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Description of document: Department of Housing and Urban Development (HUD)
Office of Inspector General (OIG) Systemic Implication
Reports (SIR) issued 2012

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Source of document: FOIA Officer
Office of Inspector General
Office of Legal Counsel
U.S. Dept. of HUD
451 Seventh St., SW, Room 8260
Washington, DC 20410-4500
Fax: 202-401-3778
Email: FOIARequests@hudoig.gov
[Online FOIA Request Form](#)

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U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

July 12, 2016

Re: FOIA Appeal Number 15-IGA-OIG-000604

This responds to your Freedom of Information Act Appeal letter, dated May 28, 2016 ("Appeal"), received in this office on June 13, 2016. Your initial request, received April 11, 2016, requested "a copy of each Systemic Implication Report issued by the Office of Inspector General of the Department of Housing and Urban Development during the last ten years." Upon learning that the estimated fees to process your request would be \$952.30, you narrowed your request to "a listing of the titles, dates and report numbers of Systemic Implication Reports produced by HUD OIG, drawn from the HUD OIG document tracking system." Alternatively, you narrowed your request to "the Systemic Implication Reports for Fiscal Year 2012 only." On May, 11, 2016, we advised you that the reports you seek may be found on our website and a link was provided for your convenience. With respect to the list, HUD OIG advised that we have no list of the Systemic Implication Reports. It is that explanation that forms the basis of your Appeal.

In your letter, you contest the basis for our response to your request, asserting that some type of search must have been conducted to determine the estimated processing cost of your initial request for each Systemic Implication Report issued during the last ten years. We understand your Appeal to request the result of our query conducted in response to your initial request. Accordingly, your Appeal is granted. Our query resulted in 17 pages that are responsive to your request.

We have produced those records and, in accordance with 5 U.S. C. § 552 (b)(7)(A), we redacted information that pertains to "records or information compiled for law enforcement purposes, the disclosure of which could reasonably be expected to interfere with law enforcement proceedings. The information withheld consists of the nature, scope, and direction of investigations and the government's strategies in the respective cases.

Other information has been redacted pursuant to 5 U.S.C. § 552 (b)(7)(C), which pertains to "records or information compiled for law enforcement purposes, the disclosure of which could reasonably be expected to constitute an unwarranted invasion of personal privacy. The information withheld consists of the names of individuals, third-parties, titles, addresses, telephone numbers, and other identifiable information."

This is the final agency decision under 24 C.F.R. § 2002.25(e). You may seek judicial review of this decision in the United States District Court for the judicial district in which you reside or have your principal place of business, or in the District of Columbia, pursuant to 5 U.S.C. § 552(a)(4)(B).

Sincerely,

A handwritten signature in black ink, appearing to read "Helen M. Albert". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Helen M. Albert
Deputy Inspector General

Systemic Implication Reports (SIRs) Issued in Fiscal Year 2010

SIR Control Number	Status	Date of SIR	Case Agent	Region	Ol Case #	Program Area	Problem(s) Identified	Recommendation
FY10-001	OPEN	12/4/2009	(b) (7)(C) (b) (7)(C)	7	(b) (7)(A)	PIH	(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
							(b) (7)(C), (b) (7)(A)	(b) (7)(C), (b) (7)(A)
FY10-002	CLOSED	10/29/2009	(b) (7)(C)	SID	SID 08-0041-I	Employee	<p>HUD's Office of Security and Emergency Planning (OSEP), Protective Services Division (PSD) issued credentials identifying the holder as a "Special Deputy U.S. Marshal" to a Physical Security Specialist (PSS) who had not received any U.S. Marshal Special Deputation and who was not</p>	<p>HUD should resign HUD OSEP PSD credentials to omit the wording (b) (7)(C) (b) (7)(C) It is also recommended that HUD OSEP implement a process to ensure that credentials are only issued to personnel that have</p>
FY10-003	CLOSED	11/27/2009	(b) (7)(C)	15	MW-07-01783 I	PIH	<p>A (b) (7)(C)(b) (7)(C)(b) (7)(C) alleged that a tenant was failing to pay (b) (7)(C) mortgage note. The Original mortgage holder transferred the mortgage to another bank. The new bank did not allow direct deposits to the bank. Instead, the HA had to issue the mortgage payment directly to the owner. This is when the payments started to become delinquent. It was detrmind that the homeowner was</p>	<p>HUD should require the mortgage loan to be directed solely to the lending institution to avoid the chance of fraud within the HUD funded program.</p>

FY10-004	CLOSED	12/10/2009	[REDACTED]	SID	SID 09-0021-I	Employee	HUD has no policy regarding employees' use of agency equipment, liberal leave and excused absences, and use of agency administrative support relating to work with organizations representing federal employees.	HUD should research Title 5 CFR, Part 251, "Agency Relationships with Organizations Representing Federal Employees and other Organizations", and implement a policy to address the deficiencies noted.
FY10-005	CLOSED	3/5/2010	(b) (7)(C)	15	GL 09 00078 I	CPD	Sub-recipient's case worker misused HPRP funds designed for qualified homeless people. A case worker and landlord were working together to issue suspicious eviction forms.	CPD should implement policies to verify validity of evictions/3 day notices as well as payments for evictions. Also, agencies should not be allowed to determine which households are assigned to
FY10-006	CLOSED	4/16/2010	[REDACTED]	4	SE1001773	HECM	Cooperating defendants have indicated they recruit seniors with "home for free" advertisements and promises and then provide the down-payment on behalf of the senior, in many instances without the knowledge of the senior.	HECM counseling form HUD 92902 be modified to include a certification block for the senior and counselor to complete. This form should also ask the senior for the source and amount of the down-payment at the time
FY10-007	CLOSED	5/12/2010	(b) (7)(C)	2	NY 10 02002C	MF- ARRA	An ARRA fund recipient did not report a Corporate Conviction. The Justice Dept. sought a "universal" settlement/plea with the Corporation and was debarred for one day, therefore HUD could not penalize the Corporation further by seeking permanent debarment.	HUD should amend interim ARRA regulations to decline to provide ARRA funds to individuals, corporations or entities that have a criminal record in the US court system. Dept. officials, and state and local recipients should review the Public Access to Court

Action Taken by HUD

NO.- Follow-up necessary.

UPDATE: 09/17/10 - (b) (7)(C)

(b) (7)(C)(b) (7)(C)(b) (7)(C)

(b) (7)(C) was contacted

regarding the SIR in May 2010

has not responded.

YES. New PSD credentials were issued to agents that are in compliance w/recommendations of the USMS. They also revised their SOPs.

NO. The Department generally agreed with the recommendation, but stated the issue in the SIR should be treated as an isolated incident. No further action taken.

NO. Persons from (b) (7)(C) (b) (7)(C)(b) (7)(C) (b) (7)(C)(b) (7)(C) and HQ (b) (7)(C)(b) (7)(C) were contacted. Dept stated they agreed there were no specific policies as such mentioned in the SIR and would take the

YES. (b) (7)(A)(b) (7)(A) (b) (7)(A) (b) (7)(A)(b) (7)(A) (b) (7)(A)(b) (7)(A)(b) (7)(A) (b) (7)(A)(b) (7)(A)(b) (7)(A) (b) (7)(A)(b) (7)(A) (b) (7)(A)(b) (7)(A)

YES- PENDING. [Redacted]

NO- N/A. (b) (5)(b) (5) (b) (5)(b) (5)(b) (5). OLC issued a dissenting opinion for this SIR. No further actions deem necessary for this SIR. OLC stated SIR is too broad. Also stated that PACER is not a historical search engine, so it will not show every case from the past. OLC also stated that

NO- PENDING. (b) (7)(C) (b) (7)(C)(b) (7)(C) (b) (7)(C)(b) (7)(C) (b) (7)(C)(b) (7)(C) said (b) (7)(C) needs additional information regarding the SIR and would like to schedule a meeting with (b) (7)(C) staff and supervisors to discuss the issue further.

NO- N/A. Sir not forwarded to Dept. (b) (7)(C) (b) (7)(C) concurred that it was not needed because PIH has procedures in place, they are just not being followed.

