (1) requires the City of Youngstown to reimburse the Authority for the baseline police services that were improperly paid; (2) establishes procedures and controls over its supplemental police services to ensure the services meet HUD's requirements; (3) establishes policies, procedures, and/or controls to ensure the collection of outstanding Section 8 accounts receivable and to properly record all tenant accounts; and (4) develops an allocation plan in accordance with OMB requirements. (Report No. 2001-CH-1004)

The OIG reviewed the Housing Authority of **Independence, MO**, based on input from HUD that indicated the Authority lacked adequate internal controls. The review found that the Authority did not always have written policies and procedures for its operations; and where policies and procedures did exist, they were not always complete, approved by the board of commissioners, or enforced. The Authority also did not properly segregate duties for collecting and depositing rent, and lacked an acceptable system of controls over other assets. In addition, the Authority's board of commissioners did not always comply with a Missouri statute that governs the conduct of public meetings. Further, the Authority did not have adequate controls over its procurement process, did not have an acceptable system of controls over its Section 8 Program, and needs to improve its human resource function. Finally, the Authority did not resolve deficiencies identified in its financial statement audit for the fiscal year ended March 31, 1999. The independent auditor reported that the account balances for three tenant related subsidiary accounts did not agree with the general ledger.

The audit recommended that HUD ensure the Authority establishes adequate internal controls for all areas of its operations, including developing and implementing policies and procedures approved by the board of commissioners. The audit also recommended that HUD ensure the Authority takes appropriate action on all other concerns addressed in the audit. (Report No. 01-KC-202-1001)

At the request of the HUD Maine State Office of Public Housing, the OIG reviewed operations at the **Waterville, ME** Housing Authority (WHA) to determine the validity of complaints brought by a former WHA employee, and to identify any other indicators of problems or deficiencies in WHA's operations. Our review confirmed three conditions alleged by the complainant: the purchasing of personal items on WHA accounts by employees; snowplowing of the WHA executive director's residence by maintenance employees; and inadequate controls over coin operated laundry machines. These practices occurred in the past; however, there was no evidence that these conditions continued to exist at the time of our survey. In addition, our review found no evidence that confirmed the existence of the two other conditions cited by the complainant. Our review did, however, identify one condition present during the audit survey: WHA has not established proper inven-

tory controls over its fixed assets, such as equipment items and appliances.

The audit recommended that HUD require the WHA to establish and implement inventory control procedures for all WHA fixed assets, including equipment and appliances. (Report No. 01-BO-202-1801)

In response to a citizen's complaint, the OIG audited the procurement operations of the **Mobile, AL** Housing Board for Fiscal Years 1998 and 1999 and found significant weaknesses in the Board's administration of its procurement activities. Specifically, the Board used incorrect procedures to procure certain goods and services and did not procure contracts in accordance with HUD requirements. In addition, the Board used small purchase procedures to procure flooring, paint, and window installation services when it should have used sealed bidding. Frequently, the Board obtained fewer than the required three quotes, selected other than the lowest quote, and solicited and selected the same vendor. Also, contract deficiencies included issuing purchase orders without valid contracts in place, improperly soliciting and awarding contracts without adequate competition, awarding a sole source procurement without prior HUD approval, and not performing independent cost estimates or cost and price analyses.

The audit recommended that HUD require the Mobile Housing Board to implement procurement policies and procedures to ensure proper procurement planning, contract administration, contract solicitations, cost estimates, price analyses, and training of the Board's procurement personnel, along with appropriate selection methods and use of authorized staff. (Report No. 01-AT-204-1003)

In response to a request from the Coordinator of HUD's Ohio State Public Housing Program Center, the OIG audited the **London, OH** Metropolitan Housing Authority and found that the Authority's controls over cash and other monetary assets and inventory were weak. Specifically, the Authority improperly paid its executive director over \$3,600 for time she did not work for the Authority or time she spent on activities not related to Authority operations, and used over \$2,800 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority. The Authority also failed to maintain accurate payroll records regarding employees' vacation time; did not review or adjust its utility allowances for over 8 years; lacked documentation to support how its current utility allowances were determined; did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions; failed to maintain complete and accurate books of account regarding its equipment; did not conduct an inventory of non-expendable equipment; improperly disposed of used equipment; and lacked an acceptable cost allocation plan to support the allocation of costs among its programs.

The audit recommended that HUD's Director of the Cleveland Area Office of Public Housing Hub assure that the Authority implements controls to correct the weaknesses cited in the audit. (Report No. 2001-CH-1005)

In response to a Congressional request, the OIG reviewed the 1998 HOPE VI application for Roseland Homes submitted by the **Dallas, TX** Housing Authority. A complainant alleged that the HOPE VI revitalization application contained false information involving the property purchased within the Fitzhugh Capital Neigh-

borhood. Specifically, the complainant alleged: (1) the sites are not adequate in size, exposure, and contour to accommodate the number and type of units proposed and adequate streets to service the sites are not available; (2) the new sites will be located in an area of minority concentration and will cause a significant increase in the proportion of minority to non-minority residents in the area; (3) the new sites do not promote greater choice of housing opportunities and avoid undue concentration of assisted persons; (4) the sites are not free from adverse environmental conditions such as flooding, sewage hazards, and vehicular traffic; and (5) there were no public meetings held with residents of the surrounding community and newspaper ads did not say anything about building in the surrounding community.

Our review determined that the HOPE VI revitalization application filed by the Dallas Housing Authority did not contain fraudulent or misleading information. In reviewing the application, it is important to keep in mind that it is only a proposed plan. The applicant is not required to pinpoint property for off-site units. In fact, in the case of the HOPE VI revitalization application filed by the Authority, the properties contained in the application were not the same as the off-site units subsequently purchased. No recommendations were made during our review. (Report No. 01-FW-201-1801)

An OIG audit of the Housing Authority of the City of **Winston-Salem, NC**, disclosed that the Authority did not comply with its procurement policies or federal requirements when it selected the developer for the Kimberly Park HOPE VI project. Specifically, the Authority's evaluation panel did not follow prescribed evaluation procedures and the Authority did not properly document its selection process. As a result, we were unable to determine whether the Authority provided full and open competition, its rationale for accepting or rejecting contractors, or whether its selection was objective, impartial, consistent, and fair. In addition, HUD has no assurance that the contractor selected was the most advantageous to the program. We believe this occurred because the executive director, rather than an experienced contract administrator, acted as the contracting officer responsible for overseeing the procurement.

The audit recommended that the Authority issue a new request for proposal and select a developer for the Kimberly Park HOPE VI project using required procurement procedures. The procurement should be fully documented. The Director, Office of Urban Revitalization, HOPE VI, agreed with our recommendation and advised us that the Authority terminated its memorandum of understanding with the developer and will reissue a request for qualifications. The Authority will use a selection and documentation process consistent with Authority and federal procurement policy. (Report No. 01-AT-202-1802)

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, the OIG reviewed grantees' administration of the Community Development Block Grant (CDBG) and Continuum of Care Programs.

The CDBG Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The Continuum of Care Program is designed to fight against homelessness by linking key housing services and expediting movement toward housing for the homeless.

CDBG Program

In response to a complaint, the OIG audited the Municipality of **Aguadilla, PR's** use of CDBG funds. The funds were allocated for the "Paseo de la Real Marine," also known as the Waterfront project. The complaint alleged that, as part of the project, the Municipality demolished an historic building known as the "House of Redeemer Fathers" (Casa Parroquial) despite the community's opposition to the demolition. The multi-year Waterfront project was funded with \$3.8 million of CDBG funds, \$2.7 million of which had been disbursed as of March 9, 2000.

On March 23, 1998, the State Historic Preservation Office (SHPO) wrote the Municipality of Aguadilla that it had knowledge of the Municipality's plans to expropriate and demolish properties for the Waterfront project that might be eligible for inclusion in the National Register of Historic Places. The letter specifically mentioned the Casa Parroquial and the Masonic Lodge. Our audit determined that the Municipality did not comply with procedures in Section 106 of the National Historic Preservation Act. It did not provide adequate evidence to demonstrate that it: (1) identified the historic properties affected by the Waterfront project; (2) assessed the effect the Waterfront project would have on historic properties; or (3) properly consulted with the SHPO. As a result, on August 24, 1998, the Municipality started the demolition of the Casa Parroquial, in violation of HUD's CDBG regulations.

The audit recommended that HUD consult with the SHPO and the Advisory Council on Historic Preservation to determine whether they believe federal assistance should be granted despite the adverse effect created by the applicant, and determine if the Municipality complied with environmental requirements pertaining to other structures located in the Waterfront project site. Unless otherwise justified based on discussions with the Council, HUD should also require the Municipality to reimburse, from non-federal funds, the \$2.7 million charged to the Waterfront project, plus any additional costs incurred to date, reprogram the remaining project funds of \$1.1 million into an eligible CDBG Program activity, and monitor the Municipality's future compliance with environmental requirements for projects funded by HUD. (Report No. 01-AT-241-1801)

The OIG audited HUD's Canal Corridor Initiative along the **Erie Canal, NY**, to assess the Department's efforts in achieving the program's objectives as outlined in the Notice of Funding Availability published in the Federal Register on December 3, 1996. The Initiative sought to revitalize the economic base of communities in upstate New York through development projects and job creation along the canal system and connecting waterways involving grants from the Small Cities CDBG Program and loans from the Section 108 Loan Guarantee Program. Our review did not disclose any improprieties regarding the award process. Essentially, all the grantees located along the New York State waterways that requested funding were awarded funds.

While the Initiative has produced some limited successes by means of public improvement projects, most activities have been slow moving, thus compromising the Initiative's ultimate success. HUD authorized over \$100 million for the Initiative. However, 4 years after HUD introduced the Initiative, only \$24.4 million has been expended and program objectives such as job creation are not being fully realized. Our site visits to 12 of the 53 funded grantees disclosed that the 12 grantees were to create 1,338 jobs; however, at the time of our visits, only 153 jobs, less than 12 percent, were documented as created. The audit showed that progress has been curbed because grantees had little success brokering Section 108 loans to third parties, and because HUD has not actively monitored grantees, thus allowing poor program performance to go undetected and unresolved.

Grantee site visits also showed that grantees often did not comply with financial management systems requirements. In fact, we determined that 10 of the 12 grantees we visited were not in compliance with financial management requirements. Again, the absence of adequate monitoring allowed deficiencies to go undetected and unresolved.

The audit recommended that HUD: (1) rescind Section 108 grant authority if the grantees have not expended the funds within an agreed upon time; (2) ensure that grantees are making adequate progress toward the Initiative's objectives of economic revitalization and job creation; (3) for those grantees that are not making progress, decide if just making public improvements constitutes eligible activities that meet a CDBG national objective; (4) perform monitoring reviews of the grantees involved with the Canal Corridor Initiative and document the reviews as required by HUD requirements; and (5) ensure that grantees are complying with the financial management system requirements promulgated in HUD regulations during monitoring reviews. In addition, if HUD rescinds any Section 108 loan authority, and there is a future need for loans, HUD should coordinate with the State of New York to provide Small Cities CDBG grants to those grantees that have worthy canal related projects. (Report No. 2001-NY-0001)

The OIG audited the **Philadelphia, PA** Commercial Development Corporation's (PCDC) funding of the Urban Education Development Research and Retreat Center (UEDRARC) rehabilitation project. We noted that UEDRARC met a CDBG Program national objective of eliminating a slum and blighted condition, and accomplished its mission to provide an institutional environment encompassing programs designed to promote education, research, employment training, and human development to serve the needs of Philadelphia's African American community. PCDC had designed good management systems and controls to provide project oversight and to account for all the loan funds disbursed to the project. Despite these good controls, the audit found that PCDC did not follow its own and

HUD's requirements, and did not use prudent financial judgment in evaluating, approving, and administering its \$550,000 loan to UEDRARC, a high risk borrower. PCDC did not observe existing loan approval policies and procedures; enforce its loan monitoring policies and procedures when administering the loan; or take full advantage of available recourses when UEDRARC defaulted on its loan. As a result of PCDC's loan decision, it is likely PCDC will need to write off the loan to UEDRARC, depriving other applicants of needed funds.

The audit recommended that HUD require PCDC to comply with loan approval and administration policies and procedures and loan agreements, and document the reasons for circumventing existing policies and procedures when approving and administering loans. UEDRARC should be required to obtain an audit of the construction project in question. In addition, if PCDC writes off the loan, HUD should direct the City of Philadelphia to repay the City's CDBG Program, with non-federal funds, for the loan portion written off as uncollectible. (Report No. 01-PH-241-0001)

Following a complaint to the HUD Hotline, the OIG reviewed **Cuyahoga County, OH's** revolving loan fund backed by the County's CDBG Program. The complainant alleged that the County misused CDBG funds to pay expenses of the Special Purpose Grant for the Bellefaire Residential Treatment Center for Children. The Bellefaire Center is a nonprofit mental health and child development agency that provides services to children suffering from emotional, physical, and/or substance abuse. We found that the County did not follow federal requirements when it used CDBG funds to pay administration and construction expenses of the Special Purpose Grant for the Bellefaire Center. Contrary to the Office of Management and Budget's requirement in Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, the County used \$308,495 of CDBG funds to pay the expenses of the Special Purpose Grant because the County could not draw down the Special Purpose Grant funds. HUD did not permit the County to draw down the Special Purpose Grant funds because the County did not submit the required closeout documents. The business services manager for the County's Department of Development said she was not aware that this use of CDBG funds violated OMB Circular A-87. Subsequent to the completion of our audit work, the County repaid \$308,495 to the CDBG Program.

The audit recommended that HUD assure that Cuyahoga County establishes procedures and controls to ensure that it follows OMB Circular A-87 regarding the use of federal funds. (Report No. 2001-CH-1801)

As a result of a complaint to the HUD Hotline, the OIG audited the City of **Ironton, OH's** administration of its CDBG Program. The allegations stated that the City misused CDBG funds and did not follow proper procurement practices when awarding contracts paid with CDBG funds. The complainant based the allegations on information from HUD's 2020 Internet map, which provided a general description and location of where HUD funds have been spent.

HUD's 2020 map did not accurately show the locations where HUD funds were used in the City. Nevertheless, we found that the City did not follow HUD's, the State of Ohio's, and/or the City's own requirements regarding the use of CDBG and HOME Program funds. We also found that the City and/or the Housing Standards Officer for the Ironton-Lawrence County Area Community Action Organization, with which the City contracted to administer its CDBG Program, did not

properly administer the City's HUD funded rehabilitation activities. Specifically, the City: (1) used \$35,400 of HUD funds to pay for housing rehabilitation work that was improperly performed or was not provided; (2) used \$39,000 to assist 7 properties which were not occupied by low- or moderate-income families; (3) lacked documentation to show that \$112,000 in housing assistance paid to 11 other households benefited low- or moderate-income individuals; (4) provided \$146,000 in totally deferred assistance to 9 households when these households had the ability to repay part of their housing assistance; (5) provided \$58,000 in housing assistance to 4 of 84 households reviewed without property hazard insurance and/or without recording mortgage liens, deed restrictions, or covenants on the assisted properties; (6) improperly provided CDBG funds for housing rehabilitation assistance when conflicts of interest existed; (7) did not award contracts using full and open competition, as required; and (8) did not ensure that the specifications for housing rehabilitation contracts showed the requested materials and/or services.

The audit recommended, among other things, that HUD's Ohio State Office Director of Community Planning and Development, in conjunction with State officials, sees that the City of Ironton: ensures that all housing rehabilitation work in question is completed; establishes procedures and controls to ensure that assisted houses meet the State's Residential Rehabilitation Standards; reimburses its Community Housing Improvement Program from non-federal funds for the housing rehabilitation assistance improperly provided to households that were not low- or moderate-income; and terminates its contract with the Ironton-Lawrence County Area Community Action Organization. (Report No. 01-CH-243-1001)

Based on concerns by HUD staff related to the prior administrator's oversight of the City of **Cheyenne, WY's** Housing Rehabilitation and First-Time Homebuyer Down Payment Assistance Programs, the OIG audited these programs. Our audit found that the City's Office of Housing and Community Development administrator and staff made unapproved program disbursements; did not adequately document or justify the assistance to be provided and/or actually provided; did not record and collect all program loans; and inappropriately provided assistance to persons with conflicts of interest. As a result, the City provided \$952,080 in unauthorized funding, failed to collect on over \$279,891 in loans, and could not justify the need for assistance provided. We believe these deficiencies occurred because the City failed to provide adequate management controls and oversight.

Based on HUD's previous reviews and our preliminary findings, we briefed the City Attorney, who took immediate actions. First, the City canceled all open purchase orders for participants. Second, the City Attorney must approve all disbursements of funds. In addition, the City limited assistance under the Rehabilitation and Down Payment Assistance Programs to emergency assistance. The City also hired a new administrator, whose first task necessitated completion of the City Consolidated Plan to ensure CDBG funds for the next year. In addition, the new administrator began reviewing the most recent participant folders to obtain a better understanding of the problems. The new administrator plans to use this knowledge in developing new program guidelines and internal management controls over these programs. Also, the City provided substantial documentation related to actual and proposed changes to the programs. We believe if these

changes are fully implemented, the concerns raised in the audit should be corrected. (Report No. 2001-DE-1001)

Continuum of Care

The OIG is conducting a nationwide review of HUD's Continuum of Care Program. The Continuum of Care approach is a community based process of identifying the needs of the homeless and building a comprehensive and coordinated housing and service delivery system to address those needs. The Continuum is an organization of local governments, not-for-profit, and for-profit organizations that assist in the compilation of a consolidated application for grant funds. The Continuum of Care includes three programs that are competitively funded: the Supportive Housing Program, the Shelter Plus Care Program, and the Section 8 Moderate Rehabilitation Program. As part of our review, we selected a sampling of grantees in order to evaluate the Continuum of Care. In addition, we performed work at HUD Offices and Continuum of Care entities. The results of eight of our audits are reported below. Our work is continuing.

An OIG audit of the Supportive Housing Program grant awarded to the **Los Angeles, CA** Homeless Services Authority (LAHSA), and operated by the El Monte Youth Development Center (El Monte), disclosed that El Monte did not implement its activities consistent with its application. Specifically:

- El Monte admitted ineligible participants and participants whose eligibility was not adequately documented into the Transitional Housing Program. Based on our calculations, El Monte spent over \$70,000 in supportive services for the ineligible participants and over \$93,000 for those who may not have been eligible.
- El Monte did not accomplish programs goals and/or could not support reported accomplishments. For example, the application stated that transitional housing services for 200 homeless youths would be provided by the end of the grant period. El Monte's progress report indicated that 33 participants were served during the first year, and only 16 were served through October of the second grant year.
- El Monte's financial records did not support grant expenditures and some expenditures did not comply with federal procurement regulations. Although financial statements prepared by El Monte's independent public accountant showed total expenses of \$1,282,143 for the Transitional Living Care Program through October 31, 2000, we were only able to verify \$799,585 of these expenses. We determined that expenses totaling \$482,558 were not supported by documentation justifying their eligibility or allocability.

The audit recommended that HUD require LAHSA to conduct programmatic and financial monitoring of all subgrantees and document follow-up actions resulting from the site visits, and perform in-depth reviews of all grants awarded to El Monte. In addition, LAHSA should ensure that El Monte obtains and verifies the necessary information to determine participant eligibility, require El Monte to revise its accounting systems to properly account for individual grant expenses on a grant-by-grant basis prior to receiving additional funding, require El Monte to

provide documentation supporting the eligibility and allocability of all unsupported costs, and reimburse HUD for all ineligible costs incurred by El Monte. (Report No. 2001-SF-1803)

Adopt-A-Family of the Palm Beaches, Inc. (AAF) in **West Palm Beach, FL**, needs to improve its administration of the Supportive Housing Program. Specifically, AAF did not:

- Follow federal procurement requirements when awarding a professional counseling services contract. As a result, AAF and HUD had no assurance that the best service and price were obtained. Also, grant expenditures totaling \$89,000 were unsupported.
- Provide the agreed level of service for transitional housing. AAF chose to vacate and renovate available units during the grant period. This withdrawal of the units resulted in a significant reduction in the level of service required by HUD.
- Provide accurate or complete information in its annual performance reports. AAF did not monitor one goal and underreported other goals. As a result, HUD lacked information to determine whether the grant activities were achieving intended results.

The audit recommended that HUD determine whether the \$89,000 in contract costs are adequately supported, instruct AAF to improve its controls over the program, and require AAF to house additional homeless families with non-federal funds to offset the reduced level of services. In addition, HUD should monitor any ongoing or future grants. (Report No. 01-AT-251-1002)

An OIG audit of the 1996 Supportive Housing Grant awarded to the Palm Beach County Division of Human Services (County), **West Palm Beach, FL**, found that:

- A service provider had zoning problems and was unable to obtain site control within the 1-year period or timely provide transitional housing at the agreed location. As a result, the County did not provide the full level of housing units. Also, the delay may cause the County to be unable to spend grant funds within the required 3-year period. Furthermore, the County did not disclose the change in site location or obtain HUD approval for the change.
- The County misclassified operating and supportive services costs totaling \$285,717. As a result, the County incorrectly used about \$32,103 of grant funds to pay for its share of the costs.
- The County did not submit accurate program progress and financial information, nor did it maintain adequate evidence of measurable results. As a result, the County and HUD lacked information to determine whether the grant activities were providing intended results.

- The County did not follow required federal procurement procedures in awarding contracts in excess of \$1.1 million. County officials did not believe the federal requirements were applicable. Therefore, the County entered into contracts with service providers to provide transitional housing and supportive services without competition or a cost/price analysis. As a result, the County and HUD have no assurance that the costs for transitional housing and supportive services obtained under these contracts were reasonable and obtained at the best price.

The audit recommended that HUD instruct the County to submit a detailed listing of all costs so that HUD staff can determine whether the costs are properly classified, prepare a revised budget and submit it for HUD approval, if warranted, and improve its controls over the program. In addition, HUD should monitor any ongoing or future grants. (Report No. 01-AT-251-1004)

The City of **Dallas, TX**, failed to implement its 1996 Shelter Plus Care grant and its 1997 Supportive Housing grant in compliance with grant agreements and federal regulations. An OIG audit disclosed that the City did not: (1) provide and document the matching supportive services required by the Shelter Plus Care grant; (2) expend its funds timely; (3) file accurate and consistent annual progress reports; (4) include only eligible and supported costs in its grant drawdowns; (5) sufficiently monitor participants and their supportive service needs; and (6) perform yearly housing quality standards inspections for apartments inhabited 1 year or more. Furthermore, the City drew down \$53,977 for ineligible costs and \$2,261 for unsupported costs. The \$53,977 included duplicate expenses, expenses for ineligible participants, and expenses incurred prior to the grant start date.

The audit recommended that HUD discontinue funding Continuum of Care grants to the City until the City can demonstrate that it can administer the funds appropriately. This includes providing HUD a comprehensive management plan and documentation detailing supportive services provided for all Shelter Plus Care grants. In addition, HUD should require the City to repay \$53,977 in ineligible costs and either support or repay \$2,261 in unsupported costs. (Report No. 01-FW-251-1002)

In **Houston, TX**, an OIG audit of AIDS Foundation Houston, Inc.'s 1997 Supportive Housing Program grant disclosed that the Foundation expended funds for ineligible and unsupported activities and did not comply with federal cost requirements. Of the \$397,395 in grant funds audited, we found that the Foundation expended \$69,369 on ineligible or unsupported activities, including reimbursements to Building Lives Offering Community Knowledge (the BLOCK), a partner, for ineligible payroll, office supply, telephone, and mileage costs. In addition, the Foundation drew down \$27,278 for ineligible costs, including administrative costs and costs for an ineligible participant. The Foundation also failed to maintain sufficient documentation to support the homelessness eligibility of all 17 participants that we tested.

The audit recommended that HUD require the Foundation to reimburse HUD for all ineligible costs paid from grant funds, revise its monitoring policies and procedures for financial site visits to prevent the future allocation of ineligible and unsupported costs to federal grants, provide evidence that its grant participants were homeless, and reimburse HUD for costs of participants whose eligibility

cannot be supported. The Foundation should also take administrative sanctions against the BLOCK and its executive director for double billing salary, office supplies, and telephone costs to two grants. (Report No. 2001-FW-1803)

In administering the Supportive Housing grant awarded to the Greater **Dallas, TX** Council on Alcohol and Drug Abuse, an OIG audit found that the Council's activities were consistent with its application. However, the Council included nearly \$28,892 in ineligible and/or unsupported costs in grant drawdowns. These costs included costs not directly associated with the provision of supportive services and a portion of a director's salary. In addition, due to the Council's goals and lack of coordination with other members of the Homeless Consortium in Dallas, the Council did not report on its goals. Furthermore, it did not expend its funds in a timely manner.

The audit recommended that HUD require the Council to repay its grant or support the \$28,892 in ineligible and unsupported salary costs charged to the grant. HUD and the Council should determine whether the Council should continue providing substance abuse treatment referrals. In addition, HUD should ensure the coordination among Consortium members to meet the objectives of the Continuum of Care concept, and deobligate any funds not expended as of May 31, 2001. (Report No. 2001-FW-1802)

In **Philadelphia, PA**, the OIG audited the Supportive Housing Grants awarded to Project H.O.M.E. (Housing, Opportunities, Medical Care, Education) for 1997 and 1998 and found that Project H.O.M.E.'s activities were consistent with its applications and achieved measurable results; funds were expended properly and timely; and projects were sustainable. However, during our review of tenant files at three projects, we noted that current tenant income documentation was not maintained in those files. Income documentation is used to determine each tenant's initial income eligibility for the program and the tenant's monthly rent. Although initial income documentation was included in most of the files, subsequent income documentation and rent calculations were not included. As a result, we could not determine if the tenant rent charges were appropriate.

