



Beverly Place Apartments, Groves, TX

Multifamily Project-Based Section 8

**Office of Audit, Region 6
Fort Worth, TX**

**Audit Report Number: 2017-FW-1009
June 29, 2017**





To: Mary Walsh, Southwest Region Director, Multifamily Housing, 6AHMLA
From: Kilah S. White, Regional Inspector General for Audit, 6AGA
Subject: Beverly Place Apartments, Groves, TX Subsidized Nonexistent Tenants, Unqualified Tenants, and Tenants With Questionable Qualifications

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Beverly Place Apartments in Groves, TX.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



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Beverly Place Apartments, Groves, TX Subsidized Nonexistent Tenants, Unqualified Tenants, and Tenants With Questionable Qualifications

Highlights

What We Audited and Why

We audited the multifamily project-based Section 8 program at the Beverly Place Apartments. We selected Beverly Place because we received a complaint of potential fraud, suggesting that the complex did not have appropriate controls to ensure tenant and unit eligibility. Our objective was to determine whether the owner administered its project-based Section 8 program in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and guidance.

What We Found

The owner did not administer the project-based Section 8 program at Beverly Place in accordance with HUD regulations. It assisted at least 97 tenants who were either ineligible for assistance or whose eligibility could not be supported. This condition occurred because the owner did not establish effective control systems, which allowed the onsite employees to commit fraud. The employees falsified tenant eligibility and did not properly verify tenant income as required by HUD. As a result, HUD paid the owner more than \$574,000 in subsidies for ineligible tenants and incurred more than \$227,000 in subsidies for which the owner could not support the tenants' subsidy amounts.

What We Recommend

We recommend that the Southwest Region Director of Multifamily Housing require the Beverly Place owner to (1) repay HUD more than \$574,000 for housing subsidies received for ineligible tenants and units and (2) support or repay HUD more than \$227,000 for units for which managers either did not have a tenant file or did not obtain required earned income verification reports to verify eligibility. In addition, HUD should require its contract administrator for Beverly Place to ensure that the owner's recently implemented quality control program is working as designed.

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Background and Objective

The Beverly Place Apartments is a 124-unit complex at 5307 Gulfway Drive in Groves, TX. B Properties-Beverly Place, LLC, located in Corpus Christi, TX, has owned the property since 2007. The U.S. Department of Housing and Urban Development (HUD) subsidized rents for 99 units through a yearly housing assistance payments contract.

The contract summarized the terms and conditions for subsidy payments. The owner determined how much rent each tenant was responsible for, based on the tenant's income, and submitted monthly claims to HUD for the difference between the tenant's portion of the rent and the total rent for the unit. Between January 2013 and December 2015, HUD paid the owner \$1.8 million in tenant subsidies.

Southwest Housing Compliance Corporation was HUD's performance-based contract administrator¹ for Beverly Place's Section 8 program. Due to national litigation between HUD and other parties, HUD amended its contract with the administrator on October 1, 2011, to delete certain monitoring tasks. As a result, the administrator did not perform onsite monitoring reviews of Beverly Place between May 2011 and the end of our fieldwork in January 2017.

In October 2015, we received a complaint that a tenant had been denied assistance at a different apartment complex. The tenant was listed as an assisted tenant at Beverly Place, although she had moved out 2 years earlier. The complainant also alleged that she paid cash to rent the unit when she lived at Beverly Place. The Office of Inspector General's (OIG) Office of Investigation conducted an investigation and determined that onsite managers engaged in identity theft and manipulated tenant income documents. It further determined that the managers and a local law enforcement officer stole more than \$230,000 in more than 5,000 reimbursable utility allowance checks intended for 176 assisted tenants² between 2009 and 2015 and obtained three convictions. The managers no longer work at the complex, and those who were convicted received sentences including time in prison.

Our objective was to determine whether the owner administered Beverly Place's project-based Section 8 program in accordance with HUD regulations and guidance.

¹ According to HUD's contract with the owner administrator, a performance-based contract administrator is a public housing agency that HUD contracts with to monitor and enforce the Section 8 program owner's compliance with the terms of its housing assistance payments contract and HUD regulations and requirements.

² This number is not the total number of tenants who received assistance. It represents only the number of tenants who had utility allowance checks stolen.

Results of Audit

Finding: HUD Paid Subsidies to the Beverly Place Apartments for Nonexistent, Unqualified, and Questionable Tenants

Beverly Place’s owner did not administer its project-based Section 8 program in accordance with HUD regulations. Specifically, the owner billed HUD for at least 97 tenants who did not exist or whose income eligibility was either falsified or unsupported. This condition occurred because the managers defrauded the tenants, HUD, and the apartment owner, and because the owner did not implement sufficient internal controls to detect or prevent the fraud. The owner did not ensure that tenants listed on subsidy reports lived in the subsidized units or that managers properly verified and reported tenant income and eligibility. As a result, HUD paid the owner more than \$800,000 in subsidies for units that were either vacant or no longer occupied by an approved tenant and for tenants with unconfirmed income.