NO- PENDING. Emailed (b) (7)(C) (b) (7)(C)(b) (7)(C)(b) (7)(C), on 07/29/10. (b) (7)(C) has not responded.

NO- PENDING. Meeting held with (b) (7)(C), HUD (b) (7)(C) on September 13, 2010 to provide (b) (7)(C) with a copy of the SIR. (b) (7)(C) has not yet responded. OA has no comment. No response from Legal.

SIR Control Number	Date of SIR	Date Rcd by CID	Cash Agent (Field)	Assigned To (CID)	Date Assigned	OL Case #	Region	Program Area	Problem(s) Identified	Recommendation	Date Addressed with Department (120 days from receipt)	Date SIR Sent to OAV TOP	Date forwarded to AIGI for official Department referral	Title	Date Dept response is due (NLT 60 days from referral to Dept)	Date CID Closeout Ltr to Field	Date Department Response Rcd	Status	Status	Action Taken by HUD
FY10-006	4/16/2010	4/20/2010	(b) (7)(C)	(b) (7)(C)	4/20/2010	SE1001773	4	HECM	Cooperating defendants have indicated they recruit seniors with "home for free" advertisements and promises and then provide the down payment on behalf of the senior, in many instances without the knowledge of the senior.	HECM counseling form HUD 32902 be modified to include a certification block for the senior and counselor to complete. This form should also ask the senior for the source and amount of the down-payment at the time he/she is counseled.	5/7/2010	5/7/2010	N/A	(b) (7)(C)	7/7/2010	7/13/2010	5/27/2010	CLOSED	(b) (7)(C)	(b) (7)(C) agreed with the recommendation in the SIR to show certification that the counselor discussed the down payment requirements with the senior. The goal is to change the form by the Fall of 2010. We also requirements with the senior. The goal is to change the form by the Fall of 2010. We also briefed (b) (7)(C) on this SIR in August 2010. As of 10/29/10, (b) (7)(C) stated (b) (7)(C) modified the form and is waiting for (b) (7)(C) front office to put it in.
FY10-007	5/20/2010	6/1/2010	(b) (7)(C)	(b) (7)(C)	6/7/2010	NY 10 02002C	2	MF-ARRA	An ARRA fund recipient did not report a Corporate Conviction. The Justice Dept. sought a "universal" settlement/plea with the Corporation and was debarred for one day, therefore HUD could not penalize the Corporation further by seeking permanent debarment.	HUD should amend interim ARRA regulations to decline to provide ARRA funds to individuals, corporations or entities that have a criminal record in the US court system. Dept. officials, and state and local recipients should review the Public Access to Court Electronic Records (PACER) system to determine the eligibility of an entity prior to awarding contracts.	N/A	7/01/2010 & 7/7/2010	N/A	none	N/A	7/30/2010	N/A	CLOSED	(b) (7)(C)	NO - N/A. (b) (7)(C), (b) (5) (b) (7)(C), (b) (7)(C), (b) (7)(C) issued a dissenting opinion for this SIR. No further actions deemed necessary for this SIR. OLC stated SIR is too broad. Also stated that PACER is not a historical search engine, so it will not show every case from the past.
FY10-008	5/20/2010	6/1/2010	(b) (7)(C)	(b) (7)(C)	6/7/2010		2	SF-HECM	The Dept. allows lenders to offer a HECM product with an interest rate that is adjustable on a monthly basis with no lifetime cap. The availability of particular HECM products is market-driven, not regulation driven.	The Dept. should issue an interim regulation removing the monthly adjustable ARM from the market place. Continuing to allow the annual adjustable ARM with a cap of 5% over the life of the loan, still gives the free markets flexibility, without HUD backing a predatory loan product to senior citizens. ONAP should implement enhanced monitoring of the NwONAP. It may be appropriate for the Grants Management Center and/or the (b) (7)(C), (b) (7)(C), (b) (7)(C) to track monitoring report issuance to ensure compliance with 24 CFR 1000.528. Additionally, the (b) (7)(C) for PIH should be notified of any	7/8/2010	7/01/2010 & 7/7/2010	(b) (7)(C)	(b) (7)(C)	9/8/2010	5/9/2011 & 5/17/2011	7/8/2010	Closed	(b) (7)(C)	Communications with OA and TOP completed. Meeting held with (b) (7)(C), (b) (7)(C), (b) (7)(C), (b) (7)(C) said (b) (7)(C) needs additional information regarding the SIR and would like to schedule a meeting with (b) (7)(C), (b) (7)(C) to discuss the issue further.
FY10-009	5/19/2010	6/1/2010	(b) (7)(C)	(b) (7)(C)	7/7/2010	SID-08-0028-I	SID	PIH	The PIH NW Office of Native American Programs (NwONAP) routinely failed to comply with 24CFR 1000.528 by regularly issuing draft monitoring reports beyond the 30 day statutory deadline. Interviews of HQ based ONAP and NwONAP personnel revealed that the issue of late draft and final monitoring reports was well known.	ONAP should implement enhanced monitoring of the NwONAP. It may be appropriate for the Grants Management Center and/or the (b) (7)(C), (b) (7)(C), (b) (7)(C) to track monitoring report issuance to ensure compliance with 24 CFR 1000.528. Additionally, the (b) (7)(C) for PIH should be notified of any	N/A	N/A Sir not forwarded	N/A	N/A	N/A	N/A	CLOSED	(b) (7)(C)	NO - N/A. Sir not forwarded to Dept. (b) (7)(C) and (b) (7)(C) concurred that it was not needed because PIH has procedures in place, they are just not being followed.	

SIR Control Number	Date of SIR	Date Ref'd by CID	Case Agent (Field)	Assigned To (CID)	Date Assigned	GI Case #	Region	Program Area	Problem(s) Identified	Recommendation	Date Addressed with Department (100 days from receipt)	Date SIR Sent to OA/ TOP	Date forwarded to AIGI for official Department referral	Title	Date Dept response in chm (NLT 60 days from referral to Dept)	Date CID Closeout Ltr to Field	Date Department Response Recd	Status	Status	Action Taken by HUD
FY 10-010	7/5/2010	7/27/2010	[REDACTED]	[REDACTED]	7/27/2010	GP 05 00824 I	7	SF	In situations where a loan officer was trying to qualify a borrower for multiple properties, the loan officer instructed the borrower to complete multiple loan applications. None of the lenders were aware that there were other loan files in process at the same time with other lenders. The loan officer also orchestrated the closing for all loans to be simultaneous, so that the loans would not show up on the other lenders prior to the closing. The loan officer felt this was not a false statement on the loan application form, because there was no place to indicate the potential purchase of other real estate.	Recommended modifications to the Fannie Mae Form 1003 (Universal Loan Application) wherein the applicant would be asked to certify that they have no other pending purchases that might affect the LTV ratio.	7/28/2010	7/28/2010	7/29/2010	[REDACTED]	9/29/2010	3/2/2011		CLOSED	3/27/11 SSA Rice spoke to Teresa Payne, Office of Regulatory Affairs and Barton Shapiro, Office of RESPA both concurred no changes will be made by Dept. because form is a FNMA form not a HUD form. 1/31/11 - SSA Rice emailed OA/TOP and Legal with a copy of the SIR. Waiting on responses. Emailed to Joanne Kuczma on 07/29/10.	NONE - 3/2/11
FY 10-011	7/28/2010	7/28/2010	(b) (7)(C)	[REDACTED]	7/28/2010	2010GL001075C	15	SF	It was alleged that the HUD sale of Real Estate Owned (REO) properties that were part of a bulk sale (14 properties) to the City of Cleveland and the nonprofit organization, Westown CDC had violated HUD guidelines and regulations as a conflict of interest in having family members purchasing homes from employees working at Westown CDC. However, it was revealed from the HOC in Philadelphia that no clause existed in the bulk contract sale of a land use restriction addendum (standards of interest) on how the properties would be used, demoed, or resold.	A conflict of interest clause (standards of interest) should be implemented into the sale contract of any and all HUD REO properties to avoid the chances of fraud within the HUD funded program.	9/13/2010	9/13/2010	?	(b) (7)(C)	?	8/8/2012	7/31/2012	CLOSED	(b) (7)(C) (b) (7)(C) [REDACTED] HUD [REDACTED] on September 13, 2010 to provide [REDACTED] with a copy of the SIR. [REDACTED] has not yet responded. OA has no comment. No response from Legal.	Accepted by Dept - Agreed to include Conflict of Interest clause in all REO bulk sales "lettered agreements" and to changed HUD form 9548
FY10-012	9/24/2010	9/28/2010	[REDACTED]	(b) (7)(C)	9/28/2010	2010PH001769 I 2010PH001749 I	9	PIH- IHBG	The Indian Housing Block Grant (IHBG) program is a mandatory grant program and therefore not covered by Executive Order 13259 "Debarment and Suspension". Section 1 of the Order states that debarment or suspension of a participant in a program by one agency shall have government-wide effect. Two cases have noted individuals that were suspended or debarred regarding embezzlement of IHBG	The DEC and HUD Legal Counsel should either review and reverse the interpretation of the executive order or, with the assistance of HUD-OIG Office of Legal Counsel, find another means of suspending and debarring individuals who embezzle IHBG funds	N/A	N/A SIR not forwarded	N/A	N/A	N/A	9/24/2010	N/A	CLOSED	Communicated with IED and OIG Legal regarding the SIR. (b) (7)(C) (b) (7)(C) to the IG, stated [REDACTED] (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) the Dept has agreed it will require a change to the statute.	N/A