The audit recommended that HUD require Project H.O.M.E. to provide documentation indicating that any rent overpayments have been refunded, and maintain detailed tenant income and rent calculation records in the tenant files. (Report No. 2001-PH-0801)

An OIG review of the Continuum of Care Program administered by the Department of Mental Health and Addiction Services (DMHAS) in **Hartford, CT**, disclosed that DMHAS is operating its Supportive Housing Program (SHP) in accordance with HUD regulations, but is not complying with regulations in operating its Shelter Plus Care (SPC) Program. We determined that rental payments by SPC tenants exceed contract rents; administrative fees may surpass the amount allowed; and the minimum number of grant participants are not being served.

We recommended that HUD: (1) monitor DMHAS' corrective action plan to resolve matters with tenant rental payments in excess of contract rent; (2) ensure that DMHAS develops a monitoring and training plan that will ascertain whether all SPC contractors administer the SPC Program according to HUD regulations; (3) ensure that DMHAS' administration fee for all SPC grants does not exceed 8

percent of the total grant awarded; and (4) provide technical assistance to DMHAS on approaches to maximize occupancy for all SPC grants. (Report No. 2001-BO-1802)

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to Operation Safe Home equity skimming work during this period, the OIG reviewed management agent operations, the underutilization of apartments at multifamily developments, the HUD Earthquake Loan Program, and a possible conflict of interest at an elderly housing development.

Equity Skimming

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

HUD's mortgage loan servicing contractor received a repayment in the amount of \$1 million from the general partner of Beaveridge Housing, **Yorktown, NY**, and Roslyn Plaza Housing, **Roslyn, NY**. This repayment stemmed from an August 1996 OIG audit report on the two projects which disclosed unauthorized loans involving both Beaveridge and Roslyn Plaza. Specifically, the general partner of the projects made unauthorized loans totaling almost \$4.2 million to an affiliated company from the projects' residual receipts funds. As a result of the audit, the HUD New York Office of Counsel negotiated a repayment agreement between the general partner and HUD in June 1998, in which the general partner agreed to repay HUD the amount of unauthorized loans with interest over a 6-year period. Although the general partner initially made payments to HUD, the payments stopped in 1999. Additionally, the projects' certified public accountant noted in the projects' annual financial statements that the general partner had stopped making payments to HUD. This was identified during HUD's Financial Assessment Subsystem review and was referred to the HUD Enforcement Center for action. The Enforcement Center contacted the general partner and negotiated an agreement whereby the general partner would commence repayment of the unauthorized loans.

An OIG audit report issued in January 1994 disclosed that Eastfield Management, Inc., a **Dallas, TX** management agent for several HUD insured multifamily projects, diverted almost \$875,000 from an unapproved payroll clearing account. In the account, the agent commingled funds from HUD insured projects, conventional projects, and management companies. According to the terms of a settlement agreement signed by HUD and the management agent in January 2000, the agent has paid the first three installments of the payback agreement. These three installments totaled \$400,000.

In September 1996, an OIG audit of Little Flower Estates, a HUD insured multifamily project in **Ponchatoula, LA**, disclosed that the owner spent almost \$285,000 in project funds for ineligible and questionable expenses while the project was in a non-surplus cash position. The audit recommended that those funds be recovered or supported and that project costs subsequent to the audit period be reviewed. The owner has now repaid the remaining \$148,000 of ineligible and unsupported funds relating to this audit finding.

In **Fort Worth, TX**, the U.S. District Judge presiding over the multifamily civil equity skimming case of the United States vs. Retirement Services Group, et al, issued an order granting the government's motion for summary judgment and a final judgment for the government to recover from the defendants over \$1.6 million plus all costs of the court. In addition, the final judgment provided that pre-judgment interest on the total amount of the diversions (\$841,106) shall accrue at the rate of 10.25 percent per annum from September 30, 1993, to the date of this judgment, February 26, 2001. Post-judgment interest shall accrue at a rate of 6.052 percent per annum from the date this judgment entered on the docket until paid. These actions resulted from an August 1993 OIG audit of the Heritage Village Retirement Service Center.

The OIG was recently informed that HUD's Enforcement Center in Atlanta, GA, issued letters proposing to debar the owner and the management agent of Eastover Apartments. The proposed debarment resulted from the owner and agent's failure to properly maintain the 56-unit HUD insured multifamily project located in **Indianola, MS**. In January 1999, we issued an audit report that cited the owner and agent's substantial neglect of the project's physical maintenance. During the audit, we observed that the project was in such poor condition that it was not fit for human habitation. We met with HUD to discuss our concerns about the project's poor physical conditions, and as a result, HUD took immediate steps to take possession of the project and relocated the residents to decent, safe, and sanitary housing. We recommended that HUD pursue enforcement action against the owner and agent.

Management Agent Operations

An OIG review of the books and records of the Bay Towers multifamily project in **Far Rockaway, NY**, conducted at the request of the Director of the New York Multifamily Hub, disclosed that the management agent did not comply with the provisions of the Regulatory Agreement and other HUD requirements. Specifically, we found that the management agent did not properly compute Section 236 excess income; as a result, \$199,205 in collections were not remitted to HUD. Furthermore, the HUD New York State Office (NYSO) may have inadvertently given approval to the project to retain future excess income amounts collected. We

also found that the management agent charged ineligible legal fees that pertained to the filing of petitions of bankruptcy by the project owners. As a result, the project has been deprived of \$77,000 which should have been used for reasonable project operating expenses. In addition, the management agent wrote off a \$201,312 account receivable, due from the project owners, and a \$174,677 loan payable, without obtaining HUD's written approval. Consequently, we believe that the project could be deprived of funds from a collectible receivable, and that its loans payable balance may be understated.

The audit recommended that the HUD NYSO determine whether: (1) the \$199,205 in excess income collected and retained by the agent should be remitted to HUD; and (2) the NYSO's April 2000 approval to allow Bay Towers to retain future excess income collected should be rescinded. The owners should also be required to immediately reimburse the project's operating account for the \$77,000 in legal fees charged to the project. In addition, the amounts for the account receivable and the loan payable should be put back on the project's books until HUD makes a determination on their authenticity. (Report No. 2001-NY-1001)

The OIG reviewed Metro Management Corporation, a management agent in **Overland Park, KS**, who managed Royal Towers/Pickwick Plaza. The review was initiated based on recent newspaper articles that contained negative information, HUD's actions regarding the poor physical condition of Royal Towers/Pickwick Plaza, complaints reported to the OIG regarding Metro, and the considerable volume of Metro managed HUD assisted properties. The review resulted in four observations that identified problems with Metro's management of Royal Towers/Pickwick Plaza. Two of the observations required no corrective action since Metro no longer manages Royal Towers/Pickwick Plaza. However, they represent information that HUD needs to be aware of in its oversight of other HUD projects that Metro manages. The other two observations require corrective action because they involve the inappropriate payment of a duplicate management fee and an ineligible management fee.

The problems that require no corrective action are: (1) Metro's previous participation certificate was not updated to reflect current information on all properties it owned; and (2) Metro did not maintain complete and accurate project account books and records. The two problems that required corrective action are Metro: (1) paid itself \$6,770 in duplicate management fees for June 1999; and (2) collected \$2,736 in eligible management fees from 1997 through 1999.

The audit recommended that HUD ensure Metro Management reimburses the Royal Towers/Pickwick Plaza project account \$6,770 for the duplicate management fees and \$2,736 for the ineligible management fees. (Report No. 2001-KC-1801)

Underutilization of Apartments at Multifamily Developments

Based on a low physical assessment by HUD's Real Estate Assessment Center (REAC), the OIG reviewed the Blue Hill Housing multifamily development in **Dorchester, MA**. We noted that deficiencies in property maintenance, disclosed in the REAC assessment, were being addressed by Blue Hill. Although we found no deficiencies in the use of project funds, the audit disclosed an underutilization of apartments. During our review of tenant eligibility, we determined that 24 of 144 apartments were underutilized, contrary to HUD requirements. Based on household compositions, families are in apartments with too many bedrooms.

Blue Hill had not established and implemented a policy to address underutilization. Consequently, HUD is paying too much in subsidies for the number of tenants served (\$4,705 per month based on current conditions) and larger families are being prevented from living in appropriate size apartments. We found that this condition has existed for some time, possibly for at least 5 years.

After we brought the underutilization of apartments to Blue Hill's attention, they prepared a transfer policy and corrective action plan to address the deficiency. However, we believe the corrective action plan is inadequate. The plan states that vacancies will be alternately filled from the waiting list (outside) and the transfer list (tenants in underutilized apartments). This method will double the amount of time necessary to correct the problem. Blue Hill could not provide a sound reason why it is necessary to alternate between the two lists.

The audit recommended that HUD monitor Blue Hill's compliance with their new transfer policy and obtain progress reports until the underutilization problem is resolved. (Report No. 01-BO-219-1001)

Based on a low physical assessment given in a HUD Massachusetts State Office (MSO) review, which reclassified the project to "troubled," the OIG audited Bowdoin Apartments in **Malden, MA**. We found that Bowdoin is correcting the maintenance deficiencies disclosed by the MSO. However, we found that Bowdoin needs to relocate over-housed households to reduce underutilization of apartments. Our review disclosed that 21 of 226 apartments were underutilized, contrary to HUD requirements. Based on household compositions, families are in apartments with too many bedrooms. Bowdoin had not established an effective transfer policy to address underutilization of units. Consequently, HUD is paying too much in subsidies for the number of residents served and larger families are being restricted from appropriate size apartments.

The audit recommended that Bowdoin revise its transfer policy to relocate families to appropriately sized units as such units become available, and submit quarterly progress reports on progress made in reducing underutilization. (Report No. 2001-BO-1003)

HUD Earthquake Loan Program (HELP)

In response to a citizen's complaint, the OIG audited Fountain Park Cooperative, Inc.'s (FPC) use of HUD HELP funds. The complainant alleged that FPC improperly spent HELP funds for earthquake repairs that were either not completed as claimed, or were completed in an unsatisfactory manner. At the time of our audit, the Los Angeles Multifamily Hub also conducted a management review and physical inspections of FPC's dwelling units to determine whether repairs were either actually made or completed satisfactorily. Since the Hub was already addressing the issue concerning the repairs, we excluded this portion from our audit scope. Instead, we reviewed other areas relating to FPC's receipt and expenditure of HELP and other earthquake related funding sources to determine FPC's compliance with the Financial Assistance Contract (FAC).

Our audit found that, contrary to the provisions of the FAC, FPC did not reduce its HELP loan for \$55,524 that shareholders also received from other sources for earthquake related damages. Specifically, some of FPC's shareholders obtained funding from the Federal Emergency Management Agency, the State of California Individual and Family Grant Program, and the Small Business Administration, which duplicated repair items paid with HELP funds.

The audit recommended that HUD require FPC to determine which repair items were completed either by the repair contractor or the shareholders, and collect \$55,524 from either the repair contractor or the shareholders. (Report No. 2001-SF-1802)

Possible Conflict of Interest at Elderly Housing Development

At the request of the HUD Office of General Counsel (OGC), we performed a limited review of the Rainbow Village Section 202 project in **Houston, TX**, to determine whether a Program Fraud Civil Remedies Act (PFCRA) filing was merited. OGC stated that it appeared that three individuals — an ownership entity president, an officer of the management company, and an ownership board member — may have made false statements/certifications in order to obtain HUD contracts and funding. In our opinion, the issue is not clear-cut. HUD had documents in its possession prior to the project's initial closing that identified the three individuals and their conflict-of-interest relationships. HUD should have cancelled the fund reservation based on the conflicts that existed. However, HUD took no action at the initial closing. HUD did not question the conflicts until the project entered the final closing stage.

Based on our work and HUD's inaction, we do not believe that a PFCRA filing is appropriate, nor do we believe that debarment is appropriate. Instead, HUD should take administrative action to prevent any future payments to entities with prohibited conflicts of interest. In addition, HUD Counsel must determine whether HUD's inaction on information in its possession negatively affects its ability to recover previous payments to entities with conflicts of interest. Further, HUD should provide notice to the three individuals and their related conflict-of-interest entities that they will not be able to participate in any future phases of the project because of their conflicts. Finally, HUD must adjust the remaining amount of the developer's fee to ensure that the amount paid at final closing does not exceed the 8 percent regulatory cap. (Report No. 01-FW-111-0801)

Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we reviewed property disposition and closing agent activities.

Property Disposition

Officer Next Door/ Teacher Next Door Program

The interim results of the OIG Southeast/Caribbean District's nationwide audit of HUD's Officer Next Door/Teacher Next Door (OND/TND) Program found that closing agents did not execute second mortgages on 56 percent of the property sales in our sample that closed after the effective date of the second mortgage requirement. Our sample of all 29 OND home sales clustered in the **Dade County, FL** area included 9 home sales subject to the second mortgage requirement. Second mortgages were not filed on five of these nine home sales. These five sales closed on various dates from December 22, 1999, to June 9, 2000. Additional evidence provided by a management and marketing (M&M) contractor showed that second mortgages were not filed on 16 of 17 closings from March 24, 2000, to September 13, 2000.

Our interim results indicate that a high proportion of homebuyers abused and defrauded the OND/TND Program. Seven of the 29 homebuyers we reviewed, or about 26 percent, violated 1 or more program requirements by renting, selling, or not living in the property. We also found strong indications that many other homebuyers may have violated program requirements. The OIG had 81 OND/TND homebuyers under investigation for suspected violations, including 5 who were convicted. HUD OND/TND Program staff in Headquarters estimated that 25 percent of all OND/TND homebuyers violated occupancy requirements after closing. Also, the Atlanta Homeownership Center began, but did not complete, a proactive monitoring effort that identified 12 homebuyers who were suspected of violating OND/TND occupancy requirements.

Preliminary recommendations include requiring closing agents and M&M contractors to review all closed OND/TND sales and file second mortgages where needed; establishing management controls to ensure that closing agents execute second mortgages on behalf of HUD on all OND/TND sales; developing a management control procedure to specifically monitor OND/TND homebuyers to ensure that they meet their continuing obligations throughout the 3-year occupancy term; and establishing a centralized log at Headquarters or at each Homeownership Center to record suspected violations, actions taken to confirm or clear the suspected violations, and cases referred to the OIG. (Report No. 2001-AT-0801)

Purchase Money Mortgage Amounts

In **Atlanta, GA**, during our ongoing audit of nonprofit organizations' participation in HUD's Single Family Programs, we discovered that the Atlanta Homeownership Center (HOC) was incorrectly calculating Purchase Money Mortgage (PMM) amounts to HUD's detriment. HOCs may make PMMs to nonprofit organizations to finance their purchase of homes from HUD's inventory of acquired single family properties. The nonprofits are required to repay the PMMs when they sell the properties to qualified buyers. However, we determined that the HOC over-financed all PMMs at 100 percent of the properties' discounted sales prices. The HOC should have calculated the PMMs at 85 percent of the discounted sales prices. As a result, all PMMs made by the Atlanta HOC were excessive by 15 percent. This exposed HUD to unnecessary risk.

On January 10, we met with Atlanta HOC officials and informed them that their method for calculating PMMs was incorrect and resulted in excessive PMM amounts. The HOC researched the issue and informed us that they agreed with our determination. On February 5, the HOC issued written instructions to its staff on the correct method for calculating future PMM amounts. The HOC's timely action to correct the calculation error should result in the determination of correct PMM amounts and reduce the risk to HUD for PMMs that may go into default or are foreclosed.

Closing Agent

In **New London, CT**, as part of a nationwide effort to review closing agents, the OIG audited HUD's closing agent, Waller, Smith & Palmer, P.C. (WSP), and found that HUD was overcharged \$20,347 for wire transfer and closing agent fees. This includes not only overcharges on wire transferring the proceeds from 392 HUD property sales to the Department of Treasury, but also improperly charging the full closing agent fee for 42 of a sample of 69 third party closings rather than the required 50 percent of the full fee. HUD may have also been overcharged an additional \$58,905, including \$54,540 in wire transfer fees that we believe were included in WSP's closing agent fee, resulting in a duplication of cost.

Although prohibited by its contract, WSP collects a 60 percent title insurance premium fee split for each case where it issues a title insurance policy on behalf of a specific title insurance company. In addition, WSP may be collecting duplicate fees for the same services required by both the closing agent contract and its agreements with title insurance companies. The Real Estate Settlement Procedures Act prohibits fee splitting and collecting unearned fees, including duplicate payments.

The audit also found that WSP did not comply with all of its closing agent contract requirements. Specifically, WSP did not always ensure that only allowable expenses were paid by HUD on the buyer's behalf. Furthermore, WSP did not deposit sales proceeds timely; wire sales proceeds to the Department of Treasury timely; or submit a complete closing package to CityWest New England, Inc., management and marketing contractor for HUD.

The audit recommended that the HUD Homeownership Center: (1) direct and ensure that WSP complies with the terms of its closing agent contract and HUD regulations; (2) require WSP to reimburse HUD \$20,347 for overcharges related to wire transfer and closing agent fees for the periods in question; (3) require WSP to provide support for fees earned from title insurance companies and to claim only actual costs up to 60 percent of the premium to comply with regulations; (4) instruct and ensure that WSP includes only allowable expenses in the amount HUD pays on the buyer's behalf; and (5) instruct and ensure that WSP submits a complete closing package in all cases. (Report No. 2001-BO-1002)

Financial Audits

Audit of HUD's Consolidated Financial Statements

On March 1, 2000, we issued a report on the audit of HUD's financial statements for the year ended September 30, 2000. We issued an unqualified opinion of those financial statements, but our overall report identified four material weaknesses and ten reportable conditions. (These numbers are inclusive of the one material weakness and three reportable conditions discussed in the FHA audit.) Most of these control weaknesses were reported in previous audits and represent long-standing problems. Our audit also disclosed three instances of noncompliance with laws and regulations.

HUD has been taking actions to address the weaknesses and in some instances has made progress in correcting them. Progress has been slow in large part because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Departmentwide in scope and must be addressed for HUD to more effectively manage its programs.

Four Reported Material Weaknesses

The Department's financial management systems, including its core financial system, do not fully comply with federal financial system requirements. In addition, weaknesses remain in the supporting financial systems and the Department continues to experience delays in integrating the financial systems. Management's plans for additional improvements are not clear and have not been supported by adequate analyses. The following financial management system deficiencies, which were reported in last year's report, were present during FY 2000:

Need to complete improvements to financial systems

- Several interfaces between subsidiary systems, such as FHA's subsidiary ledger, and the core financial system's general ledger either not automated or require manual analyses.
- Deficient FHA general ledger and subsidiary systems.
- Inability to support adequate funds control for FHA.
- Inadequate assurance about the propriety of Section 8 rental assistance payments.
- Inability to fully support the timely identification of excess funds remaining on expired project-based Section 8 contracts.

Need to improve oversight and monitoring of housing subsidy determinations

HUD relies on intermediaries to make rental subsidy calculations for the billions of dollars in subsidy payments made each year. Because of insufficient on-site monitoring of intermediaries and the absence of an ongoing quality control program to periodically assess the accuracy of rent determinations, we consider this a significant internal control risk. This material weakness relates to monitoring weaknesses that were first reported in our financial audit in 1991 and have been reported in every audit thereafter.

A recent study of rent determinations under HUD's major housing assistance programs estimates that errors made by intermediaries (project owners and housing authorities (HAS)) result in substantial subsidy overpayments and underpayments. The study was conducted to provide national estimates of the extent, severity, costs, and sources of errors occurring in the certification and recertification procedures used by HAS and owners in calculating tenant rents. Based on analyses of a statistical sample of tenant files, tenant interviews, and income verification data, the study concluded that on a monthly basis:

- 36 percent of all households paid at least \$5 less rent than they should (with an average error of \$105).
- 40 percent of all households paid the correct amount of rent within \$5 (29 percent paid exactly the right amount).
- 24 percent of all households paid at least \$5 more rent than they should have (with an average error of \$56).

Need to ensure that rent subsidies are based on correct tenant income

The study projected subsidy overpayments of about \$1.9 billion annually and underpayments of about \$0.7 billion. Payment errors of this magnitude take on added significance in light of HUD's estimate of 4.9 million households with "worst case housing needs" (unassisted very low-income renters who pay more than half of their income for housing or live in severely substandard housing).

HUD provides rent and operating subsidies through a variety of programs, including public housing and Section 8. The admission of a household to these rental assistance programs and the size of the subsidy it receives depend directly on its self-reported income. HUD performed computer income matching with its assisted housing universe and estimated that housing subsidy overpayments from tenants misrepresenting their income totaled \$617 million during calendar year 1999. Tenants often do not report income or under report income which, if not detected, causes HUD to make excessive subsidy payments. Tenant income is a major factor affecting eligibility for, and the amount of, housing assistance a family receives, and indirectly, the amount of subsidy HUD pays. Generally, HUD's subsidy payment makes up the difference between 30 percent of a household's

adjusted income and the housing unit's actual rent or, under the Section 8 Voucher Program, a payment standard.

*Need to enhance
FHA's information
technology systems
to more effectively
support business
processes*

FHA has 19 subsidiary systems that feed transactions to its commercial general ledger. The system lacks the capability to process transactions in the Standard General Ledger (SGL) format and provide required credit reform data. During FY 2000, FHA purchased a commercial "off-the-shelf" (COTS) SGL financial system to replace the current system and possibly an interim financial data warehouse. The warehouse will be used to convert the subsidiary system transactions to the SGL and credit reform basis prior to transfer to the FHA COTS system. FHA intends to implement the warehouse and COTS systems during FY 2002. Long range plans on how and which subsidiary systems can be made compliant by either enhancing them, replacing them with the COTS system, or retaining them for use with the warehouse conversion system are not clearly established.

FHA's purchase of the COTS system was to follow the Department's "System Development Methodology" (SDM), which required the completion of a feasibility study, a cost/benefit analysis and a risk analysis prior to the purchase. However, FHA did not adequately complete these studies and therefore cannot be assured that the system selected will effectively or efficiently meet its objectives. For the last 2 years, we reported that frequent financial system project and strategy changes have resulted in schedule delays and cost overruns. After spending more than \$206 million over 8 years, HUD continues to rely on legacy systems.

*Ten Reportable
Conditions*

The audit disclosed ten additional "reportable conditions" in internal controls in FY 2000 related to the need to:

- refine performance measures to effectively implement results management;
- improve control over project-based subsidy payments;
- strengthen controls over HUD's computing environment;
- overhaul personnel security for systems' access;
- address risks with the reliability and security of HUD's critical financial systems;
- improve processes for reviewing obligation balances;
- tighten controls over Fund Balance with Treasury reconciliations;
- enhance the design and operation of controls over FHA's information systems security and application data integrity;
- continue to place more emphasis on early warning and loss prevention for FHA single family insured mortgages; and
- sufficiently monitor and account for FHA's single family property inventory.

*Compliance
with Laws and
Regulations*

Our findings also included the following instances of noncompliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). In this regard, HUD's financial management systems did not substantially comply with (1) federal financial management systems requirements; or (2) the U.S. Standard General Ledger at the transaction level.

- HUD did not comply with the U.S. Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998. Specifically, HUD has not timely or properly enforced the Act's requirements for the timely expenditure and obligation by housing agencies of public housing modernization funds. As discussed later, HUD disagrees with our conclusion and we have referred the matter to the Comptroller General of the United States.
- Certain FHA contract obligations are allocated between FHA's program and liquidating funds based on the nature of the services to be provided. Limits have been set by appropriation law regarding the amount of administrative costs that may be charge to FHA's program accounts. The allocation methodology that FHA has currently applied for certain contracts may require refinement, to better reflect the relationship of the services to specific programs. Such reallocation would result in a matter of noncompliance with the Anti-Deficiency Act, as of September 30, 2000, relating to FHA's Mutual Mortgage Insurance Program account. (Report No. 2001-FO-0003)

Audit of FHA's Financial Statements

On March 1, 2001, we issued our report based on KPMG LLP's audit of the FHA's financial statements for the year ended September 30, 2000. KPMG expressed an unqualified opinion on these statements. The report identifies one material weakness involving the need for FHA to improve information technology systems in support of business processes and three reportable conditions including the need for enhanced security over data, improved progress on early warning/loss prevention activities and better monitoring and accounting for single family property inventories. The material weaknesses were discussed and reportable conditions were listed above in our write-up on the consolidated audit.

While each of these internal control deficiencies was reported in FHA's prior financial audit, we are seeing progress in resolving the problems. Additionally, four reportable conditions in FY 1999 are no longer reported in FY 2000. Those FY 1999 reportable conditions were: (1) controls over budgetary funds and funds control must by improved (a prior year material weakness); (2) FHA must continue to place more emphasis on early warning and loss prevention for Multifamily insured mortgages (a prior year reportable condition); (3) FHA must continue actions to safeguard and quickly resolve Secretary-held Single Family mortgage notes (a prior year reportable condition); and (4) FHA must improve its review process for estimating reserves for the insured portfolio (a prior year reportable condition).