Table 1: Issues and questioned costs

Issue	Ineligible payments	Unsupported payments	Total
Nonexistent tenants	\$574,930		\$574,930
Falsified income		\$150,082	150,082
Questionable income ³		77,621	77,621
Totals	574,930	227,703	802,633

The Owner Billed HUD for Nonexistent Tenants

Beverly Place improperly submitted housing assistance payment vouchers for units with nonexistent tenants and tenants who had moved out of their subsidized units. According to HUD requirements, Beverly Place could bill HUD only for occupied units. A comparison of utility records to rent rolls showed that 68 tenants did not live in their units at the time HUD paid their housing subsidies.⁴ Further research showed that the tenants were nonexistent or ghost tenants because they either never lived in those units or had moved out of the units while HUD continued to pay subsidies for them. These ineligible payments totaled \$574,930.

³ Included unconfirmed income, missing enterprise income verification reports, and missing tenant files

⁴ Utility records showed that the utilities were either in the complex’s name or the name of another person not on record as living in the unit.

The Owner Billed HUD for Tenants With Falsified and Questionable Income

A review of tenant files showed that 113 of 193⁵ assisted tenants at Beverly Place claimed regular cash contributions of \$30 to \$200 per month as their sole source of income. When a tenant claims contributed or gift income, HUD Handbook 4350.3 requires third-party verification of the income. Beverly Place obtained this verification through a notarized statement or affidavit signed by both the tenant and the person providing the assistance. In interviews and other verification efforts, 11 former and current tenants stated that they either did not know the person listed as a contributor or did not receive money from that person.⁶ Further, two contributors confirmed that they did not contribute money to the tenants. Both tenants and contributors denied signing the notarized statements and affidavits.⁷ Since the tenant files did not contain authentic income documents to support the subsidy calculations for these 11 current and former tenants, HUD's payments to the owner for the units, totaling \$150,082, were unsupported.

In addition, 18 assisted tenants with minimal cash contributions as their only income were questionable because the files did not contain evidence that the apartment managers attempted to obtain required Enterprise Income Verification reports⁸ and the owner could not provide files for 5 tenants. Since the tenant files did not contain the required Enterprise Income Verification reports or the owner could not provide a tenant file, HUD's payments to the owner for the units, totaling \$77,621, were unsupported.

Apartment Managers Defrauded Tenants, HUD, and the Owner

Apartment managers defrauded tenants. Apartment managers used personal identification of previous tenants and applicants to apply for Section 8 assistance. Most of the tenants did not speak or understand English well and were unaware that they were supposed to receive assistance or the amount of assistance to which they were entitled. This condition allowed the managers to require them to pay cash for rent, which the managers deposited in personal bank accounts instead of the project account as required. Managers further falsified the tenants' documentation to show little or no income, resulting in reimbursable utility allowance checks, which the managers also diverted to personal private bank accounts. After the complaint, apartment managers changed income sources in tenant files, corrected rent amounts, stopped pocketing cash rents, and began providing tenants their reimbursable utility allowance checks.

Apartment managers defrauded HUD. Apartment managers billed HUD for units that did not house Section 8 tenants. They also minimized tenant income, which maximized HUD

⁵ The number of assisted tenants (193) exceeded the number of assisted units (99) due to tenant move-ins and move-outs during the audit period.

⁶ Confirmations were made through interviews with tenants and reported contributors by OIG investigators and auditors.

⁷ The 11 cases do not include cases included in an Office of Investigation referral for administrative action to the Departmental Enforcement Center or cases included in the ghost tenant portion of the finding.

⁸ The Enterprise Income Verification system is a web-based computer system containing employment and income information on individuals participating in HUD's rental assistance programs. Regulations at 24 CFR (Code of Federal Regulations) 5.233 and HUD Handbook 4350.3, REV-1, require its use as a third-party verification source.

assistance, including reimbursable utility allowance checks, which the managers directed into a separate bank account.

We found instances in which

- Tenants moved out of Beverly Place, yet managers continued to use the tenants' information to make it appear that they still lived in the unit and continued billing HUD.
- Managers used personal information obtained from persons who applied to live at the project but did not end up living there. They then applied for assistance in the applicant's name, using falsified information, and either kept the unit vacant or rented it to a non-Section 8 tenant and kept that tenant's rent.
- Managers minimized income for otherwise eligible tenants to maximize the reimbursable utility allowances. The result was an unwarranted increase in HUD's assistance payments for the units.

These actions resulted in HUD's paying the owner more than it should have paid in subsidies for ineligible units and inflated utility allowances.

Apartment managers defrauded the owner. Apartment managers defrauded the owner by falsifying the tenant records and making it responsible for repayments to HUD for ineligible housing assistance payments. After the complaint, managers tried to cover up the falsified information and ghost tenants by conducting interim certifications, in which they changed income from fictitious gifts to self-employment for tenants who continued to live at the project, and changed tenant status to "moved out" for tenants who no longer lived at Beverly Place.