SIR Tracking FY 2011
7/8/2016

SIR Control Number	OI Case #	Region	Case Agent (Field)	CID Agent Assigned	Problem(s) Identified and Suggested Corrections	Date of SIR	Date Received by CID	Date Assigned	Date Sent to TOP (within 15 days of receipt)	Response Date from TOP	Date Sent to OGC (within 15 days of receipt)	Response Date from OGC	Program Area	Department Contact and Title	Due Date for Department Referral (NLT 120 days from Receipt)	Date Addressed with Department	Date Dept response is due (NLT 60 days from referral to Dept)	Date Department Response Received	Date of CID Closeout Letter	Status	Disposition			
FY11-001	2010SP000494I	4	(b) (7)(C)	(b) (7)(C)	Unauthorized access to LOCCS system and inappropriately disbursement of Congressional Earmarks, grant funds	10/15/2010	10/15/2010	10/15/2010	10/27/2010		11/5/2010		CPD	(b) (7)(C) (b) (7)(C) (b) (7)(C)	2/12/2011	1/10/2011	3/11/2011	5/5/2011	5/11/2011	Closed	10/27/2010 Presented this SIR to TOP 11/05/2010 Presented this SIR to OGC 4/12/11 followed up with (b) (7)(C) left message			
FY11-002	2010GPA002007I	7	(b) (7)(C)	(b) (7)(C)	Conflict of Interest - A person in the City, County, State and/or Federal Government responsible for the award, distribution, expenditure, and general oversight of Community Development Block Grant Funds should be prohibited from holding any position whether paid or unpaid with a grant recipient	12/6/2010	12/6/2010	12/10/2010	12/20/2010	1/31/2011	12/20/2010	5/10/2011	CPD	(b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C)	4/5/2011	3/31/2011	6/31/2011	3/30/2011	5/10/2011	Closed	12/20/2010 presented to TOP 12/20/2011 presented to OGC 3/25/2011 followed up with Himes 5/10/2011 Closeout letter completed			
FY11-003	2010PC001524I	14	(b) (7)(C) (b) (7)(C)	(b) (7)(C)	Each page of HUD-1 should be signed or initialed by all parties involved in transaction, including buyer, seller and settlement agent	4/15/2011	4/15/2011	4/18/2011	4/18/2011	4/19/2011	4/18/2011	4/18/2011	SF	(b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C)	8/13/2011	4/19/2011	6/18/2011			Closed	Closeout memo on 10-4-11 RESPA no longer part of HUD			
FY11-004	see Region VII Disaster Report 6-16-2011	7	(b) (7)(C)(b) (7)(C)	(b) (7)(C)	278000090 of unmitigated 2008 Disaster Funding is still available for Joplin, MO Tornado Disaster area HUD should establish procedures that establish spending and recovery standards for prior year	6/17/2011	6/17/2011	6/20/2011	6/20/2011	6/20/2011	6/20/2011	11/17/2011									11/18/2011	Closed		
FY11-005	2011CP000303I	13	(b) (7)(C) (b) (7)(C)	(b) (7)(C)	Federal government employees are able to defraud HUD's rental assistance and FHA-insured mortgage programs by accessing their paystubs and W-2 forms on the NRC website and fraudulently altering these documents on the website using Word and Excel programs Remove the capability for a federal government employee to open and alter his paystubs and w-2 forms using	8/15/2011	8/15/2011	8/15/2011	8/16/2011	8/16/2011	8/16/2011	11/17/2011	HR									11/22/2011	closed	

SIR Control Number	CI Case #	Region	Case Agent (PI#)	CID Agent Assigned	Problem(s) Identified and Suggested Corrections	Date of SIR	Date Received by HQ Ops	Date Assigned	Date Sent to YOP (within 15 days of receipt)	Response Date from YOP	Date Sent to GOC (within 15 days of receipt)	Response Date from GOC	Program Area	Department Contact and Title	Due Date for Departmental Review (NLT 150 days from Receipt)	Date Addressed with Department	Date 15-pt response is due (NLT 60 days from referral to Dept)	Date Department Response Received	Date of CID Closure Letter or email	Status	Disposition
FY12-001	2011P10003761	9	(b)(7)(C)	(b)(7)(C)	No verification of veteran's monthly benefit income on HACLA form RE-6A re: HUD VASH program, recommended that form include a False Statements certification	1/10/2012	1/10/2012	1/10/2012	N/A	N/A	N/A	N/A	PH	NA	N/A	N/A	N/A	N/A	5/4/2012	Closed	Closed with no referral to HUD b/c recommended change to HACLA form already accepted and implemented by HACLA.
FY12-002	2010GL0008241	5	(b)(7)(C)	(b)(7)(C)	Weakness in CFR and HUD training related to competitive bid process, recommends mandatory HUD training w/ emphasis on 24 CFR 85.3a and certifications of training	4/17/2012	4/18/2012	4/30/2012					CPD		8/17/2012	12/14/2012	2/14/2013			Closed	Note: Forwarded request to Region 5 to make changes to SIR #20/2012
FY12-003	2010SE0005461	4	(b)(7)(C)	(b)(7)(C)	No verification of SSA disability income by lender, recommends MOU for HUD and SSA	4/13/2012	4/27/2012	4/27/2012	N/A	N/A	N/A	N/A	SF	(b)(7)(C)	N/A	N/A	N/A	N/A	5/24/2012	Closed	Not referred to Housing since already covered in Handbook 4155 re "Effective Income"
FY12-004	2011AW0010841	5	(b)(7)(C)	(b)(7)(C)	HECM program allowing POA for all phases of origination including counseling, recommends borrower must be present for counseling	4/16/2012	5/1/2012	5/1/2012	6/19/2012	6/19/2012	6/19/2012	6/21/2012	SF	(b)(7)(C)	8/16/2012	8/8/2012	10/17/2012			Open	Ref: FY12-009
FY12-005	2010PF0028091	9	(b)(7)(C)	(b)(7)(C)	Overlapping of HUD and private funds, recommends separate accounts	2/27/2012	5/1/2012	5-1-2012	8/20/2012		8/20/2012		CPD		6/27/2012	12/14/2012	2/14/2013			Closed	Rejected from Department
FY12-006	Not provided	8	(b)(7)(C)	(b)(7)(C)	Fugitive Felons in SE and PH	2/13/2012	4/6/2012	5/4/2012	N/A	N/A	N/A	N/A	PH	NA	N/A	N/A	N/A	N/A	5/4/2012	Closed	Set back to RH for additional work, attached letter from HUD secretary
FY12-007	Not provided	2	(b)(7)(C)	(b)(7)(C)	Grantees shouldn't allow sub-grantees to control CDBG grant funds, recommends issuing a notice to Cities	5/23/2012	5/23/2012	5/30/2012	N/A	N/A	N/A	N/A	CPD	NA	N/A	N/A	N/A	N/A	5/30/2012	Closed	Returned for more work, reference email 5-30-12 from Stuberwsky to Rubenstein
FY12-008	2010CP001551	7	(b)(7)(C)	(b)(7)(C)	GI subpoena ordered PHA (administering ONAP funds) to provide voluminous records that were costly and paid for with the approval of HUD with HUD funds	5/24/2012	5/24/2012	5/30/2012	N/A	N/A	N/A	N/A	PH	NA	N/A	N/A	N/A	N/A	N/A	Closed	Rejected, issue is not systems, and records could have been obtained by SA without GI subpoena
FY12-009	2011CP001851	8	(b)(7)(C)	(b)(7)(C)	HECM program allowing POA to draw limit of credit unbeknownst to the program participant	6/11/2012	6/11/2012	6/19/2012	6/19/2012	6/19/2012	6/19/2012	6/21/2012	SF	(b)(7)(C)	10/11/2012	8/8/2012	10/17/2012			Open	Ref: FY12-004
FY12-010	2010CP0011541	8	(b)(7)(C)	(b)(7)(C)	Require Lenders to verify Professional Engineer's licensing before endorsing the Loan	6/11/2012	6/11/2012	7/5/2012	7/5/2012	7/9/2012	7/5/2012	7/11/2012	SF	(b)(7)(C)	10/11/2012	12/14/2012	2/14/2013			Closed	Rejected by Department. Claim already addressed in Regulation.
FY13-001	2010SW0006531	6	(b)(7)(C)	(b)(7)(C)	Currently, REO occupancy verifications are not required by HUD on cash or un-mortgaged purchase transactions	10/22/2012	10/24/2012	10/25/2012	10/25/2012	10/25/2012	10/25/2012		SF	(b)(7)(C)	2/21/2013					Open	
FY13-002	2012HQ0002681	1	(b)(7)(C)	(b)(7)(C)	Before HUD employees hired implement personnel security program policies and procedures	1/22/2013	2/10/2013	2/10/2013	2/25/2013	2/28/2013	2/25/2013	4/11/2013	HR	(b)(7)(C)	7/15/2013	5/15/2013	6/17/2013	6/19/2013		Closed	Department implemented several of the recommended changes to background investigations of new employees
FY13-003	2011NE0003161	2	(b)(7)(C)	(b)(7)(C)	Require FHA underwriters to obtain tax transcripts from lenders for multiple year and separate clearer definition of tax debt	3/15/2013	4/18/2013	4/8/2013	4/9/2013	4/11/2013	4/9/2013	4/9/2013	SF	(b)(7)(C)	8/9/2013	1/30/2013	10/30/2013			Open	