Also, for the first time, this year's FHA financial audit recognizes the potential geographic concentration of fraud risk in origination activities. These fraudulent activities could be recognized as unexpected future claims and defaults against FHA's mortgage insurance funds. These geographic areas of fraud risk have been identified by HUD program staff and through the OIG's recent audit and investigative focus on FHA single family operations at various locations throughout the country. (Report No. 2001-FO-0002)

Audit of Ginnie Mae's Financial Statements

The audit of the Government National Mortgage Association (Ginnie Mae) financial statements was issued February 20, 2001. This audit was also conducted under contract with KPMG. The audit found the financial statements presented fairly, in all material respects, Ginnie Mae's financial position as of September

30, 2000, and results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles. Additionally, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of noncompliance with laws and regulations. This is the fifth year that Ginnie Mae has had an unqualified opinion with no reported internal control weaknesses. (Report No. 01-FO-177-0001)

Other Significant Audits

Information Technology

Based on the results of the OIG's FY 1999 financial statement audit, which resulted in a disclaimer of opinion, the OIG audited HUD's Central Accounting and Program System (HUDCAPS) in **Washington, DC**. The disclaimer was given, in part, because of HUDCAPS system control weaknesses and Program Accounting System (PAS) to HUDCAPS conversion problems. The audit found significant internal control deficiencies that must be addressed. Specifically:

HUD's Central Accounting and Program System

- Implementation of Configuration Management (CM) for HUDCAPS has been continuously delayed. The OIG has reported on this weakness for several years. HUD has not fully implemented CM for HUDCAPS, despite having purchased a CM tool over 6 years ago. As a result, HUDCAPS remains exposed to errors and system failures from uncontrolled software changes and incorrect version releases. Another deficient maintenance practice is the lack of formal and tested procedures for the restoration process in the event of a system processing disruption. We also had a concern regarding the lack of procedures to promptly resolve system and user problems.
- We found that the Decision Support System (DSS) data was not periodically reconciled with the data in the HUDCAPS production tables to ensure accuracy and completeness. Without periodic reconciliation, there is no assurance the DSS is reliable. Another data integrity control deficiency is the lack of controls over the use of the UTTCOR utility (a system utility that can be used to resolve data discrepancies). Access to this utility had been granted to over 20 contractor and HUD personnel. Without limiting the use of UTTCOR, HUDCAPS data are exposed to unauthorized changes. The third deficiency is that the rejected transactions in the HUDCAPS Document Suspense File were not resolved in a well-timed manner and the posting model for the PAS to HUDCAPS interface was not punctually updated. In addition, HUDCAPS has not been regularly updated to reflect legislated changes.
- HUD spent at least \$188,000 for a contractor to develop procedures for the FYs 1999 and 2000 cash reconciliation efforts. This investment was neither cost effective nor efficient. The reconciliation procedures developed involved numerous manual steps that are inefficient and susceptible to data errors or omissions.

HUDCAPS can be a reliable financial management system if the Department is willing to invest the time and resources to correct the deficiencies identified in this audit. In particular, the Department must complete the configuration management implementation for HUDCAPS, implement controls to protect the integrity of the data, and use already developed automated functionality for assisting in the cash reconciliation process. (Report No. 2001-DP-0002)

***HUD
Entity-wide
Security
Program***

The Clinger-Cohen Act requires the head of every executive agency to ensure that the information security policies, procedures, and practices of the agency are adequate. Despite the magnitude of HUD's systems in terms of dollars and transactions processed, and prior reported security weaknesses, an OIG audit found that HUD's security practices are still deficient. HUD has not adequately planned and managed an entity-wide security program to ensure that its critical information system resources are protected from accidental or intentional loss or damage. Specifically, we found that: (1) risks are not adequately assessed and managed on a continuing basis; (2) security plans are either not documented or not kept current; (3) incident tracking, reporting, and response capability need improvement; (4) an effective training and awareness program is not in place; and (5) HUD's Critical Infrastructure Protection Plan, prepared in accordance with Presidential Decision Directive (PDD) 63, is inadequate and out of date. PDD 63 calls for a national effort to assure the security of the nation's critical infrastructures, especially our computer based systems. These weaknesses continue to expose HUD's critical information resources to loss or damage.

Currently, responsibility and accountability for information security within the Department is fragmented and decentralized. In addition, HUD has not placed sufficient priority nor devoted adequate resources toward establishing an effective security program. The establishment of the Office of the Chief Information Officer (CIO) almost 2 years ago provided an opportunity for the Department to raise the priority and support for information security. However, the CIO has not fulfilled the management void in this critical area. Since the CIO reports directly to the Secretary, that office is in the best position to provide the necessary leadership, oversight, and enforcement for information security. Our audit therefore recommended that the Deputy Secretary assign the CIO full responsibility and accountability for information security and allocate adequate resources to establish an effective entity-wide security program. The Deputy Secretary should also transfer information security responsibilities, with the exception of password and user identification administration, from the Office of Information Technology to the Office of the CIO. In addition, the audit recommended several actions that the CIO should take after assuming full responsibility for information security. (Report No. 01-DP-166-0001)

***Internet
Privacy
Status***

In **Washington, DC**, the OIG conducted a review to determine whether the Department or any third parties, including other governmental agencies, are obtaining personally identifiable information relating to any individual's access or viewing habits for governmental or non-governmental Internet sites. The OIG determined that the Department has not been collecting personally identifiable information on HUD Internet users. However, there are areas needing improvement. Management oversight to ensure adequate privacy on HUD's Internet web pages should be strengthened, the standard privacy statement needs strengthening, and all HUD contracted sites should have hyperlinks to the statement.

Under current policies, individual web managers of program areas are responsible for the content of their web sites. There is no requirement for management review or oversight of web contents to ensure that all of the Department's Internet web pages adhere to federal privacy legislation. Although we did not find any persistent "cookies" (mechanisms that allow the Internet server to store its own information about a user on the user's own computer), there is no assurance that future web pages would protect the privacy of those accessing HUD Internet web pages. Another concern we have is about the content and availability of HUD's privacy statement. This statement lacked a disclaimer on security to inform users that there are inherent risks of unauthorized access to personally identifiable information on the public Internet. An example of a security disclaimer is "...due to the nature of the Internet and the World Wide Web, we cannot assure the security of the information during transmission by electronic mail over the public Internet." With respect to availability of the privacy statement, we observed 45 of 122 indexed web pages, which can be directly accessed from the site index on the main page, did not have a hyperlink to the standard privacy statement. HUD's web manager did indicate that all indexed web pages would be linked to HUD's standardized privacy statement. We also determined that the six HUD contracted sites (such as Community Connections) we examined were not linked to HUD's privacy statement. In addition, we noted a minor deficiency with the placement of the hyperlink. The hyperlinks to the privacy statement are placed on the lower right side of the web page, which is not a conspicuous location.

The audit recommended that HUD: (1) update the Internet policy to require that the Department's Web Manager conduct periodic management reviews to ensure adequate privacy on HUD's Internet web pages, including those web pages on HUD's contracted sites; (2) add appropriate disclaimer comment(s) on security to HUD's privacy statement; (3) ensure that all HUD indexed web pages and contracted Internet web sites include a hyperlink to the Department's standardized privacy statement; and (4) consider placing the hyperlinks to the privacy statement on the top left side of the web pages rather than on the lower right hand corner. (Report No. 2001-DP-0801)

Internal Controls Over Annual Performance Data

In **Washington, DC**, the OIG reviewed the internal controls over HUD's FY 1999 annual performance data to determine what internal controls HUD has established to ensure the accuracy and reliability of data presented in its FY 1999 Annual Performance Report (APR). Many of the performance indicators we reviewed contained data that were estimated by HUD offices. Offices estimated the data because they did not have current data or did not have confidence in their data to give an accurate description of accomplishments. Although the estimates may have given a better picture than the data offices actually had, these offices cannot attest to the accuracy and reliability of the performance data presented in the FY1999 APR.

Data for some performance measures were inaccurate. Some of the inaccuracies occurred because offices did not review a draft of the APR which was provided to them. Others occurred because systems that accumulate performance data were updated after data were extracted for the APR. Because of these inaccuracies, a clear picture of accomplishments is not being reported in the APR.

HUD has not set Departmentwide standards for criteria that determine data quality and direct data clean-up efforts. As part of the data clean-up effort, a

guidebook was published which established a process for determining data cleanliness based on six criteria. Although the guidebook establishes definitions for these criteria, it falls short of setting a standard for each criterion that program offices can follow to determine cleanliness of data. Without this, HUD offices do not have standards for criteria that determine data quality and serve as a basis to direct data clean-up efforts as well as to formulate data quality plans.

In our audit, we made specific recommendations to each HUD office, as appropriate, for improving data quality. We also recommended that HUD's Chief Financial Officer implement data quality standards for systems and/or data elements that support performance indicator data, require that data quality plans based on these standards be formulated for all HUD data systems and/or elements that produce performance indicator data, and implement the methodology for performing independent verification of data with a high priority for elements that produce performance data. In general, the Deputy Chief Financial Officer and cited HUD offices agreed with our findings and recommendations and stated that actions have been taken or are planned to strengthen internal controls over data quality. (Report No. 2001-FO-0004)

Fair Housing and Equal Opportunity Programs

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

Fair Housing Initiatives Program

The OIG audited the FY 1998 Fair Housing Initiatives Program (FHIP), National Focus Education and Outreach Competition, in **Washington, DC**, as a result of allegations disclosed during our review of the Use of Fair Housing Initiatives Program Funds. The allegations were that the former HUD Chief of Staff significantly changed the statement of work during negotiations, after Consumer Action of San Francisco had been selected as the grantee. Specifically, the allegations were that: (1) the negotiation process may have resulted in unfair competition because the final negotiated statement of work was materially different from the activities in Consumer Action's application; (2) during negotiations, former officials from the Secretary's Office tried to steer the project requirements to BBDO, the contractor for the FHA media campaign; (3) the Secretary's Office directed BBDO to perform oversight of Consumer Action's media campaign but BBDO did not separately bill for this function; and (4) the Secretary's Office required Consumer Action to develop fair housing storyboards before the grant was signed. Our review determined that the focus and scope of the \$2 million FHIP project were significantly changed after Consumer Action had been selected to receive the award. This condition occurred because the Secretary's Office used undue influence over FHEO grant officials.

National Focus Education and Outreach Competition

We recommended that the Secretary review these matters and make a determination for addressing the improprieties identified in the report. Improprieties include changing project scope after selecting recipients, circumventing the

Government Technical Representative's (GTR) authority, directing unauthorized contracting actions, and causing recipients to incur pre-award project costs and other excess costs. We also recommended that the Secretary implement a corrective action plan for preventing these improprieties from recurring. (Report No. 2001-AO-0801)

*Grant Administration
Process Weaknesses*

Following allegations disclosed during our review in **Washington, DC**, of the Use of Fair Housing Initiatives Program Fund, the OIG reviewed FHIP Grant Administration Process Weaknesses. Although we attributed the root cause of the allegations to the undue influence of the former Secretary's Chief of Staff and a Senior Advisor (see Report No. 2001-AO-0801 above), we also found deficiencies in the way FHEO officials administered the award to Consumer Action of San Francisco. Specifically, FHEO's cooperative agreement with Consumer Action did not disclose HUD's substantial involvement in the FHIP project activities. In addition, FHEO did not timely negotiate its FY 1998 FHIP National Education and Outreach Project with Consumer Action. We believe these conditions occurred because the grant officer did not amend the agreement as directed in the policy governing cooperative agreements. Also, the grant officer did not coordinate with the GTR during the negotiation process, nor had FHEO developed and implemented timeframes for completing negotiations.

We recommended that the Assistant Secretary for Fair Housing and Equal Opportunity ensure that HUD's level of involvement is clearly defined in all cooperative agreements; ensure that the grant officer enforces his/her oversight and monitoring responsibilities when administering cooperative agreements; establish realistic timeframes for completing the negotiation process; and ensure that the GTR and grant officer coordinate their reviews of the statement of work during the negotiation process. (Report No. 2001-AO-0802)

Chapter 4

Investigations



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

Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations disclosed criminal equity skimming under Operation Safe Home, as well as an insurance kickback scheme and a case involving conspiracy to commit program fraud and money laundering.

Equity Skimming

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

Ellard Robert Silva, Jr., management agent of the Villa San Carlos Garden Apartments, a HUD insured multifamily housing complex in **San Jose, CA**, was sentenced to 3 years probation and 6 months house arrest and ordered to pay \$27,114 in restitution. A civil judgment in the additional amount of \$31,003 was also filed against Silva in Federal District Court. Silva converted approximately \$57,000 in project funds to his own use and/or to the use of family members or friends. This investigation was conducted by the OIG Offices of Investigation and Audit.

Charles H. Harvey, general partner of Woodbrook Associates in **Indianapolis, IN**, was debarred from transactions with HUD for a period of 3 years by HUD's Enforcement Center. The debarment is based on a civil judgment obtained against Harvey in U.S. District Court for violation of the HUD Regulatory Agreement in connection with the administration of Woodbrook Apartments. An OIG investigation disclosed that Harvey improperly used FHA insured project funds for payments to related parties, bankruptcy related expenses of the partnership, partner-

ship secretarial services, and partner travel expenses. Harvey was previously ordered to pay \$219,442 to the government.

The U.S. Attorney's Office for the Southern District of Indiana negotiated a payment of \$85,000 to the Department of Justice on HUD's behalf to settle a civil claim against Franklin Park Apartments, a HUD insured multifamily complex in **West Lafayette, IN**. An OIG investigation disclosed unauthorized payments to the project partners as well as unauthorized payments of non-project expenses totaling approximately \$68,000.

Other Significant Investigations

Two corporations pled guilty to charges involving an insurance fee kickback scheme related to low-income housing projects located throughout the country. Management Assistance Group, Inc. (MAGI), headquartered in **Los Angeles, CA**, was owned and controlled by two individual partners, Deane Earl Ross and A. Bruce Rozet. MAGI wholly owned a subsidiary corporation, Associated Financial Corporation, Inc. (AFC), a Delaware corporation. PL Acquisition, Inc. (PL), a California corporation, was owned by Lawrence F. Penn and headquartered in Los Angeles. PL worked closely with and acted as agent for MAGI and AFC. PL, MAGI and AFC were headquartered in the same suite of offices. Prior to forming PL, Lawrence F. Penn was the executive vice president, treasurer and chief financial officer of AFC.

MAGI controls various partnerships that, in turn, own, operate and control approximately 160 HUD subsidized multifamily housing projects located throughout the United States. MAGI pled guilty to aiding and abetting its agents in embezzling, stealing, obtaining by fraud and otherwise without authority, knowingly converting to the use of another and intentionally misapplying approximately \$3.4 million in insurance fees collected under a master policy from HUD projects controlled by MAGI and its affiliates.

PL pled guilty to knowingly and willfully soliciting and accepting approximately \$3.4 million in kickbacks from insurance brokers in connection with the provision of insurance for various housing projects insured and subsidized by HUD. PL, with the knowledge of defendant MAGI, directed insurance brokers to include added fees in the insurance bills sent to hundreds of HUD subsidized projects. These added fees were not separately billed but were instead included as part of the insurance premiums. The mortgagees and HUD did not know about these added fees.

MAGI and PL were ordered to pay a criminal fine of \$1 million each and civil penalties, damages, and restitution to the United States totaling \$8.125 million in accordance with a separate civil consent judgment. The civil consent judgment was a result of the global settlement agreed to by the United States and MAGI, PL, and affiliates. On May 8, 1997, a civil complaint was filed against A. Bruce Rozet and his affiliates alleging that owners and general partners of HUD assisted or financed properties solicited and received monetary kickbacks from certain management companies in exchange for securing property management contracts with the project owners. Specifically, the project owners granted the management companies the exclusive right to manage certain HUD projects in exchange for receiving 33-1/3 percent of all monthly management fees earned by management companies under the contract. The kickbacks paid to the project owners out of management fees received from HUD constituted illegal distributions in violation of the project owners' obligations under their Regulatory Agreements with HUD.

On March 2, 1998, the civil complaint was amended to add counts for false claims, equity skimming, and kickbacks involving insurance for the projects controlled by AFC or Penn. All Defendants denied the allegations in the civil complaint and the amended civil complaint, and the consent judgment is not an admission of liability or wrongdoing.

Both companies will be placed on probation for 3 years. HUD, HUD OIG, and the U.S. Probation Office will oversee certain aspects of the corporations' functioning as specified in the plea agreement. Additionally, Ross, Rozet, and Penn individually, and on behalf of their respective companies, entered into an agreement with HUD in which they have 3 years to give up all of their general partnership and any other controlling interests they may have in any HUD insured or subsidized housing program. PL was suspended by HUD; this suspension will remain in force for 3 more years. AFC and its affiliates (including A. Bruce Rozet and Dean Earl Ross) agreed there would be no new business with HUD for a period of 10 years.

This case marks the first time criminal activities were prosecuted identifying HUD Multifamily Regulatory Agreements and Housing Assistance Payments Contracts as "prime contracts" as defined in Title 41, United States Code, Section 58. The pleas and sentencings capped a 5-year investigation by the OIG, the FBI, HUD's Enforcement Center, the Commercial Litigation Branch of the Civil Division of the Department of Justice in Washington, DC, and the Criminal and Civil Divisions of the U.S. Attorney's Office in San Francisco, CA.

In **Norfolk, VA**, former property manager LuAnne Wade was sentenced to 24 months incarceration and 36 months supervised release. Her husband, Jerry, was sentenced to 41 months incarceration and 36 months supervised release. They were also ordered to pay a total of \$541,755 in restitution to HUD. LuAnne Wade pled guilty in December 2000 to one count of conspiracy to commit program fraud, while her husband pled guilty in January 2001 to one count of conspiracy to commit money laundering. LuAnne Wade formerly managed the Stuart Gardens Apartments, a 489-unit subsidized development. In 1994, she and her husband initiated a fraudulent scheme to divert federal funds by creating false invoices and purchase orders for plumbing contract work purportedly performed at Stuart Gardens. LuAnne Wade then issued monthly checks ranging from \$2,000 to \$10,000 as payment for the bogus plumbing work, enlisting the help of several of her acquaintances to cash the bogus checks for which they received payment. This was a joint investigation by OIG and the FBI.

In **Portland, OR**, Kailia Durham, a former Housing Our Family financial manager, was sentenced to 36 months incarceration and 3 years supervised probation, and was ordered to pay \$23,363 in restitution and a \$100 special assessment fee. Durham embezzled from accounts that included HUD funds. Housing Our Family is a nonprofit entity that received HUD funding under several programs, including the Multifamily Preservation and Drug Elimination Programs. Durham previously pled guilty to 2 counts of embezzlement, and is currently serving a 15-month sentence for embezzlement from a local public radio station. She will be given credit for state time served; federal time is to be served concurrently. This was a joint OIG/FBI investigation.

Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local government pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary and in good repair.

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

Fraud in Public Housing Administration

Three individuals were sentenced in Federal District Court for their roles in a scheme to solicit and take bribes in exchange for Section 8 certificates and public housing units administered by the **San Francisco, CA** Housing Authority (SFHA). Patricia Williams, the former SFHA manager of relocation and support services, who was convicted of 30 felony counts of conspiracy, bribery, and false statements in September 2000, was sentenced to 63 months incarceration, 3 years supervised release, \$503,721 in restitution, and a \$3,000 special assessment. Yolanda Jones, another SFHA employee who became a government witness, was sentenced to 18 months in federal detention, 3 years supervised release, restitution of \$485,825, and a \$1,000 special assessment. Ena Coleman, a former SFHA public housing resident who pled guilty to charges including bribery of SFHA staff, was sentenced to 12 months and 1 day in federal detention, 3 years supervised release, \$38,519 in restitution, and a \$400 special assessment. The sentencing Judge likened the sale of Section 8 vouchers and public housing units by SFHA staff to the type of corruption typically associated with third world countries. To date, 22 individuals have pled guilty and/or have been convicted as a result of this joint investigation into public corruption at the SFHA conducted by the FBI and OIG Offices of Audit and Investigation.

Hazel Ann Mike, former executive director of the **Moapa, NV** Indian Housing Authority, was sentenced to 10 months incarceration and 3 years supervised release, and was ordered to pay \$37,268 in restitution to the Authority and a \$200 special assessment. Mike previously pled guilty to two counts of embezzling money from the Housing Authority. She had been charged in a 75-count indictment with embezzling money from the Authority between May 1995 and March 1997. Mike, who had worked for the Authority since 1980, assumed the position of executive director in 1986. She embezzled the money by processing additional payroll checks for herself. This was an OIG investigation.

In **Houston, TX**, Glenda Harrington, former executive director of the Tenaha Housing Authority, was sentenced after pleading guilty to one count of theft or

bribery involving a government program. An OIG investigation disclosed that Harrington embezzled \$23,000 in cash from tenant receipts that were never deposited in the proper account. She was sentenced to 3 years supervised release, which is below the sentencing guidelines, based on the “extraordinary circumstances” that she repaid \$18,000 at the time of sentencing.

Sheila Addison, a former housing specialist at the City of **Fairfield, CA** Housing Authority, was sentenced in Solano County Superior Court for embezzling \$12,704. Addison charged tenants of the housing authority additional rents that she then kept for herself. She was sentenced to 90 days incarceration, 3 years probation, and fined \$450. Addison had already repaid the embezzled funds. The investigation was conducted by the Fairfield Police Department with assistance from the OIG.

Phyllis Richardson, the former executive director of the **Sanford, FL** Housing Authority, was sentenced to 4 months home confinement and 2 years probation, and was ordered to pay \$4,500 in restitution to the Housing Authority and a \$100 special assessment. Richardson previously pled guilty to submitting false documents to the Authority in order to cover up the bargain sale of a Ford Explorer that the Authority sold to Richardson’s son. An OIG investigation disclosed that Richardson purchased a Ford Explorer from an Orlando, Florida dealership to be used for Housing Authority business. A few months after the purchase, Richardson, on behalf of the Housing Authority, sold the vehicle to her son at a price estimated to be at least \$4,500 below fair market value. To disguise the sale, Richardson had a friend who worked at a car dealership prepare and submit to the Authority false documents which made it appear that Richardson had traded the Explorer as an even trade for a Dodge passenger van.

In **Kennett, MO**, Laverne Moore was sentenced to 4 months imprisonment, 4 months home confinement, and 3 years probation, and was ordered to pay \$2,589 in restitution to HUD and \$12,580 to Section 8 residents. Moore, the site manager at Kennett Apartments, overcharged Section 8 residents for their portion of the rent and kept the money for her personal use. She also falsified documents under a nominee name to make herself eligible for Section 8 rent subsidy. Moore was charged with and pled guilty to submitting false statements. This was an OIG investigation.

James S. Williams, the former maintenance supervisor for the Housing Authority of **Homer, LA**, was sentenced for theft or bribery concerning programs receiving federal funds. Williams received 4 months incarceration and 3 years supervised release, and was ordered to pay \$14,158 in restitution. Kerry L. Sims, former executive director of the Housing Authority of the Town of Homer, pled guilty to one count of theft or bribery concerning programs receiving federal funds. The pleas resulted from a joint investigation by OIG and the FBI which disclosed that Sims diverted \$86,488 in Authority funds and that Williams received \$14,158 in Housing Authority funds for work that was not completed. Williams returned a portion of each check to Sims.

Patricia Goodhue, former property manager of the **Asheville, NC** Housing Authority, pled guilty to 4 counts of embezzlement and was sentenced to 8 months in prison and 3 years probation, and was ordered to pay \$11,784 in restitution. Goodhue used Asheville Housing Authority petty cash and accounts to pay for personal expenses. She admitted that she conducted this fraudulent activity for approximately 2 years. This case was investigated by the Asheville Police Department and OIG.

Linda George, former executive director of the Housing Authority of the Town of **Hanna, WY**, was served with a state criminal complaint and arrested for felony larceny in connection with the embezzlement of funds from the Authority. Specifically, she embezzled funds from the Comprehensive Improvement Assistance Program and the general operations account for salary advances and personal loans. Following a plea agreement, George was sentenced to 3 years supervised probation and ordered to pay restitution of \$3,228 to the Authority.

In **McRae, GA**, Mark Joiner, the former regional administrator of the Georgia Housing and Finance Authority, and Craig Selph, a Section 8 landlord, pled guilty to defrauding HUD. A federal grand jury returned a 29-count indictment against Joiner and Selph in December 2000. The indictment charged the two with conspiracy, mail fraud, false statements, HUD fraud, and submitting false claims to HUD. The indictment alleged that Joiner knowingly approved false Section 8 applications submitted by Selph. The Section 8 applications reflected a “tenant rent burden” preference, which was then approved by Joiner. Selph received \$425,000 in Section 8 benefits as a result of the scheme. The investigation was conducted by the FBI and OIG.

Freddy Valentin, a former Senator for the Commonwealth of **Puerto Rico**, pled guilty to conspiracy to commit extortion and money laundering. The charges resulted from Valentin’s accepting kickbacks in exchange for using his political influence to resolve difficulties that had arisen in contracts with the Office of the Liquidation of Assets of the Puerto Rico Urban Renewal (OLAPRUR) and the Puerto Rico Ports Authority (PRPA). Valentin was previously indicted on 44 counts of soliciting \$96,000 from contractors Jose Luis Diaz and Juan E. Mayol Alicea. Diaz and Mayol paid the Senator over \$20,000 in kickbacks for the Senator’s promise to resolve difficulties with the contractors’ efforts to purchase the Extension Los Robles property for the OLAPRUR and over \$75,000 in exchange for the Senator’s promise to resolve difficulties with the contractors’ efforts at the Tropical Acres project, located near the Ramey Air Force Base in Aguadilla, to remodel and sell low-income housing units. Diaz and Mayol pled guilty to conspiracy to commit extortion. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

In a separate case, three former employees of the Department of Liquidation for CRUV (OLACRUV), the predecessor of the Puerto Rico Public Housing Authority, have been indicted along with two contractors. The OLACRUV employees used their influence to award contracts for the renovation and construction of housing units at the PRPHA. This investigation was conducted by the FBI and the OIG Offices of Investigation and Audit.

Jeffrey A. Brickett, former executive director of the **Williamson, WV** Housing Authority, pled guilty to obstruction of a federal audit as the result of an 18-month investigation into allegations that he converted Public Housing Drug Elimination Program grant funds to personal use. Brickett furnished false invoices and health club client lists to auditors conducting a review of the Authority's FY 1999 operations in an effort to cover up his improper authorization of payments to the health club from Authority funds. Brickett was the owner of a health and fitness club where from January 1998 to March 1999, he, through the health club, fraudulently billed the Authority for \$25,699 in membership dues. These dues were allegedly for 160 Authority residents. The investigation disclosed that the health club was having financial difficulty and the fraudulent membership fees guaranteed that the health club could stay in business. The Authority's board of commissioners had not approved any tenant memberships. This was a joint OIG and FBI investigation.