	<u>Florida</u>	<u>Georgia</u>	<u>North Carolina</u>	<u>Tennessee</u>	<u>Alabama</u>	<u>South Carolina</u>	<u>Kentucky</u>	<u>Puerto Rico</u>
FHA Endorsements	1	2	3	4	5	6	7	8
FHA Defaults	1	2	3	4	5	6	7	8
PIH Section 8	1	2	3	4	5	6	7	9
Troubled PHA	1	3	4	5	1	5	2	0
Section 8 MF	1	2	3	4	6	8	5	7
MF Insured	2	5	1	4	6	7	3	9
Total PHA Funding	2	3	6	5	4	9	7	1
Total CPD Combined	1	2	3	5	6	8	7	4
Total ONAP	5	0	1	0	3	4	0	0

<i>Mississippi</i>	<i>Virgin islands</i>
9	10
9	10
8	10
6	6
9	10
8	10
8	10
9	10
2	0

	<u>Atlanta</u>	<u>Tampa</u>	<u>Greensboro</u>	<u>Nashville</u>	<u>Miami</u>	<u>Memphis</u>	<u>Birmingham</u>	<u>Columbia</u>
FHA Endorsements	1	2	3	4	5	0	0	0
FHA Defaults	1	2	3	5	4	0	0	0
PIH Section 8	1	3	2	5	4	0	0	0
Troubled PHA	3	2	5	4	0	0	1	0
Section 8 MF	1	3	4	2	0	5	0	0
MF Insured	3	4	1	2	0	0	5	0
CPD Entitlement	1	2	5	0	3	0	0	0
ONAP ICDBG	1	0	3	0	0	0	0	2
ONAP IHBG	3	0	1	0	5	0	0	4

	<u>Florida</u>	<u>Georgia</u>	<u>North Carolina</u>	<u>Tennessee</u>	<u>Alabama</u>	<u>South Carolina</u>	<u>Kentucky</u>	<u>Puerto Rico</u>
FHA Endorsements	1	2	3	4	5	6	7	8
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PIH Section 8	1	2	3	4	5	6	7	9
Troubled PHA	1	3	4	5	1	5	2	0
Section 8 MF	1	2	3	4	6	8	5	7
MF Insured	2	5	1	4	6	7	3	9
Total PHA Funding	2	3	6	5	4	9	7	1
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Total ONAP	5	0	1	0	3	4	0	0

<i>San Juan</i>	<i>Jackson</i>	<i>Hattiesburg</i>
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
4	0	0
0	0	0
0	2	0

<i>Mississippi</i>	<i>Virgin islands</i>
9	10
9	10
8	10
6	6
9	10
8	10
8	10
9	10
2	0



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

JUN 24 2016

RE: Your Freedom of Information Act (FOIA) Request
FOIA Control No.: 16-IGF-OIG-00069

This is in response to your Freedom of Information Act (FOIA) dated April 2, 2016, to the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General (OIG). You requested *"a copy of each Systemic Implication Report issued during the last 10 years."*

In your e-mailed dated May 14, 2016, you provided the OIG with an amended request and asked us to *"narrow my request to seek the Systemic Implication Reports for Fiscal Year 2012 only."*

Enclosed are 16 pages of the SIRs for FY 2012. Certain information has been withheld from these records pursuant to 5 U.S.C. § 552 (b)(4), which protects commercial or financial information that is privileged and/or confidential

We have also excised from the file pursuant to 5 U.S.C. § 552(b)(5), which protects intra-agency communications subject to the deliberative process privilege. The information withheld consists of pre-decisional discussions or comments, investigator's notes and internal recommendations, and otherwise privileged information.

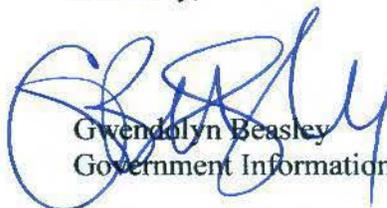
Redactions were also made under 5 U.S.C. § 552 (b)(7)(C), which protects records or information compiled for law enforcement purposes, the release of which could reasonably be expected to constitute an unwarranted invasion of personal privacy. The information withheld consists of the names of special agents, titles and grades, personal accounts, signatures, third-parties, and other identifiable information.

Please be advised that Joseph W. Clarke, Assistant to the Inspector General for Investigations, is the official responsible for this response.

The OIG's Freedom of Information Regulation, 24 C.F.R. § 2002.25, provides for administrative review by the Inspector General of any denial of information if a written appeal is filed within 30 days from the date of this letter. Both the letter and the envelope should be clearly marked "Freedom of Information Act Appeal." Your appeal should be addressed to the FOIA Appeal Specialist, Office of Legal Counsel, Office of Inspector General, U.S. Housing and Urban Development, 451 7th Street, SW, Suite 8260, Washington, DC 20410, and should be accompanied by a copy of your initial request, a copy of this letter, and your statement of circumstances, reasons and arguments supporting disclosure of the requested information.

Should you have any questions concerning the FOIA request, please contact me on (202) 708-1613. Please reference the above FOIA number when making inquiries about this matter

Sincerely,



Gwendolyn Beasley
Government Information Specialist (FOIA/PA)

Enclosure

SYSTEMIC IMPLICATIONS REPORT

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

AGENT: **Robert Heiss, #469**

DISTRICT/OFFICE:
Midwest / **Cleveland, OH**

DATE: April 17, 2012

A. Description of Systemic Deficiency:

In the joint HUD/OIG and FBI investigation: A Community Development investigation supported the allegations that former Community Development Department (CDC) Director, knowingly circumvented 24 CFR 85.36 bidding rules and regulations by awarding approximately \$165,000 dollars of demolition contracts to specific owners of demolition companies. The investigation showed the contracts were awarded without a competitive bid process. Subsequent interviews and investigation revealed the CDC director knowingly awarded these contracts without providing the opportunity for other demolition contractors to bid. **Although the Director of the CDC had been employed in the CDC for 37-years, the United States Attorney's Office (USAO) ultimately declined criminal prosecution because there was no language or document maintained by the local HUD office and/or included in the director's personnel file indicating the director was versed in 24 CFR 85.36, specifying that he knew the competitive bidding procedures when he awarded the demolition contracts. Had this information been available, it is believed the USAO would have pursued criminal charges on both the director and contractor.**

NOTE: 24 CFR 85.36, a component of 24 CFR 570 – requires acknowledgement of proper bidding procedures to be taken into account when distributing CDBG or HOME funds. Activities for these funds include demolition projects, landscaping community grounds, etc. **This office feels the grant agreements signed by the awarded agency do not carry enough strength to charge the stewards of these funds, should a case where investigations support the allegations that contract steering is taking place.**

B. Suggestions to Correct Deficiency:

Based upon this investigation, it is suggested that all Community Development Directors and other city personnel involved in the bid process be required to certify at time of hire and each year thereafter in the person's employment that they have read and understand 24 CFR 570, with emphasis on CFR 24 CFR 85.36, and that these certifications be maintained at the local HUD office or in the city employees personnel file or both. Funding may be withheld contingent upon the receipt of the annual certifications from the appropriate grant officials.

Furthermore, in reviewing CPD grant agreements, the language of the contracts were vague and non-binding when describing what rules should be followed when bidding out jobs awarded with federal funds. Even though the grant agreements specify all agencies will follow 24 CFR 570 when distributing these funds, it is non-specific when talking about bid procedures. It is also suggested that a separate, decisive paragraph and signature line that outlines what bidding procedures be required for certain dollar thresholds.

In short, there must be competition for a CDBG or HOME funded project. The steward of these funds (Community Development Director, Service Director, City Manager) must bid out these jobs properly, the way 24 CFR 85.36 was intended. Simply giving a contractor a contract, knowing proper bidding procedures were not followed (forgive an emergency job or lack of bids submitted after advertisement) should be outlined in the grant agreements as well as applicable civil, or criminal penalties that may arise should the stewards of these funds intentionally not follow these procedures.

C. Investigative Techniques:

Distribution: 1 Case File 2 AIGI 3 OMAP 4 Other: __ __

**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: Brian Caldwell-Special Agent	
DISTRICT/OFFICE: Region 4/Birmingham Field Office	DATE: April 13, 2012
A. Description of Systemic Deficiency:	
<p>The Department does not have a protocol in place with the Social Security Administration (hereinafter SSA) to verify the validity of Social Security numbers associated with borrowers of FHA loans and the veracity of information that is connected with these borrower's numbers. The case below illustrates the need to have a Memorandum of Understanding between the United States Department of Housing and Urban Development and the Social Security Administration when it pertains to FHA mortgage loans.</p>	
<p>From sometime in 2006 through January 2010, TIM JOHNSON created and used false documents in order to obtain mortgage loans for individuals within the Northern District of Alabama. JOHNSON admitted creating false disability award letters that purported to have been issued from the Social Security Administration. These letters would state that the loan applicant was either the direct beneficiary or the recipient beneficiary for a third party of disability benefits that were being paid by the SSA. These letters were used to support income statements made by the loan applicants for mortgage applications that were submitted to various financial institutions which included Direct Endorsement Lenders. That application was ultimately approved by lending officials with a variety of financial institutions.</p>	
<p>The document below is an actual document used in the scheme. The borrower obtained an FHA loan based on this fake Social Security letter that supported her monthly income on the 1003, which was also fraudulent. The letter advises the lender that this borrower was receiving \$2,800 a month in disability from the Social Security Administration. The fact of the matter was this individual was not receiving any Social Security benefits and was unemployed. The property subsequently defaulted and the department had to pay Wells Fargo \$93,532.00</p>	

**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: SA Tom Osting	
DISTRICT/OFFICE: Region 8/Denver, CO	DATE: June 11, 2012
A. Description of Systemic Deficiency: <p>During the course of a Home Equity Conversion Mortgage (HECM) investigation (2011GP001855I) it was discovered that while the participants of a HECM program are required to receive counseling prior to being approved for participation, a Power of Attorney (POA) is not required to receive any program counseling. Additionally, the POA is granted the complete autonomy to act as a manager of the estate, however, the participant of the HECM program /borrower may be residing in the home, and does not exercise any financial control over the property. This systemic deficiency allows for the POA to have the complete authority to change, receive, or request a line of credit advance, without the knowledge or consent of the HECM participant, making HUD and the borrower vulnerable to fraud.</p>	
B. Suggestions to Correct Deficiency: <p>It is recommended, in situations where a POA is acting on behalf of a HECM participant (i.e., corresponding with the servicer, changing line of credit or payment amounts), the POA should be required to attend HECM program counseling and sign a certification of their attendance.</p> <p>A further review of this process should be conducted by HUD program staff.</p>	
C. Investigative Techniques: <p>During the investigation the following files were reviewed and techniques were utilized:</p> <p>A review of the servicing file showed that the POA does not sign any certifications or receive any counseling regarding the HECM program.</p> <p>An interview with the HUD National Servicing Center also disclosed that the POA is not required to sign any certifications or receive any type of counseling for the HECM program participation.</p>	
Distribution: <input type="checkbox"/> Case File <input type="checkbox"/> AIGI <input type="checkbox"/> OMAP <input type="checkbox"/> Other: __ __	

SYSTEMIC IMPLICATIONS REPORT

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

AGENT: ASAC Brad Geary, SA Brett Shaddick - 2011MW001084I

DISTRICT/OFFICE:

Chicago, Illinois, HUD OIG, Midwest Region

DATE: April 16, 2012

A. Description of Systemic Deficiency:

In a current HUD Office of Inspector General investigation, involving the HUD insured Home Equity Conversion Mortgage (HECM), "Section 255"; investigators were made aware of a process that as an office, we believe merits review and correcting by HUD single family officials.

The systemic concern is the use of the "Power of Attorney," who has the authority to act with complete autonomy, on behalf of the mortgagor/borrower.

Specifically, the scenario is as follows: A HUD insured mortgage (FHA Case # 137-4491989), was originated and ultimately closed on January 7, 2009. On that date, an attorney-in-fact (person designated by the Power of Attorney) signed the closing package documents and was issued a check for \$75,000. Subsequent withdrawals from this mortgage included an additional \$275,000 between the aforementioned January date and December 2, 2009, which was the final draw. The mortgagor died 3 days later on December 5, 2009. What was most concerning to agents in this case and is the most telling in terms of a deficiency is the fact that the actual mortgagor was an elderly woman, who was in a nursing home at the time of the closing. Moreover, further investigation revealed that she had been admitted into the nursing home on November 28, 2006, which was almost 26 months before the actual closing. Finally, at no time since her admittance had she been released to her former residence, which was subject to the HECM.

Paragraph 1.8 of the Home Equity Conversion Loan Agreement from this specific loan file stated:

"Principal Residence" means the dwelling where the Borrower maintains his or her permanent place of abode, and typically spends the majority of the calendar year. A person may have one principal residence at any one time. The Property shall be considered to be the Principal Residence of any Borrower who is temporarily or permanently in a health care institution as long as the Property is the Principal Residence of at least one other Borrower who is not in a health care institution.

In this particular case, there was no co-borrower who occupied the HECM residence. In fact, the investigation revealed that on October 30, 2008, nursing home records document the mortgagor's inability to recognize the names of family members in a picture. This was the same date that an ambulance took her to obtain an Illinois Identification card because without it, the mortgage would not have gone through. Further, the care facility's records reflect that her only departure of the nursing home since admission, other than hospital visits, was this trip to the State of Illinois identification office.