Audley Evans, the former executive director of the **Tampa, FL** Housing Authority, was convicted of conspiracy, bribery, accepting gratuities, and false statements. Evans' convictions included making false statements to HUD concerning the housing quality standards of Authority developments. Clyde Chapman, a contractor doing business with the Authority, was convicted of making gratuities. A jury found Chapman guilty of paying Evans \$175,000 in gratuities pertaining to \$20.6 million in contracts with the Authority. One other contractor and the former Authority deputy director previously pled guilty to counts of bribery and false statements and to counts of false statements and misprision of a felony, respectively. In addition, Evans, Chapman, and a physician/officer in a company previously receiving Authority work received suspensions from future participation in procurement and non-procurement transactions as participants, principals, or contractors with HUD and throughout the Executive Branch of the Federal Government. The suspensions also included three related companies. The investigation of Chapman was conducted by the OIG Offices of Investigation and Audit. The investigation of Evans was conducted by the OIG Offices of Investigation and Audit, the FBI, and the IRS.

James W. Graydon, a former maintenance supervisor for the Village of **Hempstead, NY** Housing Authority, was found guilty of conspiring with James McKay, the former director of public relations for the Nassau County Economic Opportunity Commission, to use Graydon's position to extort over \$27,000 in cash kickbacks from a local contractor who performed maintenance and repair work at the Authority. McKay has already pled guilty and is awaiting sentencing. Graydon was also found guilty of 2 counts of extortion and 2 counts of bribery in connection with his demands for cash kickbacks totaling over \$36,000 from 2 other contractors hired by him to provide maintenance and repair services at the Authority. In addition, Graydon was found guilty of three counts of filing false tax returns. This investigation was conducted by the FBI, IRS and OIG.

The former chief executive director (ED) of the Cuyahoga Metropolitan Housing Authority in **Cleveland, OH**, and the former chief operating officer were indicted on one count of conspiracy, one count of theft of public funds, and one count of false statements to influence a federally insured bank. In addition, the

former chief ED was charged with one count of mail fraud, while the former chief operating officer was charged with one additional count of theft of public funds. The indictment alleges that the two conspired and later individually committed acts which allowed them to fraudulently utilize Authority funds for personal use, including paying off the ED's rental property in Virginia and/or depositing Authority funds directly into the chief operating officer's personal bank account. Between the 2 individuals, more than \$350,000 was alleged to have been misappropriated from the Authority. This investigation was conducted by the FBI and OIG.

The former executive director (ED) of the **Tuskegee, AL** Housing Authority was indicted by a federal grand jury on eight counts of embezzlement and one count of money laundering. The ED allegedly embezzled over \$349,000 in Authority funds for his personal use. The ED was also charged in a money laundering scheme involving \$181,427 of the \$349,000 he allegedly embezzled. This was an OIG investigation.

A former accounting clerk for the Housing Authority of the City of **Texarkana, TX**, and her spouse were indicted on 13 counts of embezzlement, conspiracy, unlawful use of means of identification of another person, and false use of a Social Security number. The indictments resulted from an OIG investigation which determined that the former accounting clerk stole six checks from the Authority, and the spouse used a false State of Arkansas identification card to cash the checks. Four of the checks were cashed for a loss to the Authority of \$3,521. The individuals attempted to cash a fifth check for \$887, but the check was confiscated when the manager of the check cashing outlet attempted to verify the check. A stop payment was placed on the final check by the Authority. Arrest warrants were issued for both individuals.

In **Anchorage, AK**, a former president and a former treasurer of the Stony River Alaska Traditional Council were indicted on one count each of bank fraud. The indictments were the result of a joint investigation by the FBI and OIG which disclosed that the 2 officers allegedly removed \$24,000 of Stony River housing project funds from the bank and used the funds to their own benefit.

A former member of the McCracken School Board in **Paducah, KY**, was indicted by a state grand jury for failing to report income derived from her employment as a school teacher on her public housing tenant certification forms. This was an OIG investigation.

OIG and FBI Agents arrested the former director of finance for the **Wilmington, DE** Housing Authority and three other individuals. All 4 were charged with embezzlement and conspiracy and face up to 15 years imprisonment and \$250,000 in fines. Over a period of 3 months, the former director allegedly carried out a fraud scheme that included the creation of false vendors and contracts in the names of his co-conspirators. The fictitious vendors provided no work or services for the Authority. The former director approved and issued 6 checks for payments totaling \$53,905. These payments were made to his co-conspirators who, in turn, laundered the funds through various local bank accounts. The funds were then converted to personal use. The former director also processed all of the

check documentation to avoid detection. The arrests, which resulted from an 18-month joint investigation by the FBI and the OIG Offices of Audit and Investigation, received extensive media coverage.

An ex-prison guard and his three co-conspirators were arrested by OIG Agents, Delaware County Criminal Investigation Division Detectives, and **Chester, PA** Housing Authority Police Officers for operating a fraudulent check cashing scheme that siphoned at least \$12,200 from the Chester Housing Authority over a 5-month period. The ex-guard and his co-defendants were charged with multiple violations of Pennsylvania State criminal conspiracy, theft, and forgery laws. An investigation disclosed that the former guard, who previously resided in public housing, supplied his co-conspirators with numerous fraudulent Housing Authority checks as well as checks drawn on the accounts of other local companies that he allegedly created by using a computer. The checks were made payable to the various co-conspirators who negotiated them and shared the proceeds.

Tina Jones, an employee of the **Helena, AR** Housing Authority, was arrested on state charges of theft of property. The arrest and charges are the result of an OIG audit and investigation which disclosed that \$42,310 was missing from the Authority's rent rolls. Jones admitted taking rent monies from residents and providing handwritten instead of computer generated receipts. She also admitted posting credit memos in computer records to offset rental amounts which would zero out the balances due.

Other Investigations

In **Pittsburgh, PA**, former Section 8 recipient Joyce Emerick and her ex-husband, Robert Emerick, were sentenced for their conviction on mail and wire fraud charges associated with defrauding HUD and the Social Security Administration. Joyce Emerick received both Section 8 and Social Security disability benefits for 14 years, during which time she failed to declare her ownership of a Florida vacation home and other assets and income, including eight automobiles. She also failed to disclose that Robert Emerick lived with her at her Section 8 residence during the entire 14-year period. In addition to court ordered restitution of over \$81,000 to HUD and the Social Security Administration, Joyce Emerick was sentenced to 6 months home detention and 5 years of probation, while Robert Emerick was sentenced to 5 months in jail, 5 months home detention with electronic monitoring, and 3 years probation. This was a joint investigation by the HUD and Social Security Administration OIGs.

Gerri Gordon, a former Section 8 housing assistance recipient with the Housing Authority of the City of **Los Angeles, CA**, was sentenced to 4 months in jail and 3 years probation, and was ordered to pay \$32,793 in restitution to the Authority. Gordon collected Section 8 subsidies from July 1986 through July 1995 while claiming to be a resident of a property that she actually owned but rented out to another tenant. She also failed to disclose to the Authority that she owned a construction company and a consulting firm. This was an OIG investigation.

Edward J. Kravitz, the former controller for a major plumbing and heating contractor to the Chester Housing Authority in **Philadelphia, PA**, was sentenced to 6 months confinement and 4-1/2 years probation, and ordered to pay \$25,000 in

restitution to an insurance company. No additional restitution was ordered due to the defendant's financial inability to pay more. The sentencing stemmed from Kravitz's role in a conspiracy to defraud the insurance company retained to provide performance and payment bonds for mechanical work awarded to the contractor. Kravitz was involved in an 11-month bond conversion conspiracy with the contractor president. They conspired to falsely inflate the contractor's payroll reports, thus enabling them to receive about \$85,000 in excess payments. The insurance company, through its authorized representative, attempted to monitor the contractor's payroll and related expenditures by establishing a joint trust account. However, both contractor payment submissions and insurance company capital were deposited into the same account, thereby causing the insurance company to release more money to the contractor than he was entitled to. Kravitz is the fourth and final defendant to be sentenced as a result of this investigation by the OIG Offices of Audit and Investigation and the Department of Labor OIG.

In **Baltimore, MD**, Dona Lee Rawlings-Varner, a former Section 8 resident who falsified her annual recertifications by failing to report her employment and earned income as a bus driver, was sentenced to 3 years in prison, suspended, and 5 years supervised probation, and ordered to make full restitution totaling \$19,548 to the local housing authority. Rawlings-Varner had concealed her employment from housing authority officials since August 1995 by using her married name of Varner. This was an OIG investigation.

Jennifer Elizabeth Baker of Cumberland, MD, was sentenced to 90 days incarceration with 45 days was suspended. Baker pled guilty to defrauding the Housing Authority of the City of **Frostburg, MD**, by failing to report her marriage and additional income while she was receiving Section 8 rent subsidies. She was ordered to pay \$12,100 in restitution to the Authority. This investigation was conducted by OIG and the Maryland State Police.

Betty J. Suggs, also known as Betty Heeraman, a former Postal Service employee in **Uniondale, NY**, was sentenced for fraudulently obtaining \$26,663 in Section 8 benefits. Suggs devised a scheme to defraud the government by concealing her income and employment with the U.S. Postal Service by utilizing an invalid Social Security number to apply for Section 8 rental assistance. A joint investigation conducted by the HUD Fraud Task Force determined that several individuals were also using bogus Social Security numbers at the Ocean View I and II FHA insured multifamily housing developments. As a result of this scam, over \$352,000 in HUD Section 8 rental subsidy payments were obtained fraudulently over a 5-year period. Suggs was sentenced to 3 years probation and ordered to pay \$10,000 in restitution to HUD and a \$100 special assessment. All of the suspects in this investigation have either been convicted or have pled guilty. Two of the defendants have been deported by INS to Chile. Suggs was the last defendant to be sentenced in this HUD Fraud Task Force case.

The New York District Office's HUD Fraud Task Force, created in January 1993 and disbanded in 1997, was responsible for the arrest, indictment and conviction of 68 individuals, 37 debarments imposed by HUD, and over \$1.3 million in court ordered restitution, asset forfeitures, fines, and Program Fraud Civil Remedies Act penalties.

Mary Kingan, the former manager of Acadian Manor Apartments in **Lafayette, LA**, and Harold Troy Abshire and Judy Pitre, two residents, pled guilty and were sentenced for submitting false statements. Kingan received 2 years supervised probation and was ordered to pay 2 concurrent \$500 fines and a \$50 special assessment fee. Abshire and Pitre were each sentenced to 2 years supervised release and ordered to pay a \$500 fine and a \$25 special assessment fee. Randy Meaux, the former maintenance supervisor and a Section 8 resident of Acadian Manor, pled guilty and was sentenced for false statement violations. Meaux was ordered to serve 2 years supervised release, fined \$500, and ordered to pay a \$25 special assessment.

These sentencing were the result of a joint investigation by the OIG and the FBI which found that by providing false information, the individuals were able to receive excess Section 8 benefits for which they were ineligible. The loss to the government was \$36,104, which the judge determined was a financial gain realized by the owner.

Colby Leila St. Claire of **Hilo, HI**, pled guilty to theft for her role in a scheme to defraud the Hawaii County Office of Housing and Community Development (OHCD) of Section 8 rental assistance funds. St. Claire presented herself as a management agent for a property to which she had no legal connection and collected rental assistance on behalf of the property's tenant, Gwen Perreira, who was in on the scheme. St. Claire was sentenced to 200 hours of community service and ordered to pay \$8,352 in restitution to the OHCD.

Perreira, the former Section 8 rental assistance recipient, pled guilty to felony theft of Section 8 benefits that she fraudulently received between 1997 and 1998 from the Hawaii OHCD. Perreira devised a scheme to receive benefits although she resided rent-free in a property for which rental assistance was paid. Perreira, in turn, split the Section 8 funds with St. Claire who received the HUD assistance checks without the knowledge of the legitimate owner of the property in which Perreira was living. Perreira was sentenced to 30 days incarceration, 5 years probation, and 500 hours of community service, fined \$100, and ordered to pay \$8,352 in restitution to the OHCD, which administers the Section 8 Program on behalf of HUD. The investigation was conducted by OIG and the Hawaii County Police Department.

At the request of the OIG, Walter J. Turnbull, president of the Boys Choir of Harlem in **New York, NY**, was sentenced to an additional 18 months of probation in order to ensure that he makes full restitution to the Department. From 1984 through 1994, Turnbull concealed his true annual income of over \$103,000 from HUD and the IRS, falsified his tax returns, avoided paying \$87,800 in taxes, failed to report his receipt of a \$225,000 cash award in 1996, and submitted false certifications in order to obtain over \$21,841 in Section 8 rent subsidies. He also engaged in a double-dipping paycheck scheme at the Boys Choir of Harlem and submitted a fraudulent non-insured mortgage loan application to Citibank in 1991. Turnbull was originally sentenced to 1 year probation and ordered to make full restitution to HUD. However, since the defendant failed to make any restitution payments from the time of his original sentencing in November 1999 until his first payment in October 2000, OIG requested, through the U.S. Probation Department, that his probation be extended. Turnbull has also been issued a notice of debarment by HUD's Enforcement Center.

In **Sacramento, CA**, Melissa Rae Perry, a former Section 8 rental assistance recipient, pled guilty to one count of making false statements to obtain housing assistance. Between 1996 and 1998, Perry, who worked as a flight attendant, falsified her annual income verification forms and forged the signatures of her supervisors in order to continue receiving HUD rental assistance. She received \$8,142 in assistance to which she was not entitled. Sentencing is scheduled for May 31, 2001. This was an OIG investigation.

Section 8 resident Irene Clark pled guilty to 1 count of welfare fraud and was sentenced to 2 years incarceration and restitution of \$20,052. Clark was previously indicted for failing to report 9 years of income to the **Porter County, IN** Housing Authority. This was an OIG investigation.

EUA/FRC II Energy Associates of **Boston, MA**, was ordered to pay a \$259,132 fine, \$172,755 in restitution, and a \$400 assessment. An investigation conducted by the FBI and the HUD and Department of Health and Human Services OIGs disclosed that the defendant charged several different properties excessive utility costs between January 1994 and September 1995. Seven of these properties received HUD subsidies. As a result, the Federal Government subsidized or paid for inflated utility expenses. Restitution amounts for the 7 properties that received HUD subsidies were \$92,341. A criminal indictment had been filed against EUA in September 2000 charging EUA with one count of mail fraud.

A negotiated settlement was reached between the **Frederick, MD** Housing Authority, James A. Huffman, and his mother, Mildred Huffman-Bytheway. Huffman and Bytheway previously obtained \$16,083 in rental assistance from the Authority by falsifying their landlord-tenant agreement and their personal declarations. James Huffman submitted documentation to the Authority showing that he was renting the property from his mother when in fact he was the owner of the property. Huffman and Bytheway agreed to reimburse the Authority \$16,083 and have the Authority place a lien on the Huffman home. This investigation was conducted by OIG and the Frederick County State Attorney's Office.

Two Section 8 residents, Catherine Dorsey and Monica Dorsey, living in the Pitch Apartments in **Washington, DC**, were ordered to pay \$8,548 and \$2,170 in restitution to HUD, respectively. Both had understated their annual family incomes since 1995. The OIG conducted this investigation.

Catherine Stephens, also known as Catherine Felder, a Section 8 resident in **Oakland, CA**, was convicted on six counts of making false statements and one count of theft of government funds. The conviction was the culmination of a 13-month joint investigation by the HUD and Social Security Administration (SSA) OIGs. The investigation disclosed that between 1992 and 1999, Stephens failed to disclose to HUD and SSA income and assets derived from a dental business that she owned and operated. As a result of her nondisclosure, Stephens received more than \$67,000 in Section 8 housing subsidy and \$50,000 in SSA disability income to which she was not entitled. While receiving HUD and SSA benefits, she was able to amass a fleet of 5 vehicles, a 28-foot watercraft, and a house on a 3-1/2 acre lot in Lower Lake, CA. Stephens had also rented six residential and

commercial properties at fair market rents for her businesses and as secondary residences for her and her two sons.

In **Everett, WA**, as a result of an investigation by the SnoFraud Multi-Agency Task Force, a husband and wife were indicted for theft for their fraudulent application and receipt of HUD funded housing assistance. The husband was arrested a second time after he failed to appear for arraignment when he fled the State. The Task Force was created to focus on widespread mail, housing, food stamp, social security, and welfare fraud. The Task Force includes the HUD, Social Security Administration, and Department of Agriculture OIGs, FBI, INS, Postal Inspection Service, and the Washington Department of Health and Human Services.

In a separate case, Patricia Raynes, the former resident manager of the **Everett, WA** Country Club Apartments, a Section 8 apartment complex, pled guilty to theft of government property. From December 1998 to June 1999, Raynes embezzled over \$13,000 of tenant rent receipts and utility subsidy payments. This was an OIG investigation.

John Igein, the owner/operator of P&C Printing and Convenience Center and Power Electronics in **Newark, NJ**, pled guilty to one count each of mail fraud, wire fraud, producing false identity documents, and conspiracy to commit mail/wire fraud and produce false identity documents. Igein, who owned a storefront business specializing in producing false documents for almost every type of fraudulent activity, was the main suspect in a 4-year investigation conducted by members of the West African Task Force (WATF). Specifically, he forged documents for an FHA loan and helped 26 Nigerians forge documents and verifications of employment to obtain Section 8 assistance. WATF began looking into Igein's activities after receiving information that he was providing fraudulent employment information to West African residents of the Garden Spires apartment complex in order to help them obtain Section 8 rental subsidies to which they were not entitled. Igein also obtained an FHA loan by using fraudulent information.

The WATF is a multi-agency entity made up of the OIG, FBI, IRS Criminal Investigation Division, INS, U.S. Attorney's Office, Postal Inspection Service, and the Secret Service, tasked by the Department of the Treasury to investigate instances of widespread fraud.

In **Queens, NY**, a mechanical engineer employed at John F. Kennedy International Airport was arrested by HUD and Social Security Administration (SSA) OIG Special Agents at his place of employment and charged with theft of government funds. While employed from 1992 through 1999 at one company, the engineer concealed his income and employment from SSA by utilizing a Social Security number issued to him under his Greek name. He collected SSA disability payments under his American name and a different Social Security number. He resided in a HUD assisted housing development, concealing his income and employment from the management agent and HUD from 1994 through 1999 by using one of the Social Security numbers and his Greek name. The individual, who actually earns over \$50,000 per year, obtained a total of \$69,397 in SSA disability payments and \$45,375 in HUD Section 8 rent subsidy payments by not only using false Social Security numbers and submitting false statements, but also by submitting false claims to the United States regarding the extent of his injuries

allegedly suffered in 1991. Loss to the government is estimated at \$114,772. Following his arrest, the individual was released on a \$10,000 bond on the condition that he surrender his U.S. passport to prevent his flight to Greece.

Two Section 8 landlords were indicted for theft of public money. The indictments were the result of a joint investigation by the FBI and OIG which disclosed that the landlords allegedly conspired to obtain Section 8 housing assistance from the **Victoria, TX** Housing Authority on property that one of the landlords owned. The loss to the government is nearly \$10,000.

In **Denver, CO**, following an OIG investigation, a grand jury returned a one-count indictment against two individuals for making false statements to the Lakewood Housing Authority. The two allegedly failed to report income from one of the individuals for the years 1988 through 1996. During that time, one of the individuals was employed full time working as a health care provider.

The U.S. Attorney's Office filed a felony complaint against a Section 8 resident for making false statements to receive benefits. The resident has lived at Apollo Housing in **Oakland, CA**, a HUD subsidized multifamily housing complex, since 1992. He was charged with underreporting his annual income on his initial and subsequent Section 8 recertifications by failing to disclose his receipt of federal worker's compensation benefits. In addition to veteran's benefits, which he reported, the resident received more than \$140,000 in federal worker's compensation benefits since 1991, while HUD paid more than \$48,000 in Section 8 subsidies on his behalf. This investigation was conducted by the OIG based on a referral from the Department of Labor OIG.

A federal grand jury indicted a resident of the Cedar Terrace public housing development in **Beaumont, TX**, on one count of false statements. An OIG investigation found that the resident allegedly submitted false information on recertification documents by failing to report employment income. The resident received \$9,000 in rental assistance benefits to which she was not entitled.

Seventeen individuals were charged by the Marion County Prosecutor's Office with fraud involving checks drawn on accounts of the Indianapolis Housing Agency. Charges included forgery, conspiracy to commit forgery, and theft. The check fraud schemes included high detail computer duplication, crude photocopying with "typed in" information on checks, and theft of actual checks from the Indianapolis Housing Agency by a former contract employee, who is also a Section 8 landlord. This investigation was conducted by the **Indianapolis, IN** Housing Agency Police Department and OIG.

The OIG, with the assistance of the Porter County Sheriff's Office, arrested two **Valparaiso, IN** Section 8 recipients based upon a state criminal complaint charging them with welfare fraud in conjunction with false statements during certification. The estimated loss is \$22,000.

A **Mount Vernon, NY** eligibility examiner with the Westchester County Department of Social Services was arrested by OIG Agents for deliberately

concealing her employment and true household income from 1989 through 1999 in order to obtain nearly \$30,000 in HUD Section 8 rental assistance payments for which she was ineligible. She also falsely reported that she was unemployed in 1999 and that she was employed as a part-time salesperson from 1990 through 1998. As a Westchester County civil servant, her annual income is over \$46,000.

In **Washington, DC**, Manuel Toledo, the main contractor for Pitch Apartments, a Section 8 complex, was arrested by the INS and charged with illegally re-entering the United States. The arrest follows an OIG investigation. Toledo was deported in 1995 as a result of a 1989 conviction for a third degree sex offense.

Single Family Housing Programs

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

From 1996 to 1999, members of an organization in **Ft. Lauderdale, FL**, conspired to originate over 113 fraudulent FHA insured loans, through 7 banks and 9 mortgage companies, by creating false gift letters and income information for individuals who could not otherwise qualify for the loans. The loans totaled over \$11 million. In addition, the loan amounts were inflated as a result of flip sales from the original sellers to the defendants, who then sold the properties at inflated prices to the unqualified buyers on the same day, financing the purchases with the FHA loans. The properties were inflated an average of over \$15,000 each. Five of the loans have been foreclosed and resold by HUD at a loss of over \$185,000. The average loss on the properties is over \$30,000 and the total loss to HUD is expected to be over \$1.7 million. Several members of this organization have already been prosecuted. The following individuals were prosecuted during the current reporting period.

Kenneth Heyder, a title attorney and owner of Security Title and Escrow, was sentenced to 2 years probation and 6 months home detention with an electronic monitor, and fined \$5,000. Heyder previously pled guilty to obstruction of justice. Paul Saltz, owner of Emergency Checks Printing Services, pled guilty to conspiracy and was sentenced to 16 months imprisonment and 3 years supervised release, and ordered to pay \$265,897 in restitution to HUD.

Jean Dufralessi was sentenced to 12 months imprisonment and 2 years supervised release for conspiracy to commit bank fraud and HUD loan origination fraud. Lee Garber was sentenced 12 months imprisonment and 12 months supervised release, and ordered to pay \$149,108 in restitution for making false statements on HUD mortgage applications. Annette Gonzalez was sentenced to 18 months probation and ordered to pay \$265,897 in restitution for making false statements on HUD loan origination documents.

Kenneth Duquette, a title company employee, was sentenced to 6 months home confinement and 3 years supervised release, and ordered to pay \$117,000 in

restitution. Duquette previously pled guilty to one count of conspiracy to commit bank fraud. Loan processor Cristie Gallucci was sentenced to 1 year incarceration and 2 years supervised release. Gallucci worked for a mortgage company that provided false verification of employment forms to individuals to obtain FHA mortgages

Marie Lafargue pled guilty to 1 count of conspiracy to commit bank fraud and was sentenced to 12 months supervised release and 150 hours of community service. Lafargue's company provided false verification of employment forms to individuals obtaining FHA mortgages.

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

In a separate case, Cindy Carameros, owner of a **Ft. Lauderdale, FL** title company, was sentenced to 3 years probation. She previously pled guilty to two counts of conspiracy to commit bank fraud and making false statements on FHA insured mortgage applications. Stanley Lerner, an investor, was sentenced in federal court on one count of conspiracy to commit mail fraud and wire fraud. Lerner was sentenced to 2 years imprisonment and 36 months supervised release, and was ordered to pay \$327,705 in restitution, including \$174,324 to HUD. Investor Mark Roseman pled guilty to conspiracy to commit bank fraud, making false statements on FHA insured mortgage applications, mail fraud, and wire fraud. This investigation was conducted by the FBI, OIG, and IRS.

"Operation Straw House," a joint investigation in **Houston, TX**, conducted by the FBI, OIG and IRS Criminal Investigation Division, uncovered a scheme which may involve 3 criminal organizations and an estimated \$74 million in fraudulent loans obtained by approximately 75 individuals. To date, 25 individuals have been charged with federal felony violations, 16 of whom have pled guilty. Over \$5 million in real estate and approximately \$58,000 in cash have been seized. The following individuals were prosecuted during this reporting period.

Matthew Kelly, the office manager for AA Quality Construction Company, a contractor specializing in Title I loans, was sentenced on charges of bank fraud. Kelly received 4 months home confinement and 5 years supervised release, was fined \$2,500, and ordered to pay a \$100 special assessment. Kelly previously pled guilty to routinely preparing false documents, such as W-2 forms, to submit with Title I loan packages to ensure loan approval.

Anthony Irwin, a former employee of AA Quality Construction Company, was sentenced after previously pleading guilty to wire fraud. Irwin received 5 years probation and was ordered to pay \$24,779 in restitution and a \$100 special assessment. Irwin fraudulently obtained two HUD insured Title I home improvement loans and paid numerous cash kickbacks to other Title I borrowers on behalf of AA Quality Construction Company. The co-owners of AA Quality Construction were indicted on charges of conspiracy, monetary transactions with criminally derived property, and money laundering.

Leslie Jones was sentenced to 5 years supervised release and ordered to pay \$22,500 in restitution to HUD and a \$100 special assessment. Jones pled guilty to submitting false statements in order to obtain a \$25,000 HUD insured Title I home improvement loan and receiving approximately \$16,000 in cash from the contractor, BCM Builders.