Yet, the attorney-in-fact (agent of Power of Attorney) was provided the opportunity to act on behalf of the borrower in virtually every step in the process. Moreover, in many cases, he was not even required to meet face-to-face. For instance, the HECM counseling in this mortgage was conducted between the counselor and the attorney-in-fact (Power of Attorney) telephonically. Secondly, the initial loan application was filled out by the attorney-in-fact and mailed to the loan officer. Finally, the closing was held at the residence of the attorney-in-fact (Power of Attorney), wherein, he signed every document that was made part of the

settlement package.

B. Suggestions to Correct Deficiency:

It is recommended that mortgagors meet in-person with the borrower when providing counseling, if they are both located in the same geographical area. If they are not, then it is recommended that the mortgagors meet in-person with the attorney-in-fact (Power of Attorney). In this particular instance, the Power of Attorney resided in the Chicago metropolitan area, within a reasonable driving distance of the mortgagor. Yet, the Power of Attorney was allowed to attend the counseling session telephonically and then sign on behalf of the borrower. Additionally, it is improper for a Power of Attorney to fill out a loan application, wherein he or she stands to gain from the mortgage draws, without being required to post a surety/fiduciary bond to ensure faithful performance of his or her duties. Lastly, it is recommended that the borrower be required to attend the closing for his or her own property, otherwise this opens the door to the potential for fraud.

If at any point in the process described in Page 1 of this SIR, had there been a requirement for a face-to-face meeting with the borrower, this mortgage would have been immediately terminated. As described earlier, the only departures for the borrower/mortgagor from her nursing facility were by ambulance. The property in question was vacant for over two years prior to the closing. If any of the recommended safeguards had been implemented, Paragraph 1.8 (above) would have immediately kicked in and HUD would have been less vulnerable to fraud.

HECM mortgagors are particularly vulnerable to victimization due to their advanced age and mental capacity. It is prudent to provide additional protections for his vulnerable class, rather than allow the attorney-in-fact complete autonomy through the Power of Attorney. Stricter standards for Power of Attorney instruments must be implemented, while simultaneously requiring the applicant to have some interaction with the various HECM mortgagor professionals involved in the loan application process.

C. Investigative Techniques:

Distribution: Case File AIGI OMAP Other: __ __

**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: James Shields

DISTRICT/OFFICE: 9AGI

DATE: February 27, 2012

A. Description of Systemic Deficiency:

HUD's Community and Planning Development (CPD) grants all have different rules on how the grant monies can be spent. HUD currently requires that recipients and sub-recipients of CPD funds demonstrate that the funds were spent on eligible activities according to the specific program. However, there appears to be no specific HUD requirement for recipients and sub-recipients of CPD grants (across the board) to maintain HUD funds separate from other private and public funds.

When an entity co-mingles HUD funds with other public and private funds, it is difficult to account for and determine if HUD funds are being spent in accordance with HUD regulations through financial record reviews. The following is an example of the problem encountered in a recent HUD OIG investigation (kept in basic format for explanation purposes):

A non-profit HUD Community Development Block Grant (CDBG) sub-recipient receives \$500,000 per year from a mixture of state funds, HUD funds, and private donations. The \$500,000 is composed of \$200,000 from the state, \$100,000 from HUD CDBG funds, and \$200,000 from private donations. The non-profit places the entire \$500,000 in a single account. Over the course of a year the non-profit buys cases of wine, hosts parties at an exclusive dinner club, sponsors golf outings for board members, etc. The non-profit also claims to have provided business technical assistance to multiple companies throughout the year (an authorized HUD expenditure). When questioned about the expenses, the non-profit claims that the unauthorized expenditures were funded with the non-HUD money.

By co-mingling the funds, it provides recipients and sub-recipients a way to side step or conceal the specific ways they are spending public money. The non-profit can simply explain that one employee paid \$100,000 per year works full time doing business technical assistance; they have then justified the HUD funds expenditure for the year.

In this example, if HUD teamed-up with state investigators/auditors and jointly conducted an investigation, they would likely determine that public money was used for unauthorized expenditures. Were state funds or HUD funds used for the unauthorized expenditures? There is no way of knowing because the funds are being managed through a co-mingled account.

Public perception is another factor. If a concerned citizen or the media obtain the financial records for the non-profit, they would see all the aforementioned unauthorized expenditures coming out of an account that contains state and federal money.

B. Suggestions to Correct Deficiency:

Require recipients and sub-recipients of all HUD CPD funds to maintain a separate bank account, or some other method of keeping a wall between the money, for each grant and not allow any other funds to be co-mingled in the account. This would significantly increase the transparency and allow investigators, auditors, CPD staff, and the public to clearly see exactly how HUD funds are being spent.

The aforementioned non-profit could have three (3) bank accounts, 1 private, 1 state, and 1 HUD. They could then easily demonstrate how HUD funds were spent versus state and private funds.

Most recipients and sub-recipients receive reimbursement by HUD for expenditures based on authorized activities after they have already spent the money (HUD funds are not given in advance but instead given after the fact). The same separation should apply.

Using the previous example, the non-profit (a sub-recipient) knows that the original recipient of HUD funds will be providing them \$100,000 of their CDBG funds at the end of the year. The non-profit should separate \$100,000 at the beginning of the year and dedicate it to HUD expenditures based on the assumption that they will be reimbursed at the end of the year with HUD money. They could then draw-down on the \$100,000 when needed for an authorized HUD expenditure. At the end of the year, the non-profit is reimbursed, and there is then no question as to how the money was spent.

Any associated costs or extra burden on the recipients and sub-recipients with this proposed requirement would be minimal. This would improve the efficiency of HUD audits, investigations, and monitoring.

24 CFR Section 85.20 provides guidance on financial management of grant funds. The regulation specifically states that the funds must be accounted for and spent on authorized activities. Nowhere does the regulation require the separation of HUD funds from non-HUD funds.

C. Investigative Techniques:

Agents in Las Vegas, Phoenix, and Sacramento report similar issues on CPD investigations they have conducted. In these instances, the source and application method was attempted to distinguish HUD funds from other sources. In one case this technique was successful and in others it was not. In order to conduct an in-depth financial analysis, HUD OIG forensic auditors are typically needed which ties up resources that could be better utilized elsewhere.

The case agents for the aforementioned cases are in concurrence that requiring separate accounts for HUD funds would increase transparency of the CPD program and make financial accountability more easily obtainable.

Distribution: 1 Case File 2 AIGI 3 OMAP 4 Other: __ __

SYSTEMIC IMPLICATIONS REPORT

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

AGENT: Daniel Austin

DISTRICT/OFFICE:
10AGI, Seattle HUD-OIG

DATE: February 13, 2012

A. Description of Systemic Deficiency:

In 2010 and 2011, the Seattle HUD Office of Inspector General (OIG), Office of Investigation, was provided with a list of approximately 1,300 felony fugitives receiving public and section 8 housing assistance throughout Region 10.

Specifically, Eric Blank, Investigative Analyst (IA) HUD OIG Washington D.C. conducted a cross match of Public Housing Authorities and HUD Multifamily tenants with the National Crime Information Center computer database at the request of Special Agent in Charge Wayne North as part of the HUD OIG's participation in the Felony Fugitive Initiative Program. IA Blank's query resulted in approximately 1,300 matches for individual fugitives wanted for a wide range of felony crimes including rape, murder, aggravated assault, narcotics trafficking, felony theft and fraud charges. A large number of the felony arrest warrants were for crimes perpetrated outside the jurisdiction of where the tenant was/is residing. Many of the fugitives had been/are living in HUD funded units for many years.

Due to the sheer number of active felony warrants in Region 10's geographical area, Special Agents spent a considerable amount of man hours attempting to confirm the tenants' true identities, active status of arrest warrants and verifying extradition orders of the fugitives back to the jurisdiction of the originating arrest warrants. Special Agents learned in the course of their investigations that because of the economic cutbacks many of the felony arrest warrants full extradition orders had been changed to limited or no extradition status. Though the felony warrants were/are still active the warrant issuing agencies do not have the funding to extradite the subjects return to the jurisdiction of the original offense.

After confirming the active arrest warrants and matching them to HUD funded tenant programs and subsequently learning of the lack of an extradition order, the Special Agents contacted the various HUD funded Public Housing Authorities (PHA) and informed them of their tenant's status as a wanted fugitive felon. Special Agents were informed that since the warrants were not extraditable the PHA's were choosing not to terminate the subject from the HUD funded program. The PHA's informed the Special Agents that HUD had informed them that it was a PHA's discretion as to whether or not to terminate the fugitive felons from the HUD funded program.