Alvin Loupe, Jr., the president of Lone Star Remodeling Company, a home improvement contractor, pled guilty to one count of bank fraud. Loupe admitted making false statements on loan applications to obtain loans from FDIC insured banks. Real estate investor Arthur Stringer was charged with one count of bank fraud. The charge was part of a plea agreement in which Stringer admitted involvement in the scheme. He also admitted making false statements to an FDIC insured bank on a loan application for approximately \$220,000.

Thomas Polycn, the owner of Western Lending Corporation (WLC), a commercial lender, pled guilty to one count of bank fraud. This charge was filed as part of a plea agreement wherein Polycn was charged for personal involvement in fraudulently obtaining a loan of approximately \$300,000 from an FDIC insured bank. Polycn admitted to being involved in a loan scheme to defraud HUD and commercial lenders of more than \$30 million in loan proceeds. WLC is a non-FDIC insured commercial lender that specializes in providing home improvement loans and sub-prime credit loans to individuals.

Howard Paillet, an FHA approved real estate appraiser, pled guilty to one count of bank fraud. Paillet admitted submitting false statements to an FDIC insured bank in conjunction with obtaining a \$240,000 single family mortgage loan. Paillet also admitted obtaining two HUD insured Title I home improvement loans by false pretenses, along with four other single family mortgage loans.

The U.S. Attorney's Office charged Alta House, a former manager for Mei Enterprises, a real estate management firm, with bank fraud. House admitted to participating in a \$30 million mortgage and home improvement loan fraud scheme and obtaining 5 single family mortgage loans, totaling \$1,083,785, by false pretenses.

In **Atlanta, GA**, Susan Culvert, a real estate agent, and Larry Clark, a real estate broker, pled guilty to making false statements on FHA insured mortgage applications. Culvert and Clark were previously indicted, along with 5 other individuals, on 29 counts of conspiracy, making false statements, mail fraud, and money laundering. The individuals conspired to originate 43 fraudulent mortgages amounting to over \$3 million, causing a loss to HUD of over \$450,000. They originated the fraudulent mortgages by providing down payments to unqualified borrowers. This investigation was conducted by the OIG, IRS, and FBI.

In a separate case in **Atlanta, GA**, Ryan Steven Pendergraft was sentenced to 96 months imprisonment and 36 months supervised release, and ordered to pay \$554,309 in restitution. Pendergraft had previously pled guilty to one count of conspiracy to commit money laundering, mail fraud, and using false verification of deposit and verification of employment forms and Social Security numbers to qualify individuals for mortgages. Pendergraft was a member of an organization that originated 46 mortgages totaling over \$7.5 million. Two other individuals have already pled guilty. The investigation was conducted by the FBI, IRS, and the HUD and Social Security Administration OIGs.

In **Norfolk, VA**, Marie Elana Roland, the last of 11 defendants in a scheme involving over 180 fraudulent HUD insured loans, was sentenced to 18 months imprisonment and 3 years supervised release, and was ordered to pay \$250,000 in restitution to HUD. Roland used her position as a financial adviser with a reputable financial services company to steer investors to MSRV Development, a

property speculation company in which she was also an officer. The sentencing Judge also prohibited Roland from working in the financial services or real estate professions during her period of supervised release. This was a joint FBI/OIG investigation.

In **Mansfield, LA**, Donald Ray Heyen, the former financial officer of Calhoun Property Management (CPM), was sentenced to 12 months in prison, 12 months confinement in a halfway house, and 3 years supervised release, and was ordered to pay \$198,000 in restitution to Fidelity Insurance Company and \$454,268 to CPM. Special conditions of the supervised release include providing a yearly federal income tax return to his Probation Officer who will ensure that 20 percent of Heyen's gross income is paid toward restitution to CPM for the rest of his life; Heyen is not allowed in any business with gambling machines; he must provide a complete disclosure of all business and personal information; and must pay \$100 to the victims and witness fund. In February 2000, Heyen pled guilty to one count of theft or bribery concerning programs receiving federal funds.

The sentencing is the result of a joint investigation by the HUD and Department of Agriculture OIGs which disclosed that Heyen had devised a scheme to divert funds from construction and operating accounts maintained by CPM.

Michael Fernsted was sentenced to 2 years in prison and 3 years supervised release, and was ordered to pay \$4,205 in restitution to his victim (a contractor who cooperated in the investigation) and forfeit \$29,350 seized during the investigation. Fernsted was arrested in July 2000 on federal extortion charges. He was the real estate asset manager for First Preston Management Company, the company hired by HUD to oversee and manage over 1,500 properties in the **Buffalo and Rochester, NY** areas. Fernsted forced inspectors/contractors who were subcontracted by First Preston to give him a percentage of their monthly earnings in the form of kickbacks. He also instructed the inspectors/contractors to submit bogus billings or inflate their monthly billings so they could make more money. The HUD Enforcement Center debarred Michael Fernsted from future participation in procurement and non-procurement transactions as a participant, principal, or contractor with HUD and throughout the Executive Branch of the Federal Government for a period of 5 years. This was a joint investigation by the OIG and the FBI.

In **St. Petersburg, FL**, Robert Norman pled guilty to one count of conspiring to defraud the Federal Housing Administration. Norman ran a corporation that bought and flipped HUD properties within a short period of time. The federal charges focused on phony down payments he used to secure FHA loans for five of his buyers. To qualify the borrowers, Norman provided funds to the borrowers' relatives, who then wrote checks to the closing agent and signed letters stating that the down payment funds were a gift. In addition, Norman signed the addendums to the settlement statements stating that he did not provide any of the down payment or closing cost funds to the purchasers. This investigation was conducted by the FBI and the OIG.

Tommy Shaw pled guilty to three counts of mail, wire, and bank fraud. The charges relate to Shaw's participation in a **Memphis, TN** property flipping

scheme during which Shaw conspired with others to direct strawbuyers to purchase duplex properties for fair market value. The strawbuyers then resold (flipped) the properties to other conspirators at greatly inflated prices. As part of the conspiracy, the defendants prepared and used fraudulent leases, appraisals, and HUD settlement forms to conceal the true value of the FHA insured properties as well as the fact that Shaw and the other conspirators who purchased the properties received a substantial portion of the loans proceeds as “consulting fees.” Shaw received over \$660,000 through his participation in 25 sales between January and May 1998. The investigation was conducted by the OIG, FBI, and Postal Inspection Service.

A **Pittsburgh, PA** husband and wife, Lane M. and Lynn S. Lalone, purchasers of a HUD real estate owned (REO) property, signed a Settlement Agreement and Release with the Department of Justice and HUD for falsely certifying, at the time they entered into a sales contract with HUD, that they would occupy the property. An OIG investigation disclosed that they purchased the HUD REO property for \$68,250 on August 12, 1997, and listed it for sale the very next day. The investigation further disclosed that they never resided in the property. After having been unsuccessful in selling the property on their own, they listed the property with a local real estate agent, who sold it in March 1998 for \$95,000, only 7 months after they purchased it from HUD. On November 17, 2000, pursuant to the Settlement Agreement, the Lalonees paid \$3,000 in civil restitution and agreed to provide testimony and/or documentary evidence of alleged illegal acts by others involved in the purchase of HUD owned properties. This matter was previously declined for criminal prosecution.

Following his 12-count indictment for creating false employment documents, **Minneapolis, MN** real estate agent Larry D. Maxwell pled guilty to one count of making false statements. The investigation disclosed that Maxwell created pay stubs, W-2s, gift letters, and other documents to qualify buyers for FHA insured loans. The loans subsequently went into foreclosure and the loss to HUD is in excess of \$250,000. In his plea agreement, Maxwell signed a consent order, suspending his real estate license for 1 year. Sentencing is pending. This was an OIG/IRS Criminal Investigation Division investigation.

A grand jury in **Denver, CO**, indicted an individual on six counts of mail fraud and six counts of monetary transactions in property derived from specific unlawful activity. The indictment was based on the individual’s involvement in a property flipping scheme. The individual allegedly acquired properties in the Denver metro area using strawbuyers, inflated the property values through various title transfers, obtained FHA insured loans, and did not make the mortgage payments. He also filed false releases of liens against the property deeds with the County indicating that his mortgages were paid off and that he owned the properties free and clear. He would then obtain another loan from a different mortgage company. A complaint was also filed in U.S. District Court against the individual’s co-conspirator, alleging mail fraud, false statements, and misuse of Social Security numbers. Both have been arrested.

A **Livingston, NJ** individual was arrested for submitting false statements to the government in order to obtain FHA insurance. The arrest was the result of a 2-

year OIG investigation of a conspiracy to defraud HUD's FHA 203(b) Insurance Program. The individual is one of several who may have conspired with employees and associates of Main Street Mortgage, a real estate company that has direct endorsement authority for FHA insured loans.

Additionally, the individual is also allegedly involved in an illegal narcotics trafficking organization believed to be using the mortgage company as a front to launder drug money in a property flipping scheme. In this scheme, an FHA insured property is initially purchased then later appraised at an inflated value resulting in a second purchase at a much higher price than it was originally insured for, resulting in a loss to HUD.

OIG Agents executed two federal search warrants at a branch office of a direct endorsement lender in **Phoenix, AZ**, and at a single family residence in **Glendale**, at which several loan officers and a computer technician were suspected of creating false wage documents, including W-2 forms and pay stubs, which were then submitted to HUD in order to qualify the loan officers' clients for FHA insured mortgages. Among the items seized during the search were loan files containing falsified wage documents and several computers that contained templates of wage documents and 1099 forms.

Community Planning and Development Programs

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

Following a joint FBI/OIG investigation, Robert C. Munson, Jr., pled guilty to one count of theft or bribery concerning programs receiving federal funds. While employed as the Director of Housing for the City of **Utica, NY's** Department of Urban and Economic Development, Munson embezzled \$113,964. As part of his responsibilities, Munson managed the City's housing rehabilitation program. He solicited construction proposals from contractors; the contractors were required to submit, along with their proposals, a bid security deposit or a guaranteed bid bond in the amount of 5 percent of the total construction cost. Munson stole the bid security deposit checks, cashed them, and used the funds for his personal benefit. To conceal his theft, Munson forged City of Utica Community Development Block Grant Program payment vouchers for the return of the bid securities to the contractors. Munson produced fictitious vouchers showing that renovation work was completed when in fact no construction work was performed. Sentencing is scheduled for April 2001.

A former manager for the Midland Title Company in **Akron, OH**, was indicted for making false statements in documents related to nine property sales

to the City of Akron's Inner-City Housing Development Agency. The individual misrepresented sales prices on settlement statements and concealed over \$44,000 in fees to the person who negotiated the sales between the buyers and the City. That individual has not been charged. Between December 1997 and October 1998, the defendant prepared statements showing prices of up to \$19,000 per lot, when the actual sales prices were often several thousands dollars less. This OIG investigation was conducted at the request of the U.S. Attorney's Office based on a Qui Tam lawsuit.

David Fuller, former business administrator for the City of **Irvington, NJ**, pled guilty to accepting a pay-off relating to a paving contract that was completed at a youth recreation center. The youth center was rehabilitated with Community Development Block Grant Program funds. This was an OIG investigation.

Other Significant White Collar Investigations

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

In **Beaumont, TX**, Jerry Wernard Williams, a HUD CPD specialist, was found guilty on all 14 counts of an April 2000 indictment on false statement charges. The conviction was the result of an OIG investigation into official travel associated with Williams' position with HUD. The investigation disclosed that between September 1996 and February 2000, Williams submitted false, fictitious, and fraudulent material statements and representations on documents that were attached to government travel forms which were then submitted for reimbursement. The fraudulent documents included hotel receipts that Williams claimed for reimbursement when he had actually stayed with friends at their private residences.

The former executive director of the nonprofit Greater Nevada Fair Housing Council (GNVFHC) in **Carson City, NV**, was indicted by a federal grand jury and charged with theft of federal program funds, access device fraud, and theft of government property. The GNVFHC operated under a \$252,863 grant from HUD and served rural Nevada by providing support and information regarding both federal and state housing discrimination laws. From July 1998 to March 1999, the executive director purportedly embezzled \$40,839 by making unauthorized charges to credit cards he obtained in the name of the nonprofit. He charged hotel rooms and meals in the Reno/Carson City area, took cash advances at local area casinos, made charges for pornographic internet sites, hosted two "retreats" at Squaw Valley for his college fraternity and alumni from the University of California at Berkeley, and paid for the hotel rooms and meals with the charge cards. This investigation was conducted by the OIG.

Violent Crime in Public and Assisted Housing

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

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

“Operation Sherm” is a joint Safe Home initiative conducted by the OIG and DEA focusing on members of a gang of Belizean nationals, residing unlawfully in the United States, that controlled the sale of liquid phencyclidine (PCP) and PCP-dipped marijuana cigarettes in and around the Senator R. Taft, Saint Nicholas, Martin Luther King, Lester Patterson, James Weldon Johnson, Melrose, and Abraham Lincoln public housing developments in **New York, NY**. The gang, identified as the *Mark Theus Cell*, also controlled the sale and distribution of wholesale liquid PCP in New York, New Jersey, and Connecticut after it was transported from Los Angeles in “traps,” concealed compartments specially built into vehicles, or on the person of a corrupt airline employee. During this reporting period, five gang members, including the head of the *Mark Theus Cell*, were sentenced and three pled guilty to conspiracy to distribute controlled substances. Mark Godfrey Theus, also known as Sanchez, was sentenced to 14 years in prison and 5 years supervised release. Mark Edison Bowman, also known as BAP, lieutenant and enforcer of the *Mark Theus Cell*, was sentenced to 10 years in prison and 5 years supervised release. Javon Omar Monroe, also known as Rocko, was sentenced to 70 months incarceration and 5 years supervised release. Orin Brown, also known as Usher, was sentenced to 4 years incarceration and 5 years supervised release. Ernie Arthur Ebanks, also known as Sleeper, was sentenced to 135 months incarceration and 5 years supervised release. All five individuals were also ordered to pay a \$100 special assessment to the court. In addition, Julius Williams, also known as Juice, Chawn Battle, and Mark Gentle, also known as Mark Sosa, pled guilty to conspiracy to distribute a controlled substance.

To date, as a result of this joint operation, 26 gang members have been arrested; 23 of the 26 were subsequently indicted. In addition, 17 have been convicted or have pled guilty. Five handguns, 2 vehicles, \$250,000 in cash, and 2 gallons of liquid PCP with an estimated street value of \$100,000 have been seized. Five OIG Special Agents from the New York/New Jersey District were each

presented with certificates of appreciation from the DEA, New York Field Division Special Agent in Charge, as a result of their service on this investigation.

Efforts by the **Los Angeles, CA** Metropolitan Task Force on Violent Crime resulted in several sentencing and convictions under the Racketeering Influenced and Corrupt Organization (RICO) Act. Robert Cervantes and Frank Fernandez were each sentenced to life imprisonment. Ignacio Felix and Alex Manon were sentenced to 10 years and 14 years imprisonment, respectively. Jimmy Sanchez, Dominick Gonzales, and Juan Garcia were convicted. The sentencing and convictions all stemmed from federal RICO conspiracy indictments. The charges included racketeering, conspiracy to murder, conspiracy to distribute narcotics, conspiracy to distribute narcotics in jail or prison, conspiracy to commit racketeering, felon in possession of a firearm, aiding and abetting the distribution of controlled substances, violent crimes in aid of racketeering, and using firearms during and in relation to crimes of violence.

These individuals were associated with the *Mexican Mafia* gang, which in turn controls the *Big Hazard*, the *Varrio Nuevo Estrada Courts*, and the *Project Boys* gangs. The *Mexican Mafia* gang would divide up the greater Los Angeles area into territories, with certain members of the gang controlling certain narcotics traffickers and street gangs in each territory. These gangs are believed to be responsible for illegal drug activity and gang violence in and around the Ramona Gardens, Estrada Courts, San Fernando Gardens, and Rose Hills Courts public housing developments. The Task Force, made up of the FBI, OIG, Los Angeles Police Department, Los Angeles Sheriff's Department, and the California Department of Corrections, also seized 30 kilos of cocaine, over 400 pounds of marijuana, \$40,000 in cash, and 1 semi-automatic firearm.

The "Operation Southside Crackdown" Task Force made significant progress during this period in ridding public and assisted housing in **Richmond, VA**, of drugs and crime. The FBI, DEA, OIG, City of Richmond Police Department, and Virginia State Police initiated this effort to identify and arrest heroin users in the South Richmond area. The Henrico County and Chesterfield County Police Departments and the Hanover County Sheriff's Department have also participated in Task Force operations. As a result of their efforts, 1 person was indicted, 3 pled guilty, and 8 others were sentenced to a total of 41 years in prison and 22 years supervised release for distribution and conspiracy to distribute heroin in and around the public housing communities of Blackwell, Hillside Court, Afton Avenue Apartments, and Ruffin Road Apartments. One of those sentenced was a major drug supplier from New York. Lab results of the heroin sold by the individual's associates indicated that the heroin he brought into Richmond was 90 percent pure (70 percent is lethal). For years, this area, including several public and assisted housing developments, has been plagued with a number of heroin related deaths.

Anthony Smith, a public housing resident and 1 of the 6 sentenced, was previously convicted of involuntary manslaughter and using a firearm during a murder. The conviction stemmed from a May 1999 incident involving Smith and several others as they were "hanging out" near Hillside Court. Smith took offense to words spoken by Rayshawn Beavers and pulled a gun, fatally wounding Beavers as he was running away. Beavers' body was not found until 2 days after the shoot-

ing incident. Although Smith was not one of the suspects of “Operation Southside Crackdown,” that Task Force developed information that they later provided to the Commonwealth Attorney’s Office; this information proved vital in the prosecution of Smith. Smith testified that he resided with Marquita Jackson, a public housing resident, in order to attend the local high school. News of this conviction has been forwarded to the Richmond Redevelopment and Housing Authority for initiation of eviction proceedings under HUD’s “One Strike and You’re Out” policy.

Six individuals were sentenced for trafficking cocaine and crack cocaine in **Lebanon, KY** public housing developments. Richard A. Sanders received 60 months confinement, 5 years supervised release, and a \$900 special assessment. Mildred “Chic” Sanders, the aunt of Richard Sanders, was sentenced to 60 months confinement, 4 years supervised release, and a \$700 special assessment for selling crack cocaine. Both Richard Sanders and Mildred Sanders faced mandatory minimum sentences based on the amount of drugs involved.

Four individuals were also sentenced in connection with an operation involving cocaine sales from the Raven Bar in **Marion County, KY**, which was the main source of cocaine for residents of Lebanon public housing. Marion Paul Elder had previously served 97 months in prison and was placed on 4 years supervised release for trafficking in marijuana. He sold cocaine 3-1/2 years into his supervised release. He was most recently sentenced to 15 months confinement for the revocation of his supervised release. Additionally, he was sentenced to 10 months confinement and 3 years supervised release, and required to pay a \$200 special assessment. The 15 months and 10 months were ordered to be served consecutively. The severity of Elder’s sentencing was due to the fact that he was a member of the *Cornbread Mafia*. This group was responsible for growing large quantities of marijuana. Thomas Eric Elder, Marion Paul’s brother, was also sentenced to 3 years probation, 6 months home detention, and a \$300 special assessment for selling powder cocaine. In addition, James Walston was sentenced to 3 years probation, 6 months home detention, and a \$200 special assessment for trafficking in cocaine, and David Duley was sentenced to 6 months confinement, 1 year supervised release, and a \$100 special assessment for possession of cocaine.

These efforts were carried out by OIG and the Lebanon Police Department.

“Operation Clean Up” is a **Topeka, KS** Safe Home Task Force operation that has, to date, resulted in 43 arrests, 25 federal convictions, 1,025 months in federal jail time, and 18 evictions from housing assistance programs. During this reporting period, Michael Grant was sentenced to 70 months in prison, Paul Davis received 210 months, and James Wheeler received 78 months. All three were sentenced for distributing crack cocaine in public housing. In addition, as a result of other Task Force operations conducted at public housing complexes, three individuals were indicted for distributing crack cocaine and carrying a firearm during and in relation to a drug trafficking crime. To date, these other Task Force operations have netted 28 federal convictions with a total sentencing of 2,616 months in prison, 64 evictions of housing assistance recipients, and 317 restraining orders issued to individuals for violating residents’ rights to a decent and safe living environment. The Topeka Task Force is made up of the OIG, Kansas Bureau of Investigation, and the Topeka Police Department.

“Operation Busted Flush” was implemented in June 2000 to reduce narcotics distribution and violent crime in and around federally assisted housing in **Hagerstown, MD**. Efforts by the Task Force, comprised of OIG, DEA, the Hagerstown Police Department, and the Washington County Narcotics Task Force, have, to date, resulted in 25 convictions and the arrest of over 200 individuals for either dealing or purchasing drugs in federally funded neighborhoods. The OIG is continuing to coordinate with the local housing authority to evict federally subsidized residents who have either assisted dealers or been involved in drug activities. According to the Hagerstown Chief of Police, the operation has had a major impact on community residents because drug dealers have been forced off the streets.

Following one “Operation Busted Flush” initiative, Jason Luis Smith was found guilty of possession with intent to distribute crack cocaine and was sentenced to a minimum mandatory 25 years in prison. One co-conspirator also faces 25 years in prison, while another has already pled guilty to conspiracy and been sentenced to 3 years in prison. Another operation resulted in the conviction of Robin Crosby on charges of conspiracy to distribute crack cocaine. Crosby, who was sentenced to 8 years in state prison, is a known drug abuser who has 33 prior arrests dating back to 1982. A third effort resulted in the sentencing of Simeon Leonard Younger, also known as Travis, to 10 years in prison for conspiracy to distribute crack cocaine. Younger, who has prior drug arrests, also faces charges in Allegany County for possession with intent to distribute crack cocaine and possession of a firearm during a drug crime.

Twelve people were sentenced and three pled guilty following Safe Home initiatives by the OIG, DEA, Cuyahoga Metropolitan Housing Authority Police, and the Cuyahoga County Sheriff’s Department. Descarlos Roberts, Arthur Smiley, Darrell Moncrease, Wesley Jackson, Jerome McGinnes, LaFear Williams, Anthony Williams, Demond Smith, Anson Lett, Carlos Price, Sharita Dix, and Carlin Powell were sentenced to a total of over 65 years in prison and 68 years supervised release for their involvement in a conspiracy to distribute crack cocaine at the Riverside Estates public housing development in **Cleveland, OH**. In addition, three individuals pled guilty to conspiracy to distribute crack cocaine in public housing.

In response to several drug related shootings in the Great Brook Valley public housing development, the **Worcester, MA** Housing Authority requested the assistance of OIG and the Worcester Police Department in dealing with the growing violence and drug/crime problem in the development. The OIG teamed up with the Worcester Police Department Detective Bureau, Operations Division, and Gang and Vice Units to conduct zero tolerance and warrant apprehension operations. To date, these operations have resulted in the execution of 3 state search warrants, the arrest of 43 people on state charges and 1 person who was wanted on a federal arrest warrant, and the seizure of 7 firearms, 1 ballistic vest, ammunition, over 312 packets of heroin, 1,720 grams of pure heroin worth over \$2 million, 14 packets of marijuana, 22 packets of crack cocaine, and \$84,582 in cash. One person, Jose A. Arana, was convicted of possession of a Class A substance with intent to distribute and resisting arrest, and was sentenced to 1 year probation and ordered to complete a substance abuse rehabilitation program.

Eviction proceedings have been initiated against those arrestees who are public housing residents.

Also during this reporting period, 28 people were indicted after the OIG, Worcester County District Attorney's Office, and the Worcester Police Department concluded a 3-month investigation into drug and gang activity in several public housing developments. Three individuals were also sentenced as a result of Safe Home operations carried out by the Worcester and Shrewsbury Police Departments and OIG. Ezekiel Idiagbonya was sentenced to 22 years in prison after being charged with home invasion, armed robbery while masked, armed burglary, and conspiracy to commit a home invasion. Idiagbonya was one of five men, including a public housing resident and two Section 8 tenants, arrested for their involvement in an armed home invasion in July 2000. Rattana Hin was sentenced to 22 years in prison and Marlin Horton was sentenced to 1 year in prison. Hin pled guilty to home invasion, armed robbery while masked, armed burglary, assault and battery with a dangerous weapon, threatening to kill, carrying a firearm without a license, unlawful possession of ammunition, and conspiracy to commit a home invasion. Horton, a public housing resident, pled guilty to unlawful possession of a firearm and ammunition, being an accessory before the fact, and assault with a dangerous weapon.

In **Greensboro, NC**, the OIG, FBI, DEA, ATF, IRS Criminal Investigation Division, Guilford County and Carswell County Sheriff's Offices, Alamance County and Rockingham County Police, State Bureau of Investigations, and the Greensboro, Burlington, and Liberty Police Departments continued to address drugs and violent crime in Greensboro public housing. During this reporting period, Kenyata Demoris Robinson was convicted on two counts of distribution of crack cocaine. The conviction came after a 2-day trial during which an OIG Agent was the chief witness. Robinson had been charged with supplying crack cocaine to Greensboro public housing developments; she was also an unauthorized resident living in public housing. Robinson was in possession of over 110 grams of crack cocaine when she was arrested. She also had previous murder, narcotics, and firearms charges. Scott Koonts, a former Guilford County Deputy Sheriff, pled guilty in state court to 33 counts, including embezzlement by a public officer, theft, and possession of cocaine. Koonts stole drugs from Guilford County Sheriff's Office evidence lockers. This evidence was related to the Greensboro Safe Home Task Force investigation and was purchased from individuals distributing drugs in Greensboro public housing. Koonts was sentenced to 60 to 72 months imprisonment and 60 months supervised release, and fined \$15,000. In addition to the conviction and sentencing, 20 people were arrested for distributing drugs and approximately \$120,000 in cash, 12 kilos of cocaine valued at over \$300,000, a small amount of marijuana, 3 guns, 3 vehicles, and over \$150,000 in property were confiscated.

The two primary targets of a High Intensity Drug Trafficking Area (HIDTA) Task Force drug investigation in **Atlanta, GA**, accepted plea bargains in lieu of going to federal trial. Freddie Mitchell pled guilty to felony possession of a firearm in public housing by a convicted felon, and Willie Reed pled guilty to conspiracy to possess and distribute cocaine in public housing.

HIDTA Task Force members also executed a vehicle search warrant within the Jonesboro South public housing development. They seized 1 Chinese made assault

rifle and a small amount of marijuana. Although no arrests were made, the investigation disclosed that individuals have been selling assault rifles within the complex for \$150 to \$200 apiece. A number of homicides that have occurred in or around the complex have involved these weapons.

This Task Force includes the OIG, DEA, ATF, Georgia Bureau of Investigation, and the Atlanta Police Department.

Marvin and Chris Harris pled guilty to selling narcotics to an undercover Agent. The Harris brothers were part of a narcotics organization operating out of the LeClaire Courts public housing development. Seven other individuals were previously indicted along with the Harris brothers for distributing crack cocaine throughout various **Chicago, IL** Housing Authority developments. As a result of the Harris' plea and conviction, four other defendants also pled guilty. This investigation was conducted by the OIG, ATF, and Chicago Housing Authority Police Department.

Gregory Lamar Knox was sentenced to 15 years in prison for possession with intent to distribute crack cocaine and carrying a firearm during and in relation to a drug trafficking crime. This is the heaviest sentence handed down to date as a result of **St. Louis, MO** Safe Home operations. Knox was a suspect in at least 4 homicides that occurred in 1998 and 1999 in the LaSalle Park Homes and Clinton-Peabody public housing developments. He was also the number one supplier of narcotics to LaSalle Park Homes. This sentencing resulted from joint efforts by the St. Louis Police Department Homicide Unit and the OIG.

Following an initiative by the 24th Judicial District Operation Safe Home Task Force, consisting of the Tennessee Bureau of Investigation, Tennessee Highway Patrol, and OIG, Patrick Andrews was sentenced to 84 months in prison for distributing drugs in **Memphis and Carroll County, TN** public housing developments. Andrews was arrested, along with another individual, as part of a drug reversal operation during which 1 kilogram of cocaine was sold. Andrews was previously convicted of aiding and abetting in the sale of cocaine; the severity of his sentence was based on sentencing guidelines for past criminal history and for a local drug arrest while on bond awaiting sentencing in federal court.

A federal grand jury indicted two individuals for distributing crack cocaine in the Terrace Apartments public housing development in **Oklahoma City, OK**. Undercover Task Force members bought over 8 ounces of crack cocaine from the individuals in the complex. In another effort, called the "Edmond Initiative," Oklahoma City Safe Home Task Force members arrested seven individuals in a Section 8 complex on charges of felony distribution of a controlled and dangerous substance. The apartment's resident maintenance person was one of the arrestees. Eviction proceedings have begun. In other initiatives, the Task Force arrested 22 individuals for felony distribution of crack cocaine and confiscated 30 grams of cocaine base, 21 grams of cocaine powder, 300 grams of crack cocaine, \$28,000 in cash, 1 vehicle, and an extensive collection of ammunition. They also dismantled a violent drug trafficking organization that operated out of a public housing complex. The Oklahoma City Safe Home Task Force is comprised of OIG, DEA, and the Oklahoma City Police Department.

The Westside Interagency Narcotics Team (WIN), along with OIG, DEA, INS, and the Hillsboro Police Department's Street Crimes Unit and Emergency Response Team, conducted Safe Home activities in public, assisted, and Section 8 housing in **Hillsboro, Cornelius, and Aloha, OR**. In total, they seized \$2,950 in cash, drug paraphernalia including straws and a syringe, packaging materials, several pagers, 2 cell phones, 1 12-gauge shotgun, ammunition, 2 grams of marijuana, 4 grams of hashish, 2 grams of methamphetamine, 4 electronic scales, telephone and bank account records, fake resident identification and Social Security cards, and a notebook with receipts related to producing methamphetamine. As a result of these operations, Fernando Reyes-Garcia was sentenced to 46 months incarceration and 3 years supervised release, and was ordered to pay a \$100 special assessment; he is also to be deported after serving his sentence. On four occasions, Reyes-Garcia sold heroin and cocaine to an undercover DEA Agent. Reyes-Garcia was a street level runner to an area supplier. Both Reyes-Garcia and the supplier lived near HUD low-income housing. Another person was charged with 10 counts of possession/distribution with intent to distribute cocaine, heroin, and methamphetamine.

“Operation Riptide” is a joint investigation by the Organized Crime Drug Enforcement Task Force, OIG, FBI, and the **Newport, RI** Police Department targeting narcotics traffickers operating in the Tonomy Hill and Park Holm public housing developments. As a result of initiatives during this period, Kareem Barnes was sentenced to 151 months incarceration and 36 months supervised release following his guilty plea to 2 counts of distribution of cocaine base. On the same day, in the culmination of another Task Force investigation by OIG, DEA, and the Newport Police Department, 26 state arrest warrants and 2 state search warrants were executed for violations of delivery of narcotics statutes. The investigation targeted drug dealers operating in the Tonomy Hill, Park Holm, and Chapel Terrace public housing developments. Eight people were arrested on outstanding warrants, and two bags of marijuana were seized from one of the arrestees. Five suspects were already incarcerated on state charges. An additional five suspects were arrested in Tonomy Hill for drug related charges during the sweep. Eight bags of marijuana, \$1,400 in cash, 1 vehicle, 1 cell phone, and 1 pager were seized from one suspect, while 13 bags of marijuana were seized from another.

In **Houston, TX**, 325 people were arrested by OIG, the Houston Police Department, and the Harris County Constable's Office. The arrestees, charged with delivery and possession of a controlled substance, evading arrest, outstanding fugitive warrants, theft, selling narcotics in public housing, failure to identify to a Police Officer, aggravated assault, forgery, bribery, and endangering a child, were arrested in and around the Lincoln Park, Oxford Place, Allen Parkway Village, Irvinton Village, Kelly Village, Kennedy Place, Clayton Homes, Arbor Courts, Cleame Manor, and Gulf Coast Arms public, assisted, and Section 8 complexes. During this period, the Task Force seized 1,054 grams of marijuana, 158 grams of crack cocaine, 575 grams of codeine, 9 grams of Xanax, 7 grams of Valium, and 1 loaded handgun. In addition to the arrests, sealed federal indictments were returned against two individuals. The first individual was charged with selling 23 grams of crack cocaine in public housing. The second was charged with selling 25 grams of crack cocaine to undercover Task Force Officers in public housing.

As part of a year-long Operation Safe Home initiative known as “Clean Sweep,” the DEA, OIG, Paterson Police Department, and the Passaic County Prosecutor’s Office conducted more than 30 undercover purchases of heroin and crack cocaine within the Alexander Hamilton public housing development in **Paterson, NJ**. Eighty-three drug dealers and 207 buyers were arrested. To date, 5,700 glassines of heroin, 900 bags of crack cocaine, \$19,000 in cash, 1 shotgun, 3 handguns, and 2 vehicles containing hidden traps used to conceal illegal narcotics have been seized. In November, arrest warrants were executed for 29 individuals. Each arrestee was issued a restraining order forbidding him/her from entering the Alexander Hamilton grounds. Also as part of “Clean Sweep,” eight eviction notices were served at public housing units, where residents were arrested in accordance with the “One Strike and You’re Out” policy.

A reverse undercover sting operation in the Glenside Homes public housing complex resulted in the arrest of 63 people. This operation was the largest drug sting operation to be conducted in the City of **Reading, PA**, within the last decade. The operation was designed to deter persons who travel to the Glenside Homes to purchase heroin, cocaine, marijuana, and PCP. Undercover Agents sold sham heroin packets stamped with a “smiley face” to willing buyers, who were immediately placed under arrest. Glenside Homes has become a primary source of heroin for residents in a five-county area surrounding Reading. Of the 63 persons arrested, 75 percent were not residents of the City; 50 percent were 24 years of age or younger. The youngest purchaser arrested during the operation was 15 years of age. The last person arrested was a 20-year-old female who traveled approximately 80 miles from Wilkes-Barre, PA, to Glenside Homes in order to purchase \$200 worth of heroin. Glenside Homes was also the site of a drug related homicide in February. All defendants were charged with criminal attempt to purchase heroin. Six defendants were additionally charged with possession of drug paraphernalia, while three were charged with resisting arrest and disorderly conduct. One defendant was charged with possession and distribution of a controlled substance for prior sales of heroin and cocaine to an undercover Agent. In addition to the arrests, 14 vehicles were seized for forfeiture, along with the \$4,000 in cash that was used for the attempted drug purchases. Eviction proceedings will be initiated against any arrestees who reside in public housing. This operation received favorable media coverage and was well received by the residents of Glenside Homes. Participating agencies include the FBI, DEA, OIG, City of Reading Police Department, Berks County District Attorney’s Office, and the Berks County Sheriff’s Department.

The South Carolina Law Enforcement Division, Allendale Police Department, Fairfax Sheriff’s Department, and OIG arrested 41 individuals for distribution and conspiracy to distribute crack cocaine. The arrests were part of a raid that resulted from a year-long undercover investigation conducted in **Allendale, SC** public and low-income housing communities.

OIG and the **Albuquerque, NM** Police Department, Westside Narcotics Unit, conducted several joint Safe Home initiatives during this reporting period. Three individuals were arrested and charged with conspiracy and possession with intent to distribute a controlled substance. The individuals had been trafficking crack cocaine in and around numerous public housing and Section 8 areas; two of

the three were also living in an apartment located in a predominately Section 8 area. Officers and Agents seized over 6 ounces of crack cocaine and a loaded pistol. In January, Task Force members arrested an individual who had been dealing cocaine in and around Pueblito de Paiz, a large Section 8 complex. An undercover Agent purchased 1 kilo of cocaine from the arrestee. A federal grand jury subsequently indicted the arrestee on 1 count of intent to distribute over 500 grams of cocaine. At a hearing 2 days later, the individual was ordered detained because of his extensive criminal record and because he was considered a possible flight risk. As part of a third effort, Task Force members arrested an individual who had been dealing cocaine in and around public and assisted housing neighborhoods.

In **New Orleans, LA**, the Safe Home Task Force continued to produce significant results during this period. One hundred and thirteen people were arrested in the and around the St. Thomas, St. Bernard, Calliope, Melpomene, Lafitte, Magnolia, and Iberville public housing developments and in Section 8 areas of the City. Among other things, they were charged with possession of narcotics, possession with intent to distribute, outstanding fugitive warrants, resisting arrest by flight, and criminal trespassing. During one initiative, Task Force members arrested an individual in a Section 8 complex for two state murder violations, federal weapons charges, drug trafficking, using a firearm during the commission of a violent crime, and felon in possession of a firearm. The arrestee was believed to be a leader in the *7th Ward Soldiers*, one of New Orleans' most deadly gangs. Another individual was arrested at the scene for harboring a fugitive. During another initiative, the Task Force executed a search warrant at a unit in the Calliope development and arrested two individuals for possession of a controlled substance. One of the arrestees admitted living in the unit for over 7 years without notifying housing authority officials. The estimated loss to the government is over \$25,000.

In total, the Task Force, made up of ATF, OIG, and the New Orleans Police Department, confiscated \$9,416 in cash, 2,733 grams of marijuana, 40 grams of cocaine, 30 grams of heroin, 30 weapons, and assorted drug paraphernalia.

Special Agents from the FBI, OIG, and USCS, along with City of **Miami, FL** Police Department Officers, executed 51 state arrest warrants in the Scott Homes, Liberty Gardens and Windwood Apartments public housing developments. An undercover operation known as "Get You Now" targeted people involved in narcotics sales in these developments. In addition to the narcotics violations, many of the individuals were wanted for murder, rape, robbery, burglary, sexual battery, and assault. The individuals living in public housing were referred to the Dade County Housing Authority for eviction.

Thirty-eight people were arrested following operations in public and assisted housing developments by the **New Haven, CT** Task Force. Charges included possession of controlled substances, possession with intent to sell, possession within 1,000 feet of a school, interfering with a Police Officer, criminal impersonation, risk of injury to a minor child, destruction of evidence, and operating a drug factory. Task Force members seized over 3,600 grams of marijuana, 21 bags of crack cocaine, 265 bags of heroin, \$7,900 in cash, 1 passport, 1 weapon, 4 scales, 3 hypodermic needles, proof of residence, drug packaging materials, and

bank records. This Task Force is made up of the OIG, the Connecticut State Police, and the New Haven Police Department.

OIG, DEA, USMS, USPS, and the Puerto Rico Police Department executed 18 arrest warrants and 16 search warrants in the Los Cedros, Las Mar, Covadonga, and Ramon Perez public housing developments in **Trujillo, PR**. The arrestees were members of an organization indicted by a federal grand jury for illegal distribution of firearms and narcotics, along with money laundering, in the Trujillo Alto area. The organization operated out of the Los Cedros public housing development and was responsible for numerous homicides and assaults.

The **Little Rock, AR** Safe Home Task Force conducted enforcement operations in and around densely populated Section 8 areas of the City. During this reporting period, Task Force Officers executed 19 search warrants and arrested 67 individuals on charges of manufacturing narcotics, possession of narcotics with intent to distribute, possession of drug paraphernalia, felon in possession of a handgun, interfering with law enforcement officers, resisting arrest, battery, disorderly conduct, and outstanding fugitive warrants. One gram of methamphetamine, 56 grams of crack cocaine, over 3 grams of powder cocaine, 529 grams of marijuana, 3 handguns, and \$722 in cash were seized. This Task Force is made up of members of the Pulaski County Sheriff's Office, the Little Rock and North Little Rock Police Departments, and the OIG.

The **Tacoma, WA** Police Department's Clandestine Methamphetamine Lab Unit and an OIG Agent served a state search warrant at a residence located next to a multifamily complex housing several assisted housing residents. The Clandestine Lab Unit had information about a methamphetamine and marijuana manufacturing and distribution operation. What makes this meth lab different from many others is that the suspects were extracting ephedrine from cattle salt licks instead of using the common over the counter diet or cold products which can be purchased at drug stores. The sales of salt licks are not regulated like the cold and diet products containing ephedrine. The suspects advised that they were able to extract 9 pounds of ephedrine from a 250-pound salt lick. Task Force members seized 192 grams of ephedrine, 1 ounce of methamphetamine, 4 ounces of marijuana, 41 marijuana plants, and \$4,900 in cash. Four individuals were arrested and charged with unlawful manufacturing and possession of a controlled substance with intent to deliver. One of the arrestees may receive a sentencing enhancement for producing methamphetamine in the house where his 8-year old son lives.

As part of this investigation, OIG and the Tacoma Police Department also combined forces with the Department of Corrections (DOC) to check on individuals who are on supervised release and suspected of selling or manufacturing methamphetamine. Officers first targeted two suspects residing in an apartment complex housing other families on HUD assistance. A search resulted in the seizure of 43 grams of pure processed ephedrine. Officers charged both residents with violating their probation and unlawful possession of ephedrine with intent to manufacture methamphetamine. The third suspect on DOC supervision resided in a single family residence next to a HUD assisted complex. A search netted several grams of methamphetamine along with other equipment commonly used in the production of this drug. The suspect claimed that a friend of his had been "cooking" methamphetamine in his garage for months. Officers later found two addi-

tional grams of methamphetamine on the suspect. The property was secured and a state search warrant was later obtained for both the garage and the house. The search of the garage revealed an extensive methamphetamine lab, including eight 5-gallon buckets containing large quantities of lab waste and methamphetamine oil. The ceiling of the garage was covered in hydrogen chloride gas from what is known as an HCL generator. This gas is highly explosive and shows that a “cook” was recently done. The suspect was charged with possession and unlawful manufacturing of a controlled substance.

In the **District of Columbia**, the Safe Streets Task Force, consisting of the FBI, OIG, Metropolitan Police Department, and the District of Columbia Housing Authority Police Department, arrested five people in two different operations. In one initiative, Task Force members executed a search warrant in a public housing complex and seized 30 ziplock bags of crack cocaine, 1 ziplock bag of heroin, and a small amount of marijuana. Three individuals were arrested and charged with various drug violations. In another operation, a search warrant executed at Langston Dwelling, a public housing complex, resulted in the arrest of two individuals for drug violations. Officers and Agents seized 20 grams of unpackaged crack cocaine, 87 ziplock bags of crack cocaine, and \$5,200 in cash.

Agents and Officers from the OIG, DEA, FBI, IRS, ATF, and the Jefferson County Sheriff’s Office executed seven search warrants, nine seizure warrants and two arrest warrants. The targets of the investigation were members of an organization responsible for selling crack cocaine and heroin in **Birmingham, AL** public housing developments. The warrants resulted in the seizure of 36 weapons (including 11 that were stolen), \$13,268 in cash, and 7 vehicles.

The **Las Vegas, NV** Metropolitan Police Department, FBI, and OIG received information describing a car that would be traveling from Southern California to deliver a shipment of cocaine to the Ernie Cragin Apartments, a public housing complex. Surveillance was set up on Interstate 15, the major roadway from Southern California to the Las Vegas area. When Officers and Agents pulled over a vehicle matching the description, they found 6 kilos of cocaine and \$900 in cash, both of which were seized, along with the vehicle. The three occupants of the vehicle were arrested for trafficking in cocaine. During another initiative, OIG and the Las Vegas Metropolitan Police Department executed a state search warrant at an Ernie Cragin unit after an investigation found that cocaine was being sold out of the apartment. One individual was arrested for possession of cocaine with intent to sell. Five rocks of cocaine weighing about 2 grams, 2 grams of marijuana, and drug paraphernalia were confiscated.

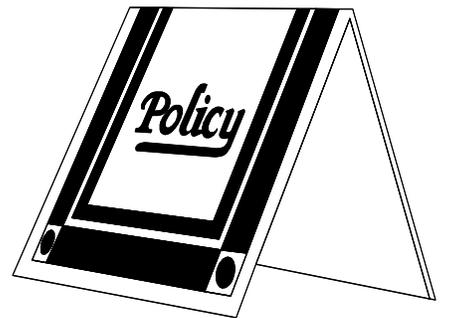
OIG and the **Omaha, NE** Police Department executed a search warrant at a public housing property. Two people were found to be in possession of a total of 23 grams of crack cocaine and 2 grams of marijuana and were arrested. In addition, while assisting HUD Nebraska State Multifamily Program staff in completing foreclosure inspections, an OIG Agent encountered a Section 8 recipient who was a dangerous convicted drug felon with two outstanding warrants. The recipient was arrested at the scene, and eviction proceedings were initiated.

In **Jackson, MS**, the High Intensity Drug Trafficking Area/Safe Home Task Force, which consists of the FBI, DEA, OIG, USCS, Hinds County Sheriff's Office, and the Jackson Police Department, performed a controlled delivery and subsequently executed a search warrant, resulting in the seizure of approximately 2 kilograms of cocaine. The drugs were sent to Mississippi from a source of supply in California and were destined for Jackson public and assisted housing. One person was arrested and charged with possession with intent to distribute.

OIG, DEA, the **Manchester, NH** Police Department Special Investigations Unit, and the New Hampshire State Police Narcotics Unit conducted a buy/bust operation next to a public housing development. Task Force members seized 500 grams of cocaine worth about \$15,000 and arrested 1 person for violating state narcotics laws.

Chapter 5

Regulations, Notices, and Other Directives



Making recommendations on regulations and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility has taken on an added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the OIG reviewed 133 regulations, funding notices, and other HUD directives and proposals. This Chapter highlights the more significant OIG recommendations.

Regulations

Prohibition of Predatory Lending Practices in HUD's Single Family Mortgage Insurance Programs

This proposed rule would implement initiatives protecting the Federal Housing Administration (FHA) and its borrowers against predatory lending practices. The proposed rule was an effort to address property "flipping," the practice of reselling recently acquired properties at artificially inflated prices. The proposed rule would also make several regulatory changes designed to prevent lenders from charging excessive fees, often concealed as discount points. We nonconcurred with the proposed rule because it would:

- Impose a cap on mortgage discount points. Since mortgage interest rates are not regulated, any lender can stay within the discount point limit by raising the interest rate. Since by law HUD cannot set the interest rate, such a rule change would be ineffective.
- Allow the use of mortgage brokers, but not require that their fees be included in the discount point limit.
- Permit the lender to charge a fee for a preliminary search to confirm the previous ownership of properties. We believe permitting such a fee is unnecessary as it duplicates services performed during the title examination.

The Office of Housing addressed our comments by deleting the section covering points and fees. We lifted our nonconcurrency on December 13, 2000; however, at the close of this semiannual reporting period, the proposed rule had not been issued.

Nonprofit Organization Participation in Certain FHA Single Family Activities - Approval and Removal Procedures

This proposed rule would establish regulatory approval and removal procedures for HUD's nonprofit roster. This roster lists the nonprofit organizations that have been approved by HUD to participate in certain FHA single family activities, including acting as a mortgagor, purchasing HUD homes at a discount, providing secondary funding, and providing down payment assistance in the form of gifts to mortgagors.

We nonconcurred with this proposed rule because gifts by nonprofit organizations, provided as a part of a down payment assistance program, must comply with FHA policies for gifts by charitable organizations. In addition, the proposed rule should restrict the nonprofit's activities to those specific activities approved in its application. Also, the rule should provide additional information on conditional approval and how those conditions will be monitored.

As of the close of this semiannual reporting period, the proposed rule had not been issued.

Notices

Prepayment of Direct Loans on Section 202 and 202/8 Projects with Inclusion of FHA Mortgage Insurance Guidelines

This proposed Notice would clarify guidance on the prepayment of Section 202 or 202/Section 8 direct loans for borrowers and Multifamily Hub/Program Center staff. It also included underwriting guidelines where the borrower is proposing to use FHA mortgage insurance to refinance the Section 202 direct loan.

We nonconcur with this Notice because it did not provide assurance that rents for refinanced Section 8 projects would be limited to comparable market rents in the area. This would help to ensure the reasonableness of subsidies paid by HUD. Also, the Notice did not include adequate provisions to ensure that owners do not gain control of residual receipts and replacement reserve funds when project mortgages are prepaid, at the expense of adequate repair and maintenance of the projects. When projects are in a state of disrepair, reserve accounts should be placed in escrow to ensure that funds are not inappropriately transferred to property owners. Additionally, for mortgage prepayments that require HUD approval, we recommended an examination to identify any monies owed HUD as a result of settlement agreements, judgments, or fines imposed as a result of enforcement actions.

The Office of Multifamily Housing revised the Notice and added a requirement that owners use reserve funds on hand at the time of prepayment notification to address any deferred maintenance and expenses or capital replacements at the project, as required by Section 8 regulations, the project's Regulatory Agreement, or the Section 8 Housing Assistance Payment contract. The Notice was issued on December 11, 2000.

Multifamily Housing Rehabilitation Loan Program for Capital Repairs

This Notice would announce HUD's funding for the Multifamily Housing Rehabilitation Loan Program for Capital Repairs. The purpose of the program is to address the rehabilitation and repair needs of aging projects that do not have the financial resources available to address those needs. We nonconcur with this Notice because of concerns with its eligibility requirements, proposed program requirements, use of funds, use agreements, the application review process, selection procedures, monitoring, and reporting.

The eligibility requirements state that owners may not have engaged in material adverse financial or managerial actions or omissions with regard to the project. More specific guidance should be provided on the definition of "material." This statement is broad in nature and could result in inconsistent application of the standard. We were particularly concerned about owners that have taken surplus cash distributions from the project when the project was in need of repair or rehabilitation.

The proposed program requirements state that the owners must agree to keep the project in decent, safe, sanitary condition. We recommended that this older property maintenance standard be replaced with HUD's current Uniform Physical Standards.

The section defining allowable use of funds states that awards are a one-time funding opportunity for the proposed rehabilitation, and that applicants may not request additional funds from the Department at a later date to cover unforeseen expenses. While we agree with this policy, it lacks provisions on how uncompleted

work will be funded. Absence of such provisions may jeopardize the completion of projects. We recommended that owners be required to guarantee completion of planned work.

Each application receives a preliminary review by the applicable field office to determine acceptability. This includes a review of the management agent's performance. We recommended that the field office be required to perform a management review when the management information file for the project does not exist or is outdated, so an informed judgment may be made on the acceptability of the owner or agent.

According to the current selection procedures, funding is awarded on a first come, first serve basis after the threshold score is met. We recommended using a selection process that gives preference to projects that have more than 50 percent of the project occupied by very low-income residents, and are located in housing markets or sub-markets in which there is not sufficient habitable affordable rental housing.

Factors for making awards gives a maximum of 20 points for a favorable Real Estate Assessment Center inspection score. A low score is an indication of the need for repairs and maintenance. We recommended that point deductions be made for low scores if the owner contributed to physical deficiencies because of poor management. Also, the applicant's capacity and the tenant's evaluation of management's performance should be considered in evaluating the applicant's performance and capabilities.

Finally, the Notice makes on-site inspections of rehabilitation work optional for HUD staff. Effectively monitoring the owner's progress in performing rehabilitation work without on-site inspections is virtually impossible. Absent this control, the program is subject to substantial fraud and abuse. We recommended that the Notice be revised to include procedures for performing independent inspections to monitor progress, and ensure that funds are being used as intended.

While the Office of Housing agreed with our comments, the Notice had not been issued as of the close of this semiannual reporting period.

Health Care Facilities

OIG nonconcurred on the proposed Notice for the Section 232 Health Care Facilities Program. Proposed changes involved eligibility requirements, lease arrangements, and underwriting terms and processing procedures. Large and mid-size portfolios, with 11 or more projects, would be required to undergo additional levels of review. To minimize the chance of an owner/operator placing an undue risk on the FHA insurance fund by packaging a group of projects with inordinately high mortgages, but under the 50 project limit, we recommended the additional review also be required for owners/operators who submit mortgages that exceed the average aggregate mortgage amount for Section 232 projects.