Special Agents researched information regarding the HUD supported PHA discretion policy and learned from the Code of Federal Regulations (CFR) the following pertaining to fugitive felons:

24 CFR 5.859 (b) Fugitive Felon or Parole Violator.

*The lease must provide that the PHA **may terminate** the tenancy during the term of the lease if a tenant is: (1) Fleeing to avoid prosecution, or custody or confinement after conviction, for a crime, or attempt to commit a crime, that is a felony under the laws of the place from which the individual flees, or that, in the case of the State of New Jersey, is a high misdemeanor; or (2) Violating a condition of probation or parole imposed under Federal or State law.*

Special Agents have learned from talking with the various PHA's that most PHA's have determined 24 CFR 5.859 to mean that the PHA's have discretion in terminating the tenancy of felony fugitives and probation and parole violators based on the term "may" in the required lease documentation.

Special Agents researched the United States Code calling for the elimination of housing with respect to fugitive felons and probation and parole violators and learned the Personal Responsibility and Working Reconciliation Act (PRWORA) of 1996, which amended Title I of the US Housing Act of 1937 under Public Law 104-193-August 22, 1996, calls for the **immediate termination of any fugitive felon and probation and parole violator.**

110 STAT. 2348 Public Law 104-193-Aug. 22, 1996

Sec. 903. Elimination of housing assistance with respect to fugitive felons and probation and parole violators.

(a) Eligibility For Assistance-The United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) is amended-

42 USC 1437(d)(7) provide that it shall be cause for immediate termination of the tenancy of a public housing tenant if such tenant- (A) is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or attempt to commit a crime which is a felony under the laws of the place from which the individual flees, or which, in the case of the State of New jersey, is a high misdemeanor under the laws of the State; or (2) is violating a condition of probation or parole imposed under Federal or State law.

42 USC 1437(f)(2)(I) is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or attempt to commit a crime, which is a felony under the laws of the place from which the individual flees, or which, in the case of the State of New Jersey, is a high misdemeanor under the laws of such State; or (II) is violating the conditions of probation or parole imposed under Federal or State law.

Special Agents have learned that the PHA's are following an interpretation of the CFR that indicates there is discretion in HUD policy as to whether or not to terminate fugitive felons and probation and parole violators while the USC under PRWORA mandates that fugitive felons and probation and parole violators be immediately terminated.

B. Suggestions to Correct Deficiency:

1. Inform the PHA's through a HUD issued directive that when they are informed of the status of a tenant who has an active felony warrant the PHA must take action by terminating the tenant under 42 USC 1437(d)(7) or (f)(2)(I) or by issuing an order of compliance to the suspected fugitive tenant to personally resolve the issue with the warrant issuing agency within ten days or face termination for violation of a notice to comply. If the PHA refuses to take action and continues to allow the fugitive to reside in the HUD funded PHA program in violation of 42 USC 1437 HUD shall reduce the funding for the voucher or the PHA unit of the fugitive in order to comply with federal law mandating the elimination of housing fugitive felons and probation and parole violators.

2. Inform HA's through a HUD memorandum that failure to take action regarding the termination of fugitive felons within ten days of the notification by either immediately terminating the fugitive's tenancy or having the fugitive resolve their arrest warrant(s) within ten days after the PHA employee has been notified, will result in HUD OIG forwarding a report to the local Prosecutor's or District Attorney's Office within PHA's jurisdiction for charges of harboring a felony fugitive.

C. Investigative Techniques:

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**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: Karen Gleich	
DISTRICT/OFFICE: 7AGI/Kansas City, KS	DATE: 5/24/12
A. Description of Systemic Deficiency: <p>During the course of an investigation (2010GP001555I) on an Indian Housing Authority (IHA), a Federal Grand Jury Subpoena was served requesting financial records. Agents offered to take the documents, photocopy them and return them, and the Executive Director and the IHA Attorney determined that they would photocopy the records and provide them.</p> <p>As a result, the IHA paid \$10,000 to photocopy the records at Kinko's and then charged additional expenses for renting a trailer and hotel and meal expenses for five employees to travel 1 ½ hours to provide the records to the Grand Jury.</p> <p>The IHA is funded through an Indian Housing Block Grant, which is administered through HUD'S Office of Native American Programs. This particular IHA has a requirement that ONAP reviews all expenditures prior to the funds being released. That office authorized the expenditure of funds to pay the expenses of the copies and travel associated with the Subpoena, even though the Indian Housing Authority has income from non-program sources that could have been utilized. The HUD OIG office became aware of the expenses in reviewing the Indian Housing Authority records.</p> <p>The United States Attorney's Office pointed out that the payment for subpoena expenses rests with the Department of Justice. He further stated that in this case, the Department of Justice would not have paid for expenses related to the copying of the records due to the nature of the records. The Assistant United States Attorney on the case was concerned that the IHA had another federal agency approve the expenses when those expenses should not have been paid with federal funds.</p>	
B. Suggestions to Correct Deficiency: <p>Coordinate with ONAP to determine how these types of expenses should be handled in the future. Also, coordinate with the Department of Justice to determine the best way to handle situations like this.</p> <p>Develop a policy on how compliance with a Federal Grand Jury (or OIG) subpoena can be made without utilizing the Indian Housing Block Grant Funds, which should include coordination between ONAP and the HUD OIG or other investigating agency to reduce the cost of the expenses.</p>	
C. Investigative Techniques: <p>Reviewed records, conducted interviews, coordinated with U.S. Attorney's Office who requested that OIG address the matter with HUD/ONAP.</p>	
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**SYSTEMIC IMPLICATIONS
REPORT**

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

AGENT: Juan C. Juarez

DISTRICT/OFFICE:
Region VI, Houston, TX

DATE: October 22, 2012

A. Description of Systemic Deficiency:

HUD's stated purpose of the Single Family Property Disposition Program is to reduce the property inventory in a manner that expands homeownership opportunities and strengthens neighborhoods and communities. To meet that purpose, HUD designed its sales procedures to provide owner-occupants an opportunity to acquire HUD Real Estate Owned (REO) properties before investors. In operating the disposition program, HUD noted instances of alleged abuse where investors posed as owner-occupants when bidding on REO properties. To address HUD's concerns about these potential abuses, HUD issued Notice H 2003-1, Owner-Occupant Purchaser Certifications, to require that owner-occupants certify on the "Individual Owner-Occupant Certification" addendum to the sales contract, form HUD-9548D, that they have not purchased a HUD-owned property within the past 24 months as an owner occupant and that their offer was submitted with the representation that they would occupy the property as their primary residence for at least 12 months. The certification was required on both insured and uninsured sales. The notice further stated that the certification must be signed by both the purchaser(s) and the broker and submitted with the sales contract along with any other required addenda. This notice was distributed to all Homeownership Center Directors, all REO Directors, all REO Branch Chiefs and all Management and Marketing (M&M) Contractors.

During the investigation of allegations that a real estate investor utilized straw buyers to falsely bid on and purchase 44 HUD REO properties as owner occupants, the OIG noted that the straw buyers did not personally sign the Owner-Occupant certifications because the broker either forged the buyers' signature or the buyers granted the broker authorization to sign on their behalf. Since the buyers did not sign the Owner-Occupant certifications, the OIG was unable to hold them accountable for their participation in the scheme. Normally in an FHA Loan funded transaction, the buyer/borrower not only signs the Owner-Occupant certification, but also certifies their intent to occupy the property on the Uniform Residential Loan Application (URLA) and the Deed of Trust, both of which contain occupancy language. Furthermore, the buyer/borrower in an FHA Loan funded transaction, signs the URLA and Deed of Trust in the presence of a Closing Agent and/or a Closing Attorney. In the aforementioned 44 HUD REO property transactions, the purchases were funded with cash or non-FHA Loans. In the cash or non-FHA Loan transactions, the requirements to certify occupancy at closing were non-existent.