The Notice also allowed mortgages to be processed under the procedures for Multifamily Accelerated Processing (MAP). Considering the health care industry's financial uncertainty, and HUD's lack of experience with MAP lenders to this point, especially with a program requiring specialized skills such as health care facilities, we recommended that portfolio transactions be fully processed using HUD staff.

The credit analyses provided for in the Notice were quite comprehensive and should provide for a better assessment of Section 232 loans than in the past, especially utilizing the expertise of Wall Street firms. However, we suggested the analyses be strengthened from the standpoint of evaluating owners'/operators'

past performance in providing quality care nursing home facilities. This should include examining: (1) the owners'/operators' compliance with federal care standards, in particular those of the Health Care Financing Administration, and including federally imposed fines; (2) complaints filed with state regulators in the Department of Consumer and Industry Service (or like agencies), including state imposed fines; (3) investigations by the State's Attorney General; and (4) use of related management companies, identity-of-interest consulting, and administration fees.

While the Office of Housing agreed with our comments, the Notice had not been issued as of the close of this semiannual reporting period.

Notices of Funding Availability

Service Coordinators in Multifamily Housing

This Super Notice of Funding Availability (SuperNOFA) would announce the availability of HUD program funds for 39 grant categories, provide application procedures, and describe requirements applicable to grant programs. The Service Coordinator Program provides funding for employment and support of coordinators responsible for assisting elderly and disabled residents in obtaining the supportive services needed to live independently.

We nonconcur with this SuperNOFA because it deleted the requirement that project owners have no outstanding contractual or regulatory violations in order to be eligible to receive funding. We recommended that this requirement be reinstated to reaffirm HUD's policy of zero tolerance for program abuse and violations. The Office of Multifamily Housing revised the SuperNOFA to address our comments, and included a requirement that, to be eligible for grant funds, applicants must be in compliance with their Regulatory Agreements, Housing Assistance Payments contracts, and other applicable directives.

The Department issued the SuperNOFA on February 26, 2001.

Lead-Based Paint Hazard Control Grant Program

This SuperNOFA would assist states, Indian Tribes, and local governments in undertaking comprehensive programs to identify and control lead-based paint hazards in eligible privately owned rental housing or housing partnerships with owners and occupants.

We nonconcur with this SuperNOFA because its ranking and rating procedures would allow applications to be advanced if their program provides lead hazard control services to populations or communities that have a high need. This would be inappropriate because need for the project is one of the factors considered during the initial rating and ranking process. Thus, projects with high need should have already been awarded higher points during this review. Advancing projects based on need after the ranking and rating process, without a clear standard for such action, may increase the risk of bias.

The Office of Healthy Homes and Lead Hazard Control deleted the provision to advance projects based on high need and issued the SuperNOFA on February 26, 2001.

Community Development Technical Assistance Programs, HOME Program, McKinney Act Homeless Assistance, and Housing Opportunities for Persons with AIDS

This SuperNOFA would provide funds for four separate community development technical assistance programs. We nonconcurrent with the SuperNOFA because it identified incarcerated populations as one of the underserved populations to be targeted for funding under the grant's national objectives. Also, the SuperNOFA did not include procedures to ensure fair selection of proposals for funding in the event none of the applications adequately addressed the Housing Opportunities for Persons with AIDS technical assistance program's national goal.

The Office of Community Program Development revised the SuperNOFA to target post incarcerated, rather than incarcerated persons for funding. The Office deleted the section allowing HUD to make awards to applicants who did not make the minimum score or meet national objectives. The SuperNOFA was issued on February 26, 2001.

Housing Opportunities for Persons with AIDS

This SuperNOFA would provide states and localities with the resources and incentives to devise long-term comprehensive strategies for meeting the housing and related supportive service needs of persons and families of persons with HIV/AIDS.

We nonconcurrent with this SuperNOFA because it identified incarcerated populations as being underserved. However, those populations do not qualify as "eligible persons" as defined by the Cranston-Gonzalez National Affordable Housing Act.

The Office of Community Program Development revised the SuperNOFA to state that applicants should target post incarcerated, rather than incarcerated persons for services, and issued the SuperNOFA on February 26, 2001.

HOPE VI Program

This SuperNOFA would announce funding availability for HOPE VI Revitalization grants. The purpose of these grants is to help public housing agencies improve the living environment for residents, revitalize public housing sites, build sustainable communities, and provide housing that will avoid or decrease the concentration of very low-income families.

We nonconcurrent with this SuperNOFA because it did not provide a maximum cost per unit for demolition grants. Also, the SuperNOFA states that eligible activities include replacement homeownership assistance to public housing residents and other low-income families. Section 24(a)(1) of the Housing Act of 1937 states that the purpose of the assistance is to improve the living environment for public housing residents. The Act makes no mention of assistance to low-income families.

The Office of Urban Revitalization revised the SuperNOFA to incorporate a threshold of \$5,000 per unit for demolition grants and deleted the paragraph stating that assistance may be provided to low-income families. The SuperNOFA was issued on February 26, 2001.

Fair Housing Initiatives

This SuperNOFA would announce funding availability for the Fair Housing Initiatives Program. The purpose of the program is to increase compliance with the Fair Housing Act, as well as substantially equivalent state and local fair housing laws. We nonconcurrent because this SuperNOFA would allow fair housing enforcement organizations to participate in this initiative for 5 years, without regard to annual performance. Guidance in 24 CFR 125.50 states that assistance may be provided on a single-year or multi-year basis, contingent upon annual performance reviews and annual appropriations.

The Office of Fair Housing and Equal Opportunity revised this section of the SuperNOFA and stated that organizations will be allowed to participate in this initiative for 3 years, contingent upon satisfactory annual performance reviews. We removed our nonoccurrence and the SuperNOFA was issued on February 26, 2001.

Rural Housing and Economic Development

The purpose of the Rural Housing and Economic Development Program is to build capacity at the state and local level for rural housing and economic development, in consultation with the U.S. Department of Agriculture. We nonconcurred with this SuperNOFA because it sought to provide assistance to communities other than those designated as eligible by the Cranston-Gonzalez National Affordable Housing Act. Also, the SuperNOFA would allow applicants to be eligible for funding, even if up to 50 percent of the applicants' proposed activities were determined to be ineligible.

The Office of Community Program Development deleted the provision to provide assistance to communities not specifically authorized by the Cranston-Gonzalez National Affordable Housing Act. Also, the initial screening requirements were revised to state that applicants may not propose significant ineligible activities, and provided examples of such activities. The SuperNOFA was issued on February 26, 2001.

Other HUD Directives

Section 8 Renewal Policy - Guidance for the Renewal of Project-Based Section 8 Contracts

This Guide would consolidate prior policy on the Section 8 Program, making the policy more effective and accessible to HUD's partners. The Guide would apply to all multifamily housing projects with expiring Section 8 assistance contracts. The Multifamily Assisted Housing Reform and Affordability Act of 1997 requires that Section 8 rents, to the extent possible, be comparable to unsubsidized rents in the area where the projects are located. To preserve affordable housing, the Guide would make all surplus cash available for distribution to project owners who are participating in the Mark-Up-To-Market initiative (an initiative to adjust housing to market prices). Also, the Guide allows Sections 8 contracts for debarred and suspended owners to be renewed, provided that the projects for which the contracts are being renewed are adequately managed and maintained, and activities at those projects were not the cause of the administrative actions against the owner.

We nonconcurred with this Guide because it may encourage project owners to overestimate expenses in order to accumulate a greater year-end surplus, which may later become available for distribution. We recommended that restrictions be implemented to prohibit distributions for projects that are not in compliance with Uniform Physical Standards, or have exigent health and safety violations. We recommended that similar standards be used to evaluate Section 8 contract renewals of debarred owners.

The Department initiated revisions to address our suggestions, but the Guide had not been issued as of the close of this semiannual reporting period.

***Departmental
Enforcement Center,
Addition of Function -
Organizational Changes***

This memorandum proposed that the function of the Departmental Enforcement Center be expanded to include investigative activities, including “investigations across the full spectrum of HUD programs that may result in civil and/or administrative actions, judgments, sanctions and/or management decisions.” The memorandum also proposed to reorganize the organization to carry out the proposed functions.

We nonconcur with the proposal because the Inspector General Act of 1978, Title 5 United States Code, Appendix 3, assigns all audit and investigative resources under the direction of the Inspector General. The Act also requires that allegations of fraud, waste, abuse, and mismanagement related to Departmental programs and operations be made directly to the Office of Inspector General.

This memorandum had not been issued as of the close of this semiannual reporting period.

***Amended
Reorganization - Office
of Housing-Federal
Housing Administration
Comptroller***

This proposed reorganization would refocus the Office of the Comptroller activities to comply with recent changes in federal accounting policy. The reorganization would allow budgetary accounting at the transaction level and enhance the Comptroller’s ability to report and be audited under federal basis accounting principles.

We nonconcur with this proposed reorganization because it identifies performing internal audits as one of the primary functions of the Management Controls Branch. Based on the Inspector General Act of 1978 and legal opinions issued by the Department of Justice, the Office of the Inspector General is the only entity within the Department authorized to conduct internal audits.

Our nonconurrence remained open at the end of this semiannual reporting period.

***Realignment of
Information Technology
Support Services -
Functions and Staff***

We reviewed seven proposed reorganizations affecting information and technology support services, functions, and staff. We nonconcur with those reorganizations because they would result in system development functions being moved into program offices, rather than the Office of the Chief Information Officer. As noted in our recent audit reports, we believe fragmented control of information technology development resources is a contributing cause to ongoing system weaknesses.

The Department had not responded to our comments as of the end of the semiannual reporting period. However, the Office of Administration issued a memorandum on March 26, 2001, stating that recent and pending reorganizations will be reviewed to ensure that they are consistent with the priorities of the new Presidential Administration.

The reorganizations had not been completed as of the end of the semiannual reporting period.

***Results of FHA’s Fraud
Protection Plan***

This Mortgage Letter would outline the actions FHA has taken to combat predatory lending involving FHA loans and information learned from the initiative.

We nonconcur with the Letter because it recommended a specific commercial software product. Since the referenced product is a paid subscriber service and there are many other available sources for the same information, some at no cost, it is inappropriate for the government to promote a specific product. This Mortgage Letter had not been issued at the end of the semiannual reporting period.

***Government National
Mortgage Association
(GNMA) Reorganization
Plan***

This memorandum provides the proposed reorganization plan for GNMA. The plan provides recommendations regarding staffing levels to support existing programs and to respond to changes in the mortgage market. We nonconcurrent with the proposed reorganization because of plans to establish an office within GNMA to handle the Community Development and Economic Development (CD/ED) initiative.

We believe that establishing another Office of Community Development is unnecessary and duplicates functions previously established within the already existing Office of Community Planning and Development (CPD). CPD administers a variety of programs that help communities plan and finance their growth and development. In addition, CPD coordinates community planning and development efforts with other departments and agencies, other public and private organizations, private industry, financial markets, and international organizations. We believe coordination between GNMA and CPD on GNMA's planned CD/ED initiative would eliminate the need for a separate such office within GNMA and promote more efficient utilization of the Department's limited resources.

Our nonconcurrency remained open at the end of the semiannual reporting period.

***Public and Indian
Housing Drug
Elimination Technical
Assistance Program
Guidebook***

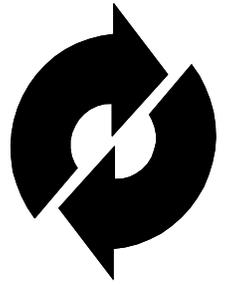
This proposed guidebook provides standard operating procedures for selecting consultants who provide technical assistance. The purpose of the Public and Native American Tribal Housing Drug Elimination Technical Assistance Program is to provide technical assistance from consultants to improve the administrative effectiveness of drug elimination grants. The guidebook would apply to public housing agencies, Native American Tribal housing entities, resident management corporations, and resident organizations.

We nonconcurrent with the issuance of this guidebook because our recent audit disclosed serious weaknesses in the consultant selection process. Our audit included 10 recommendations for correcting the weaknesses.

HUD is currently revising the guidebook and will again request comments when the revisions are complete.

Chapter 6

Audit Resolution



In the audit resolution process, the OIG and HUD management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant pending issues where resolution action has been delayed. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 3/31/01," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/01."

Delayed Actions

Audits of HUD's FY 1991 through 2000 Financial Statements

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 10 fiscal years, beginning with Fiscal Year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for FY 2000, we were able to express an unqualified opinion on HUD's principal financial statements.

The results of our FY 2000 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; (2) ensure that subsidies are based on correct tenant income; and (3) improve monitoring of housing subsidy determinations. In addition to the weaknesses that continue to exist from prior years, our report also includes a material weakness about the need to enhance FHA's information technology systems to more effectively support its business processes as well as data integrity. Corrective action plans to resolve these issues have continued to change over the last decade.

Audits of FHA's FY 1991 through 2000 Financial Statements

First issued March 27, 1992. FHA has been preparing financial statements for 10 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2000 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes; (2) place more emphasis on early warning and loss prevention for single family insured mortgages; and (3) monitor and account for its single family property inventory. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and application level security controls, which was expanded in FY 1999 and FY 2000 to include needed improvements in data integrity. In FY 2000, FHA did resolve a material weakness (controls over budgetary funds and funds control) and part or all of three reportable conditions (the review process for estimating reserves for the insured portfolio; actions

to safeguard and quickly resolve Secretary held single family mortgage notes; and early warning and loss prevention for multifamily insured mortgages).

FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The FY 2001 financial statement audit will assess FHA's accomplishments in correcting these conditions.

Audits of Bond Refundings of Section 8 Projects

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

We reported that two of three HFAS reviewed were collecting duplicate fees. The excessive fees for one of these HFAS amounted to over \$640,000 for the 8-year period covered by our audit. The Office of Housing's current position is to prevent HFAS from collecting both fees on future deals. HFAS will be allowed to continue to collect duplicate fees on previous deals if they request a waiver and justify keeping both fees. We believe it would be illegal to grant HFAS retroactive waivers to keep fees inappropriately obtained from HUD. Also, allowing some HFAS to collect and keep fees amounting to almost twice as much as those collected by HFAS who abided by the regulations is inequitable and sends the wrong message to those doing business with HUD. HFAS and other entities doing business with the Department may conclude that overbilling for services will be overlooked or later waived by HUD.

Despite numerous attempts to have this issue resolved, including involvement of the former Deputy Secretary, the Department is unwilling to require repayment of the duplicate fees. HUD is of the view that the duplicate fees do not represent a debt owed the government and allowing agencies to petition for a waiver of the regulation is both fair and appropriate. OIG continues to maintain the position that the dual fees are overpayments for the reasons originally cited in our 1993 audit report and that the dual fees constitute a debt owed the government. HUD would need to go to OMB or GAO for approval to write off collection of any dual fees taken in excess of \$100,000. On July 27, 2000, the OIG recommended that HUD request a ruling from OMB or GAO to determine if the overpayments represent a debt and are subject to debt collection rules. In September 2000, we were advised that the Office of Housing would not request a ruling from OMB or GAO. Instead, they planned to solicit agencies for petitions to waive the regulations.

The OIG informed the former Deputy Secretary that we are not in agreement with the Office of Housing's plans and on December 15, 2000, we referred this matter to the Comptroller General for a ruling. We are still awaiting that decision. (Report Nos. 1993-HQ-0004 and 1993-HQ-0013)

Section 236 Program Excess Rental Income Collections

Issued December 21, 1994. A multi-district audit on the Section 236 Rental Housing Program found that HUD needed to pursue changes in calculating excess income, HUD needed to take more aggressive action to collect about \$14.9 million in overdue excess income, and Section 236 projects owed HUD at least \$829,000 in unreported excess income. To resolve the audit recommendations, HUD issued guidance and instructions to multifamily property owners.

A March 1999 review of the corrective action taken found that HUD did not satisfactorily implement 11 of the 17 recommendations. As a result, uncollected

reported excess income has increased from almost \$15 million to over \$18 million through November 1998, and the number of missing excess income reports increased from 10,000 to nearly 14,000. It is also likely the amount of unreported and uncollected excess income has increased. In June 1999, in response to our corrective action review, the former General Deputy Assistant Secretary for Housing provided an action plan to resolve all recommendations by September 2000. However, in May 2000, the Office of Housing informed OIG that it planned to re-visit the issues and develop a revised action plan with revised target dates for final action. The OIG never received a revised action plan and the recommendations remain unresolved over 6 years after our original report.

Delays in taking corrective action further increase the amount of uncollected reported excess income, the number of missing excess income reports, and the amount of unreported and uncollected excess income. In an attempt to bring these matters to closure, in March 2001, the OIG requested the General Deputy Assistant Secretary for Housing to provide a revised action plan with revised target dates for final action to resolve the conditions found. (Report Nos. 1995-SF-0001 and 1999-SF-0801)

Section 108 Loan Guarantee Program

Issued November 17, 1997. We reviewed complaints received from the Seattle Displacement Coalition related to the City of Seattle's Section 108 loan guarantee for acquisition of the Frederick and Nelson building. We identified programmatic issues relating to the need for full disclosure of activities undertaken. This disclosure should be made to citizens and in Section 108 applications. To address these issues, we recommended that HUD define and clarify disclosure requirements for the program.

In January 1998, HUD management told the OIG they would take appropriate action to correct the identified deficiencies. Over 3 years have passed since OIG concurred with management's decision to address the above program deficiencies. The planned actions are currently over 2 years overdue. Since January 1999, OIG staff has made numerous requests to HUD officials to complete actions to resolve the audit. In October 2000, we advised the former Assistant Secretary that actions were long overdue. Beginning in January 2001, with the change in Administration, we have worked closely with the Office of Community Planning and Development. It was agreed that a Notice to program participants would be issued to address our recommendations. The Notice is currently being prepared and it is anticipated that it will be issued in May 2001. (Report No. 1998-SE-0001)

Housing Authority of the City of Tampa, FL

Issued April 23, 1998. Between 1994 and 1996, the Tampa Housing Authority (THA) awarded at least 81 construction contracts totaling almost \$27 million without competitive bidding and to unqualified resident owned businesses. We recommended that THA repay \$1.9 million in ineligible costs, representing costs exceeding the lifetime limit on contracts to residents and contract awards exceeding cost estimates.

In October 1998, the Florida State Office of Public and Indian Housing (PIH) and OIG agreed that THA should repay \$1.2 million to its Comprehensive Grant Program (CGP). Final actions were to be completed by October 1999. In August 2000, the Florida State Office requested that the OIG agree to a write-off of about \$1 million because THA did not have non-HUD funds to reimburse the CGP. The State Office indicated that THA would repay the remaining amount of about

\$200,000 from non-HUD funds. We disagreed with the proposed write-off because we were aware of an April 19, 2000 letter from THA's attorney to the PIH Director in Miami which showed that THA had an additional \$900,000 in non-HUD funds. We advised PIH of the letter and the existence of the additional non-HUD funds that THA could use to reduce the ineligible costs. In December 2000, PIH instructed THA to use the additional \$900,000 to reduce the ineligible costs.

On February 26, 2001, the Florida State Office advised us that they no longer agreed that additional funds in THA's possession were non-federal funds and should be used to repay ineligible costs. We reiterated our position that the funds were non-HUD funds that could be used to reduce the ineligible costs. We will refer this issue to the Assistant Secretary for Public and Indian Housing for resolution. (Report No. 1998-AT-1005)

Section 203(k) Rehabilitation Mortgage Insurance Program

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

Instead of permanently removing investors from the program, HUD placed a temporary moratorium on investor participation. On June 9, 1997, this matter was referred to the former Deputy Secretary. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decided whether to implement a new rehabilitation program. While we believe HUD should permanently ban investors from the 203(k) Program, as it had done in other single family programs, the suspension was an acceptable interim solution.

In January 2001, Office of Housing staff explained that they are committed to maintaining the ban on investor participation. First, the Mortgagee Letter banning investor participation remains in effect indefinitely. Investors will not be able to participate in the program in the future unless a new Mortgagee Letter is issued. Second, the Office of Housing has changed their systems so that they will not permit investor loans. Since it would not be a simple effort to allow investors into the program in the future, we closed all the audit recommendations. We plan to conduct a corrective action verification of actions taken to address our audit recommendations. (Report No. 1997-AT-0001)

Section 203(k) Program Consultants

Issued August 27, 1997. HUD's procedures for approving consultants and consultant trainers for the Section 203(k) Program were not properly documented and resulted in inconsistent decisions by HUD Headquarters and Field Office staffs. The former Assistant Secretary for Housing/Federal Housing Commissioner proposed to develop a certification examination for 203(k) consultants which would be administered by a HUD approved testing organization. The improvements were to be completed by January 1999. On July 26, 2000, the Office of Housing issued Mortgagee Letter 00-25. According to the letter, HUD was developing a formal examination process during FY 2001 similar to the test FHA appraisers now complete. During this reporting period, HUD implemented the process completing all necessary actions. To assure that the actions are effective, we plan to conduct a corrective action verification of the actions taken. (Report No. 1997-AT-0803)

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

Issued May 1, 1998. Our audit of the Section 203(k) Program as it pertains to owner/occupant borrowers found incomplete and poor rehabilitation work even though inspectors had certified the work was properly completed. As a result, HUD's risks were increased and borrowers' living conditions were poor. The Office of Housing drafted a Mortgagee Letter requiring lenders to field review the final inspection report for a sample of lenders' loans. We concurred in the proposed corrective action and a January 1999 draft Mortgagee Letter. The Office of Housing issued a Mortgagee Letter that placed additional responsibilities on lenders to assure that inspectors were performing properly, closing all recommendations in the report. We plan to conduct a corrective action verification to determine whether the actions taken have been effective. (Report No. 1998-AT-0002)

***San Francisco Housing
Authority Drug
Elimination Program***

First issued July 22, 1998. An audit of the San Francisco Housing Authority Drug Elimination Program found weaknesses in the procurement process, a lack of adequate cost analyses, and fixed-price elements in contracts that should have been entirely cost reimbursable. In some cases, written contracts were not executed. These weaknesses resulted in excessive and unsupported costs, which potentially could lead to disputes with contractors as well as give the appearance of favoritism. Corrective action was to include centralization of procurement activities, training of staff, and revision of procurement procedures.

Based on assurances and documentation provided by the Housing Authority, the Memphis Troubled Agency Recovery Center (TARC) was prepared to consider action completed in September 1999. However, the OIG advised the TARC that an ongoing audit of the Housing Authority showed that actions were not complete. Our March 31, 2000 audit report on contracting practices, conducted in conjunction with our audit of the Authority's Low-Income Housing Program, noted continuation of the same or similar deficient procurement practices. Accordingly, the TARC did not close the recommendations.

The TARC engaged a consulting firm to evaluate even more recent procurement activities. That study showed a continuation of poor procurement practices. We are working with the TARC to determine, by May 2001, what additional corrective action needs to be taken. (Report No. 1998-SF-1003)

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

Issued August 19, 1999. The City of Lynwood could not demonstrate its compliance with CDBG requirements for activities administered by subgrantees. The subgrantees operated a community based program which provided business training and incubator space for the benefit of low- and moderate-income residents of the City of Lynwood. The training component included businesses outside of the grantee's City limits. However, the City could not provide documentation to support the number of jobs for low- and moderate-income persons created or retained, or document future benefits accruing to its residents from training businesses located outside City limits. We recommended HUD require the grantee to: (1) submit documentation establishing the eligibility of nearly \$659,000 paid for job creation and retention activities; (2) submit documentation establishing the eligibility of over \$73,000 paid for business trainees located outside of the grantee's City limits; and (3) return to its letter of credit, from non-federal funds, the amount the grantee is unable to support. In December 1999, the Los Angeles Office of Community Planning and Development (CPD) agreed with our recommendations and agreed to complete actions by October 31, 2000.

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

We disagreed with the Los Angeles Office of CPD and referred the matter to the Acting General Deputy Assistant Secretary for CPD for decision in February 2001. In our opinion, the CDBG regulations are very specific in requiring that CDBG funding may be used for the type of activity carried out by subgrantees only if it creates or retains permanent jobs for low- and moderate-income persons. We are currently working with Headquarters to resolve the matter. If agreement cannot be reached, we will refer the matter to the Deputy Secretary in May 2001. (Report No. 1999-SF-1003)

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

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

HUD did not meet the March 2000 completion date because the former empowerment zone coordinator did not take action on the recommendations. Based on the OIG's discussions with the Office of CPD, the CPD Comptroller started taking action on the recommendations in February 2001. It is now anticipated that all actions will be completed by July 2001. (Report No. 1999-CH-0001)

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

Issued September 28, 1999. The audit found that a special economic development activity totaling approximately \$700,000 did not meet a national objective of the Housing and Community Development Act. The project was intended to meet the national objective of "benefiting low- and moderate-income persons with an eligible activity of job creation." The audit found that the City created no jobs for low- and moderate-income persons. In January 2000, HUD agreed with our recommendation. The City would need to demonstrate that the activity met another national objective or repay the amount of ineligible assistance. Actions were to be completed by January 2001.

Subsequent to the audit, the City changed the national objective to "an activity to aid in the prevention or elimination of slums or blight." However, the City has produced no documentation to support that the area of the activity was deteriorating, declared a slum or blighted area, or that there were conditions existing in the building that would qualify it as "spot blight." Nonetheless, in March 2001, the Office of CPD advised they consider the project to meet the national objective of prevention or elimination of slums or blight. On March 16, 2001, we advised the

Acting General Deputy Assistant Secretary that we disagreed with their position and requested a meeting to discuss the issue. If agreement cannot be reached, we will refer the matter to the Deputy Secretary in May 2001. (Report No. 1999-KC-1002)

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

Issued November 1, 1999. HUD has changed its development solution for the new Departmental Grants Management System (DGMS) from a combined expansion of existing systems to a custom development solution. In September 1998, the financial systems integration team, under the HUD Chief Financial Officer, completed a feasibility study, which concluded that the custom development solution was the most expensive and risky solution. The Department disagreed with four of the five recommendations in our audit report. In two responses, dated January 3, 2000, and June 26, 2000, the Department refused to: (1) assign full project responsibilities to the Chief Information Officer; (2) perform new feasibility studies, including a cost-benefit analysis of technical alternatives; (3) curtail further development until the recommended studies are completed; and (4) involve experienced grantees to assist the Department in developing a new grants management system.