B. Suggestions to Correct Deficiency:

The deficiency described above could be corrected by requiring owner occupant purchasers in cash or non-FHA Loan funded transactions to re-certify their intent to occupy the REO property at closing. This would serve as an additional deterrent to the Owner-Occupant Purchasers Certification, and provide a potential witness to the fraud in

the form of a closing agent and/or closing attorney if an investigation results in prosecution.

Procedures for ensuring that the required documents, including the Owner-Occupant Purchaser Certification, form HUD-9548D, are used by brokers to submit offers and are forwarded to HUD by the M&M Contractors are delineated in the HUD-Acquired Single Family Property Disposition Handbook, 4310.5. This same Handbook also regulates the procedures for what takes place at closings, Chapter 11, Sales Closings. Section III, paragraph 11-8, Procedures for Processing Sales Closings, states that closing agents act on behalf of HUD, and therefore a contractual/written agreement is required for all sales closings, except when conducted by qualified HUD staff. Such agreement must specify the closing agent's duties and responsibilities in order to provide necessary protection to HUD. Paragraph 11-16, Closing Agent Responsibilities, subparagraph A, Completion of Documents by Closing Agent, provides specific instructions to the closing agent of what their responsibilities are at the closing, including what forms to sign and directions on how to have the forms executed. This section could be amended to include the requirement that all owner-occupant purchasers re-sign the Owner-Occupant Purchaser Certification, form HUD-9548D, at closing in the presence of a closing agent and/or closing attorney. Amendment of the Closing Agent Responsibilities would also require a corresponding amendment to Closing Agent Services Contracts, so that the Closing Agents themselves would be contractually obligated to enforce the change.

The OIG's intent to propose a change to HUD regulations and/or procedures to address this perceived deficiency was discussed with Denver HOC Management Analyst/Compliance Officer Marc Friedland, the source of the criminal referral on the aforementioned case, and was positively received.

C. Investigative Techniques:

This deficiency was discovered during the comparison of HUD REO files maintained by the Homeownership Center to the closing files for each transaction. Investigators noted that although initial Owner-Occupant Purchaser Certifications were required during the bidding process, no such occupancy language was required at closing. This deficiency only occurred on cash and non-FHA loan funded transactions.

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SYSTEMIC IMPLICATIONS REPORT

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

AGENT: T.J. Hanes	
DISTRICT/OFFICE: Region 8, Billings Field Office	DATE: November 23, 2012
A. Description of Systemic Deficiency:	
<p>The Section 8 program and its variants (Housing Choice Voucher, Project-based Section 8, etc) allow program participants to rent privately owned homes or apartments. The process of entering the Section 8 program includes making application; receiving a voucher; locating a suitable home or apartment; and entering into contacts and agreements between the owner of the property from whom the program participants seek to rent, the prospective tenants, and HUD. The family¹ signs a number of documents at the time it begins to rent a unit include a lease, which identifies the individuals who may occupy the unit as their residence, and a three-part Housing Assistance Payments Contract (Form HUD-52641), also known as the HAP Contract.</p> <p>The HAP Contract is ten pages long and identifies the persons who may reside in the unit, assigns responsibility for the payment of utility services, establishes the monthly rent the owner will receive in combination of payments from the tenants and from HUD, defines a number of terms and outlines the several program rules and requirements.</p> <p>The HAP Contract also contains grounds for the termination of rental assistance to program participants and requires owners to certify to a number of elements, including that they are not a parent, child, grandparent, grandchild, sister or brother of any member of the family receiving assistance, nor does the family have an ownership interest in the unit being rented.</p> <p>Despite the lengthy contact, no clause is included that directly prohibits an owner from living in a portion of the home being rented by the program participants. This issue was the basis of two trials held in Billings, Montana, in 2006 and 2007 (U.S. v. Ramona Lee Emmett and U.S. v. Kenneth R. Christenot, respectively) wherein program participant Emmett was found to have an ownership interest in her landlord's (Christenot) residence, while Emmett and Christenot lived together in the home for which Christenot collected HAP payments on behalf of Emmett. Emmett was convicted at trial for failing to report her assets and household income, namely Christenot's income that included the HAP payments he received on Emmett's behalf. Christenot maintained that no law specifically prohibited him from residing in unsubsidized portions of his rental unit, a situation referred to as "shared housing." In response, representatives from the Housing Authority of Billings testified that program rules concerning shared housing require landlords to clearly identify the areas of a unit for which the family receives assistance and prorates the family's rent based on the total square footage of the unit.</p>	

¹ "Family" is defined as a single person or group of persons and includes household with or without children; elderly families; disabled family; displaced family; a remaining tenant of a tenant family that has left the unit; or a single person who is not elderly or displaced, or a person with disabilities, or the remaining member of a tenant family. See Housing Choice Voucher Program Guidebook (4350.3 REV-1), p. 5-2

Christenot was convicted of making false statements in connection with his list of the occupants of his rental unit on the HAP Contract.

In consideration that **Christenot's conviction** resulted considerably from testimony by **Emmett's daughters and Christenot's probation officer that Emmett and Christenot** resided together, the Housing Authority of Billings developed a separate form on which landlords are required to acknowledge that they cannot live in the assisted unit. The form also includes several of the requirements contained in the HAP Contract but in a clearer manner. (See the attached exhibit.)

More recently, an investigation involving a landlord that used a small portion of the unfinished basement of a unit for which he receives HAP on behalf of tenants residing on the main floor of the home was recently declined to be accepted for prosecution by **the U.S. Attorney's Office for the District of Montana, in Billings, the same office that prosecuted the cases described previously.** In contrast to the earlier cases, no shared bank accounts, property, or mail boxes were identified that further linked the tenant with the landlord. A visit to the premises by **SA Hanes** revealed that the landlord cooked meals on a hotplate in the basement and used only the bathroom of the subsidized unit. Despite having created the Owner's Certification form described above, the Housing Authority of Billings did not retroactively require landlords to sign it; as a result, in the absence of documentation or evidence to clearly establish criminal intent by the landlord, **the U.S. Attorney's Office made the decision not to pursue prosecution.**

B. Suggestions to Correct Deficiency:

Establish regulations to require landlords to certify at the time of their tenants' lease-up or annually to statements concerning conflicts of interest and other program rules.

C. Investigative Techniques:

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SYSTEMIC IMPLICATIONS REPORT

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

AGENT: Special Agent Scott Savedow	
DISTRICT/OFFICE: Southeast / Miami	DATE: November 27, 2012
A. Description of Systemic Deficiency: Many local Public Housing Authorities (PHAs) require program applicants and continuing participants to provide tax returns as a means to verify material statements during the application and recertification process. Tax returns are a good asset for PHAs to verify information, and should be encouraged, however over the last several years, numerous PHAs throughout Florida have reported significant numbers of participants claiming earned income tax credits on their tax returns, but reporting not reporting income on their applications. When questioned regarding the discrepancy, the tenants report that they did not in fact receive income, and lied to the Internal Revenue Service (IRS) in order to obtain a higher income tax return. PHA's have utilized a variety of methods in response to these activities, including attempted program terminations for unreported income, repayment agreements based on the income reported to the IRS, or instructing the participant to submit a corrected tax return and provide a copy of the transcript to the PHA. It should be noted that defrauding another Federal Agency is not grounds for termination of participation in HUD programs.	
B. Suggestions to Correct Deficiency: This Systemic Implications Report provides two recommendations to improve or correct the deficiency. The first is for HUD's Public & Indian Housing Division (HUD-PIH) to develop and issue guidelines or best practice recommendations for dealing with tax return discrepancies. This recommendation notice should be developed in consultation with HUD-OIG and the IRS, and can include guidance on how and when to submit investigative referrals to each agency. The second recommendation is a possible best practice to provide the PHAs with additional grounds to pursue administrative actions for tax return discrepancies. Instructing PHAs to utilize questions or warnings during the application process regarding earned income tax credit. These will provide the PHA with material statements from which false information can be utilized as grounds to terminate program participation.	
C. Investigative Techniques: Income tax returns are an invaluable resource for PHA's to verify income and statements made by program applicants and participants and should be encouraged wherever possible. They are also very useful during program fraud investigations by HUD-OIG or other agencies. By implementing the above recommendations, the PHA's will be able to more accurately manage their programs, and HUD-OIG can establish guidelines by which potential frauds are referred for investigation.	
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