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

In a memorandum dated August 25, 2000, we again requested the former Deputy Secretary to reconsider the Department's position on the disagreed recommendations. The former Deputy Secretary informed us on September 29, 2000, that he had initiated a review of the issues we raised. He indicated that the review should be completed by October 16, 2000, and that he would, at that time, be prepared to discuss our request for the reconsideration.

In December 2000, the former Deputy Secretary provided an updated response to the four recommendations, reaching the decision that no further action was needed to address the recommendations. On January 10, 2001, HUD signed a contract with a new contractor to develop DGMS, and the contractor began development work on January 17, 2001. In our opinion, the former Deputy Secretary's response did not effectively address our recommendations. By not implementing our recommendations, HUD may be embarking on an expensive and costly system development solution. Because of this concern, in a March 26, 2001 memorandum, we requested the current Administration to reconsider the issues raised in the audit. (Report No. 2000-DP-0002)

***Down Payment
Assistance Programs***

Issued March 31, 2000. We reported that HUD allowed nonprofit organizations to operate down payment assistance programs that circumvent FHA requirements. The down payment loan transactions do not meet the intent of FHA requirements in that the down payment assistance is not a true gift because the seller reimburses the nonprofit for the assistance. Audit results indicate that default rates for buyers receiving down payment assistance from nonprofit organizations are significantly higher than for other FHA loans. Also, some sellers have raised the sales prices of properties to cover the cost of the down payment assistance pro

grams, causing buyers to finance higher loan amounts. The circumvention of FHA requirements occurred because HUD did not have an established process or specific criteria to evaluate these programs.

During the audit, HUD issued a proposed rule for comment which would preclude down payment funding derived from the sellers of single family properties, either directly or indirectly. The audit provided evidence supporting HUD's proposed rule. After the audit was issued, the former Assistant Secretary for Housing decided not to issue a final rule to implement the provisions of the proposed rule.

We referred the recommendations to the former Deputy Secretary on October 24, 2000, after being unable to reach agreement on the recommendations with the former Assistant Secretary. We did not receive a response from the former Deputy Secretary. In March 2001, the current Administration advised the OIG that they are reexamining the entire issue of down payment assistance. (Report No. 2000-SE-0001)

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial system requirements within 3 years or obtain OMB's concurrence if more time is needed. FFMIA requires us to report, in our Semiannual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of Fiscal Year 2000, the Department reported that 11 systems were not in substantial compliance with FFMIA. Our audit of HUD's FY 2000 financial statements cites additional financial management systems weaknesses which we reported as reasons for the Department's FFMIA noncompliance. These include noncompliance with: (1) federal financial management systems requirements; and (2) the standard general ledger at the transaction level. HUD has submitted plans to OMB to correct material system weaknesses with a target completion date of December 31, 2005. Since the Department will not be in compliance by April 2001, HUD will need to obtain OMB's approval for additional time to comply with FFMIA.

U.S. Department of Housing and Urban Development
Office of Inspector General
Semiannual Report to the Congress
for the period ending March 31, 2001

Appendices

APPENDIX 1 - AUDIT REPORTS ISSUED

for the period

October 1, 2000 through March 31, 2001

Internal Reports

Housing

2001-FO-0002

Federal Housing Administration, Audit of FY 2000 Financial Statements, 03/01/01.

PIH

2001-AO-0001

Drug Elimination Technical Assistance Program, 01/31/01.

2001-SE-0001

HUD Approval of a Student Housing Project for Cook Inlet, AK Housing Authority, 03/30/01.

CPD

2001-NY-0001

Canal Corridor Initiative, HUD Administered Small Cities CDBG, Section 108 Loan Guarantee Programs, 03/30/01.

Miscellaneous

2001-DP-0001

HUD Entity-wide Security Program, 10/31/00.

2001-DP-0002

HUD's Central Accounting and Program System (HUDCAPS), 02/27/01.

2001-FO-0001

Audit of GNMA's FY 2000 Financial Statements, 02/20/01.

2001-FO-0003

Audit of HUD's Fiscal Year 2000 Financial Statements, 03/01/01.

2001-FO-0004

Review of HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data, 03/28/01.

Single Family

2001-AT-0801

Interim Results - Officer/Teacher Next Door Program, 02/14/01.

Multifamily

2001-FW-0801

Rainbow Village Project, Review for Possible Program Fraud Civil Remedies Act Filing, Houston, TX, 11/24/00.

Audit Reports

Audit-Related Memoranda

Internal Reports - continued

PIH

Audit-Related Memoranda - continued

2001-PH-0802

Pittsburgh, PA Public Housing Division's Environmental Assessment Determination of Joshua Meeks House, 03/30/01.

CPD

2001-PH-0801

Project H.O.M.E., Supportive Housing Grants, Philadelphia, PA, 03/22/01.

Miscellaneous

2001-DP-0801

Review of the Department's Internet Privacy Status, Pursuant to Requirements of the Treasury and General Government Appropriations Act of 2001, 02/21/01.

2001-AO-0801

Fair Housing Initiatives Program National Focus Education and Outreach Competition, 02/13/01.

2001-AO-0802

Fair Housing Initiatives Program Grant Administration, 02/13/01.

2001-FO-0801

Independent Accountant's Report on HUD's FY 2000 Accounting Submission Report, 02/01/01.

External Reports

Single Family

Audit Reports

2001-BO-1002

Waller, Smith and Palmer, PC - HUD Closing Agent, New London, CT, 01/05/01.

2001-FW-1001

Albuquerque Title Company, Inc., Closing Agent Contract, Albuquerque, NM, 11/20/00. Questioned: \$8,067; Unsupported: \$163.

Multifamily

2001-BO-1001

Blue Hills Housing, Dorchester, MA, 10/24/00.

2001-BO-1003

Bowdoin Apartments, Malden, MA, 01/29/01.

2001-NY-1001

Bay Towers, Multifamily Mortgagor Operations, Far Rockaway, NY, 12/07/00. Questioned: \$652,194; Unsupported: \$575,194.

External Reports - continued

PIH

Audit Reports - continued

2001-AT-1001	City of Miami Beach, FL Housing Authority, 10/20/00. Questioned: \$1,014,015; Unsupported: \$1,004,748.
2001-AT-1003	Mobile, AL Housing Board, Procurement Operations, 11/21/00.
2001-AT-1005	Puerto Rico Public Housing Administration HOPE VI, Comprehensive Grant & Economic Development and Supportive Services Programs, 03/30/01. Questioned: \$16,027,917; Unsupported: \$10,555,081; Better Use: \$3,845,850.
2001-CH-1002	Muskegon, MI Housing Commission, Low-Rent Public Housing, Section 8 and SRO Programs, 11/29/00. Questioned: \$1,200,085; Unsupported: \$64,222.
2001-CH-1003	Saginaw, MI Housing Commission, Low-Rent Public Housing, Section 8 and Drug Elimination Grant Programs, 01/04/01. Questioned: \$19,552; Unsupported: \$7,982.
2001-CH-1004	Youngstown, OH Metropolitan Housing Authority, Comprehensive Audit, 03/09/01. Questioned: \$19,840; Unsupported: \$8,210.
2001-CH-1005	London, OH Metropolitan Housing Authority, Safeguarding Monetary Assets and Inventory, 03/22/01. Questioned: \$6,578.
2001-FW-1003	City of Uvalde, TX Housing Authority, Low-Rent Public Housing and Section 8 Programs, 12/18/00. Questioned: \$339,508; Unsupported: \$13,082.
2001-KC-1001	Independence, MO Housing Authority, Internal Control Review, 10/24/00. Questioned: \$879.
2001-PH-1002	Chester, PA Housing Authority, 02/15/01. Questioned: \$34,365; Unsupported: \$22,516.
2001-PH-1003	Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs, 03/28/01. Questioned: \$1,013,756; Unsupported: \$733,804.
2001-SF-1001	San Francisco, CA Housing Authority, Force Account Modernization Activities, Comprehensive Grant Program, 03/30/01. Questioned: \$355,473; Unsupported: \$73,210.

CPD

2001-AT-1002	Adopt-a-Family of the Palm Beaches, Inc., Supportive Housing Grant, West Palm Beach, FL, 11/03/00. Questioned: \$88,741; Unsupported: \$88,741.
2001-AT-1004	Palm Beach County Division of Human Resources, Supportive Housing Grant, West Palm Beach, FL, 12/08/00. Questioned: \$32,103.
2001-CH-1001	City of Ironton, OH Community Development Block Grant Program, 11/16/00. Questioned: \$534,540; Unsupported: \$167,945.
2001-DE-1001	Cheyenne, WY Office of Housing and Community Development, Homeowner Rehabilitation and First-time Homebuyer Assistance Programs, 01/26/01.
2001-FW-1002	City of Dallas, TX, Continuum of Care Program, 12/13/00. Questioned: \$56,471; Unsupported: \$2,261.
2001-PH-1001	Philadelphia, PA Commercial Development Corporation's Funding of the Urban Education Development Research and Retreat Center Rehabilitation Project, Community Development Block Grant Program, 11/02/00.

External Reports - continued

Multifamily

Audit-Related Memoranda

2001-KC-1801
2001-SF-1802

Metro Management Corporation, Overland Park, KS, 02/21/01. Questioned: \$9,506.
Fountain Park Cooperative, Inc., Audit of HUD Earthquake Loan Program Funds, Woodland Hills, CA, 02/08/01.

PIH

2001-AT-1802
2001-BO-1801
2001-FW-1801
2001-PH-1801

Procurement of the Kimberly Park HOPE VI Developer, City of Winston-Salem, NC Housing Authority, 01/04/01.
Waterville, ME Housing Authority, 10/26/00.
Dallas, TX Housing Authority, HOPE VI, Roseland Homes Revitalization, 10/10/00.
Housing Authority of Baltimore City, MD, Thompson Court Decree, 01/24/01.

CPD

2001-AT-1801
2001-BO-1802
2001-CH-1801
2001-FW-1802

2001-FW-1803

2001-SF-1801

2001-SF-1803

Municipality of Aguadilla, PR, Community Development Block Grant Program, 12/12/00. Questioned: \$3,848,989.
Department of Mental Health and Addiction Services, Continuum of Care Program, Hartford, CT, 01/05/01.
Cuyahoga County, Cleveland, OH, Community Development Block Grant Program, Revolving Loan Fund, 01/10/01.
Greater Dallas, TX Council on Alcohol & Drug Abuse, Supportive Housing Grant, 02/13/01. Questioned: \$28,892; Unsupported: \$21,356.
AIDS Foundation Houston, Inc., Supportive Housing Program Grant, Houston, TX, 03/09/01. Questioned: \$69,369; Unsupported: \$27,203.
Sacramento, CA Housing and Redevelopment Agency, Limited Review, 02/07/01. Questioned: \$225,000; Unsupported: \$225,000.
Los Angeles, CA Homeless Services Authority, El Monte Youth Development Center, Supportive Housing Program Grant, 03/23/01. Questioned: \$656,845; Unsupported: \$576,206.

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 03/31/01

*Significant Audit Reports Described in Previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
*2000DP0002 Initial Development Efforts of the Departmental Grants Management System.	Management decisions have not been reached on 4 of the 5 reported recommendations. The former Deputy Secretary provided an updated response in December 2000, stating that no further action was necessary. Because this could be a costly decision for the Department, we requested the current Administration to reconsider the decisions on the recommendations.	11/4/99 05/31/01
*2000AT1003 Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR.	Management decisions have not been reached on 10 of the 19 reported recommendations. The issues were referred to the former Deputy Secretary in October 2000, because agreement could not be reached with the former Assistant Secretary. However, the former Deputy Secretary did not make management decisions on the recommendations before leaving office. In February 2001, the Office of Public and Indian Housing provided documentation to the OIG to address all but 2 recommendations. Our review of the documentation will not be completed until May 2001 because it is quite extensive. Management decisions on the remaining 2 recommendations are being delayed until the current Administration has an opportunity to determine necessary actions.	03/6/00 05/31/01
*2000AT1801 Puerto Rico Public Housing Administration, Misuse of Funds, San Juan, PR.	Management decisions have not been reached on 2 of the 3 reported recommendations. The issues were referred to the former Deputy Secretary in October 2000, because agreement could not be reached with the former Assistant Secretary. However, the former Deputy Secretary did not make management decisions on the recommendations before leaving office. In February 2001, the Office of Public and Indian Housing provided documentation to the OIG on the 2 recommendations. Our review of the documentation will not be completed until May 2001 because it is quite extensive.	03/9/00 05/31/01

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
*2000SE0001 Nationwide Audit, Down Payment Assistance Programs.	Management decisions have not been reached on the 4 reported recommendations. The issues were referred to the former Deputy Secretary in October 2000 because agreement could not be reached with the former Assistant Secretary for Housing. However, the former Deputy Secretary left office without making management decisions. In March 2001, the current Administration advised the OIG that they are reexamining the entire issue of down payment assistance. It is expected that management decisions will be reached in May 2001.	03/31/00 05/31/01
*2000FW1003 Pope & Booth, P.C., Closing Agent Contract, Austin, TX.	Management decisions have not been reached on 3 of the 6 reported recommendations. The issues were referred to the Deputy Assistant Secretary for Single Family Housing because agreement could not be reached with the Homeownership Center. A meeting was held with the Deputy Assistant Secretary in March 2001. On April 4, 2001, the Deputy Assistant Secretary requested HUD Counsel to provide a legal opinion on the feasibility of pursuing the recommendations. Once the legal opinion is obtained, the Deputy Assistant Secretary will provide management decisions on the recommendations.	05/24/00 07/30/01
*2000AT0002 Demolition of HUD Real Estate Owned Properties, Chicago, IL.	Management decision has not been reached on 1 of the 5 reported recommendations. When we issued our report, the local Community Planning and Development (CPD) Director agreed with our recommendation, which would require the City of Chicago to obtain HUD approval before demolishing HUD owned single family properties. Subsequently, the Director reversed the position initially taken. Because agreement could not be reached, the matter was referred to the General Deputy Assistant Secretary for CPD in February 2001. If agreement cannot be reached with CPD, the matter will be referred to the Deputy Secretary in May 2001.	09/28/00 05/31/01
*2000SE0003 Nationwide Audit, Use and Disposition of Residual Receipts.	Management decisions have not been reached on 11 of the 12 reported recommendations. The former Deputy Assistant Secretary for Multifamily Housing was unresponsive to the reported recommendations. We referred the matter to the General Deputy Assistant Secretary for Housing in March 2001. A meeting will be held with the General Deputy Assistant Secretary in April 2001 to attempt to reach agreement on the necessary actions.	09/29/00 05/31/01

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 03/31/01

Report Number	Report Title	Issue Date	Decision Date	Final Action
1990FW1004	Regency Place Apartments	04/05/90	07/31/90	Note 1
1992TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	12/31/01
1992PH1009	Huntington, WV Community Development Block Grant Program	07/10/92	11/07/92	07/31/01
1992SF1009	San Francisco, CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
1993HQ0004	Interim Audit of Bond Refunding of Section 8 Projects	10/30/92	10/26/93	Note 1
1993FW1003	Grimmet Drive Apartments	12/10/92	04/08/93	Note 1
1993FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	Note 1
1993SF1014	Tucson Health Care Limited Partnership	09/23/93	01/21/94	Note 1
1993FW1016	Anthony and Associates, Inc.	09/28/93	12/10/93	Note 1
1995SF0001	Multi-district Audit of Section 236 Program, Excess Rental Income Collections	12/21/94	03/31/96	Note 2
1995CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
1996FW1001	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	10/16/95	06/05/96	Note 2
1996SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	Note 1
1996AT1821	Puerto Rico Public Housing Administration, Comprehensive Grant and Drug Elim. Progs., San Juan, PR	06/26/96	12/10/96	Note 1
1996FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas, TX	08/19/96	10/17/96	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
1996DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 1
1997PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	Note 1
1997NY0802	Riverside South Apartments, New York, NY	02/21/97	09/30/99	Note 1
1997AT1806	Limited Review of Martin Street Plaza, Atlanta, GA	04/17/97	07/14/97	06/30/01
1997FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
1997CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Ins. Prog., Livonia, MI	09/17/97	01/06/98	Note 1
1997PH0001	HUD Contracting	09/30/97	02/10/99	06/30/01
1998SE0001	Acquisition of Frederick & Nelson Building, Section 108 Loan Guarantee, Seattle, WA	11/17/97	04/30/98	Note 1
1998HQ0801	Review of HUD's 2020 Management Reform Plan	11/25/97	07/14/99	Note 1
1998SF1001	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz, CA	03/24/98	09/24/98	07/31/01
1998SF1002	Redwood Villa, Multifamily Mortgagor Operations, Mountain View, CA	03/31/98	08/14/98	04/03/02
1998AT1005	Housing Authority of the City of Tampa, FL	04/23/98	10/21/98	Note 1
1998SF1003	San Francisco, CA Housing Authority, Drug Elimination Program	07/22/98	12/09/98	04/30/01
1998CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 2
1998CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 2
1998DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	09/29/99	Note 2
1999AT1001	Municipality of Arecibo, PR, CDBG and Section 108 Loan Guarantee Assistance Programs	11/05/98	03/09/99	09/15/05
1999PH0001	Youthbuild Program, Multiple Location Review	11/10/98	03/08/99	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
1999CH1801	Assessment of Progress Follow-up, Chicago, IL Housing Authority	12/02/98	03/31/99	Note 1
1999NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 2
1999AT1004	Housing Authority of the City of Sarasota, FL	02/24/99	04/29/99	Note 2
1999FO0002	Federal Housing Administration Audit of Fiscal Year 1998 Federal Basis Financial Statements	03/12/99	09/30/99	Note 2
1999FO0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/99	09/30/99	12/31/01
1999CH0001	HUD's Oversight of the Empowerment Zone Program	03/30/99	09/17/99	Note 1
1999PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	07/31/03
1999SF1003	City of Lynwood, CA, CDBG and HOME Programs	08/19/99	12/16/99	Note 2
1999SF1803	Northern Pueblos Housing Authority, Limited Review of Operations, Santa Fe, NM	09/08/99	11/09/99	Note 2
1999CH1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	Note 2
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 2
1999KC1002	Community Development Block Grant Program, St. Louis, MO	09/28/99	01/21/00	Note 2
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	09/30/01
1999PH0002	HUD Contracting, Follow-up Review	09/30/99	09/27/00	Note 2
2000AT1001	Mego Mortgage Corporation, Title I Approved Lender, Atlanta, GA	10/04/99	02/09/00	Note 2
2000CH1001	Great Lakes Housing, Inc., Section 203(k) Mortgage Insurance Program and Partners for Affordable Homeownership Program, Wyoming, MI	10/19/99	02/16/00	Note 2
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99		Note 3

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000PH1002	Philadelphia, PA Housing Authority Police Department	11/15/99	03/16/00	04/01/02
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	05/08/01
2000FW1001	New Orleans, LA Housing Authority, Executive Monitor Contract with Moten & Associates	01/19/00	09/29/00	09/22/01
2000DE1001	City and County of Denver, CO, Housing Opportunities for Persons with AIDS Program	02/25/00	06/21/00	06/15/01
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	09/30/01
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	12/31/01
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management, San Juan, PR	03/06/00		Note 3
2000AT1801	Misuse of HUD Funds, Puerto Rico Public Housing Administration, San Juan, PR	03/09/00		Note 3
2000AT1004	Pinellas County Housing Authority, Clearwater, FL	03/23/00	07/24/00	07/24/01
2000NY1801	Atlantic City, NJ Housing Authority, Low-Rent Housing Program	03/24/00	09/08/00	06/30/01
2000AT1005	Benson, NC Housing Authority, Public Housing Programs	03/27/00	09/13/00	09/13/01
2000BO0001	Office of Public and Indian Housing, Use of REAC's Physical Inspection Assessments, Boston, MA	03/28/00	06/12/00	06/12/01
2000NY0001	Nationwide Audit - Enforcement Center	03/28/00	07/10/00	07/10/01
2000SF0001	Single Family Production	03/30/00	01/19/01	12/30/01
2000AO0001	Nationwide Audit of Storefront Operations	03/31/00	09/08/00	Note 2
2000BO0002	Office of Housing, Use of REAC's Physical Inspection Assessments, Boston, MA	03/31/00	10/13/00	Note 2
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	10/15/02
2000KC0001	Assessment of Resident Association Grants, Multi-Location Summary Report	03/31/00	07/28/00	09/30/01

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000SE0001	Final Report of Nationwide Audit, Down Payment Assistance Programs	03/31/00		Note 3
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	09/30/01
2000FW1802	Alexandria, LA Housing Authority, Agreed Upon Procedures	04/26/00	10/01/00	09/30/01
2000FW1803	Leesville, LA Housing Authority	05/10/00	10/06/00	04/01/11
2000DP0003	Integrated Disbursement and Information Systems	05/11/00	02/14/01	08/31/01
2000AT1007	St. Petersburg, FL Housing Authority	05/24/00	10/03/00	08/02/01
2000FW1003	Pope & Booth, P.C. Closing Agent Contract, Austin, TX	05/24/00		Note 3
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	09/28/01
2000FW1004	San Antonio, TX Housing Authority, Procurement Activities	08/09/00	12/14/00	08/09/01
2000FW1006	Fortune Escrow, Inc., Closing Agent Contract, Glendora, CA	08/23/00	11/02/00	10/24/01
2000CH1811	City of South Bend, IN, Broadway Street Mortgage Loan Subsidy Program	09/13/00	01/04/01	09/30/01
2000DE1004	Chippewa Cree Housing Authority, Housing Activities and Related Mgmt. Controls, Rocky Boy, MT	09/21/00	01/19/01	10/15/02
2000BO1803	State of Maine, FIX ME Program, Augusta, ME	09/25/00	01/23/01	08/31/01
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	04/09/01
2000NY1803	Hoboken, NJ Housing Authority, Low-Rent Housing Program	09/25/00	12/01/00	09/30/01
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	12/31/01
2000AT0002	Demolition of HUD Real Estate Owned Properties, Chicago, IL	09/28/00		Note 3
2000CH0801	HUD's Settlement Agreement, Associated Estates Realty Corp., Office of Multifamily Housing	09/28/00	03/30/01	06/30/01

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000PH1004	Wilmington, DE Housing Authority, Public Housing Operations	09/28/00	01/25/01	7/31/01
2000DP0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/00	03/30/01	03/30/02
2000FO0802	Survey of HUD's Contract Award Process	09/29/00	01/31/01	01/31/02
2000KC0002	Housing Subsidy Payments	09/29/00	02/21/01	12/31/01
2000PH0001	Up-Front Grant Program	09/29/00	01/24/01	04/30/01
2000SE0003	Nationwide Audit, Use and Disposition of Residual Receipts	09/29/00		Note 3

AUDITS EXCLUDED:

- 15 audits under repayment plans
- 21 audits under formal judicial review, investigation, or legislative solution

NOTES:

- 1 Management did not meet the target date. Target date is over 1 year old.
- 2 Management did not meet the target date. Target date is under 1 year old.
- 3 No management decision.

TABLE C

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 03/31/01 (DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	24	\$30,934	\$4,720
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	6	\$12,780	\$3,894
A3 For which additional costs were added to reports in beginning inventory	0	\$2,926	0
A4 For which costs were added to non-cost reports	2	\$17	0
B1 Which were issued during the reporting period	23	\$26,243	\$14,167
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	55	\$72,900	\$22,781
C For which a management decision was made during the reporting period	25 ¹	\$13,543	\$5,308
(1) Dollar value of disallowed costs:			
• Due HUD	7 ²	\$3,727	\$2,737
• Due Program Participants	20	\$9,240	\$2,059
(2) Dollar value of costs not disallowed	6 ³	\$576	\$512
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	\$13,056	\$4,153
E For which no management decision had been made by the end of the reporting period	23 < 60 > ⁴	\$46,301 < \$42,071 > ⁴	\$13,320 < \$13,289 > ⁴

1 2 audit reports also contain recommendations with funds to be put to better use.

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

3 5 audit reports also contain recommendations with funds agreed to by management.

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

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
AT 03/31/01
(DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	4	\$4,547
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	2	\$3,911
A3 For which additional costs were added to reports in beginning inventory	0	0
A4 For which costs were added to non-cost reports	1	\$249
B1 Which were issued during the reporting period	1	\$3,846
Subtotals (A + B)	8	\$12,553
C For which a management decision was made during the reporting period	3 ¹	\$517
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	0	0
• Due Program Participants	2	\$517
(2) Dollar value of recommendations that were not agreed to by management	1	0
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	\$3,911
E For which no management decision had been made by the end of the reporting period	3 <5> ²	\$8,125 <\$7,974> ²

1 2 audit reports also contain recommendations with questioned costs.

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

EXPLANATIONS OF TABLES C AND D

The Inspector General 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.

PROFILE OF PERFORMANCE

for the period
October 1, 2000 through March 31, 2001

Audit and Investigation Results	Audit	Investigation	Combined
Recommendations That Funds Be Put to Better Use	\$4,094,628		\$4,094,628
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$516,848		\$516,848
Questioned Costs	\$29,185,406		\$29,185,406
Management Decisions on Audits with Questioned Costs	\$13,534,681		\$13,534,681
Indictments		451	451
Successful Prosecutions		346	346
Years of Prison Sentences		803	803
Investigative Recoveries	\$355,310	\$1,854,254	\$2,209,564
Collections From Audits and Investigations	\$14,112,330	\$31,143,725	\$45,256,055
Arrests		2,467	2,467
Search Warrants		317	317
Value of Drugs Seized		\$4,701,824	\$4,701,824
Weapons Seized		238	238
Administrative Sanctions	0	161	161
Subpoenas Issued	17	289	306