The Owner Did Not Have Controls to Detect or Prevent the Fraud

The owner did not detect the fraud or prevent the apartment managers from committing fraud against it and the tenants because it had not implemented adequate controls to ensure that managers correctly calculated and processed rent subsidies. Further, the owner did not verify the information that managers provided when it certified the accuracy of its monthly requests to HUD for subsidy payments. On the requests for subsidy payments, the owner certified that each eligibility and assistance payment was computed in accordance with HUD requirements and the unit billed was occupied. The certifications were incorrect, and the owner received ineligible and unsupported payments totaling \$802,633.

The owner relied on HUD's project-based contract administrator to detect and prevent occupancy errors through periodic occupancy reviews. However, the administrator reviews were not effective as the Office of Investigation determined that the scheme managers used to steal the reimbursable utility allowance checks had existed since 2009, 2 years before the administrator performed its last occupancy review due to litigation. Implementing additional procedures and strengthening the occupancy reviews will assist the administrator in detecting and preventing the fraud, which was the basis for the nonexisting tenants and falsified income discussed in the report.

After the audit began, the owner implemented control policies to increase the oversight and monitoring of its managers. These policies included plans to (1) hire a quality control specialist to perform monthly monitoring of compliance with required earned income verification report procedures, (2) review monthly tenant submission reports to track tenants paying minimal rent, and (3) change procedures for disbursing reimbursable utility allowance checks. We did not review files after the audit period to determine whether the owner's new control policies were effective.

Conclusion

The owner violated its housing assistance payments contract with HUD for its Section 8 program and submitted erroneous certifications by charging HUD for vacant units and for tenants whose income and tenancy had been falsified or not properly verified. These conditions occurred because the owner had not implemented effective controls to properly oversee its managers and ensure the accuracy of the subsidy certifications that it submitted to HUD. As a result, its managers defrauded the tenants, HUD, and the owner. HUD paid the owner at least \$802,000 for ineligible and unsupported subsidies.

Recommendations

We recommend that the Southwest Region Director of Multifamily Housing require Beverly Place's owner to

- 1A. Repay HUD \$574,930 for subsidized units that were not occupied by qualified tenants. Repayment must be from non-Federal funds.
- 1B. Provide support to show that the subsidies for 11 tenants with falsified income were accurate or repay HUD \$150,082 for those subsidies. Repayment must be from non-Federal funds.
- 1C. Provide support to show that the subsidies for 18 tenants without files or without adequate income documentation in their files were accurate or repay HUD \$77,621 for those subsidies. Repayment must be from non-Federal funds.

We further recommend that the Southwest Region Director of Multifamily Housing

- 1D. Require its contract administrator for Beverly Place to verify that the owner's recently implemented quality control program is working as designed.
- 1E. Ensure that the project-based contract administrator's review process includes steps to obtain reasonable assurance that tenants being reported as subsidized at Beverly Place live in the subsidized units.

Scope and Methodology

We performed our fieldwork at Beverly Place's office located in Groves, TX, and the OIG Offices of Audit and Investigation in Houston, TX, from August 2016 through January 2017. Our audit period was January 2013 through December 2015. This period was expanded as necessary to meet our objective.

To accomplish our objective, we

- Reviewed relevant HUD regulations and requirements.
- Reviewed the owner's policies and procedures.
- Reviewed the contract administrator's management and occupancy review report for Beverly Place, dated May 17, 2011.
- Reviewed Beverly Place's latest Real Estate Assessment Center⁹ inspection report.
- Reviewed interviews performed by OIG investigators and auditors.
- Interviewed owner staff.
- Reviewed and analyzed the monthly Tenant Rental Assistance Certification System¹⁰ reports for the audit period.
- Reviewed utility records subpoenaed by the Office of Investigation.
- Reviewed a nonstatistical sample of 11 subsidized tenants.
- Identified and reviewed 76 tenants reported as having moved out of their units after or prior to the complaint.
- Interviewed tenants or their reported income contribution donors when we could locate them.

Of the 193 subsidized tenants during our review period, there were 148 subsidized tenants living on the property during 2015, the year of the complaint. We selected a sample of 11 of these tenants based on their tenure in the apartments, excluding those who moved in or out of their units near the time of the complaint and based on whether we could locate the tenant file.¹¹ We reviewed their files to determine whether they supported the tenants' eligibility and rental charges. The test results refer only to the tenants tested and cannot be projected to the population of tenants. Based on the results of this review, we expanded our review to the entire population

⁹ The Real Estate Assessment Center's mission is to provide and promote the effective use of accurate, timely, and reliable information assessing the condition of HUD's portfolio; to provide information to help ensure safe, decent, and affordable housing; and to restore the public trust by identifying fraud, abuse, and waste of HUD resources. It collects data from various sources to assess the condition of HUD's housing portfolio.

¹⁰ The Tenant Rental Assistance Certification System is a HUD computer system developed to help improve financial controls over assisted housing programs by automating manual procedures and incorporating automated controls.

¹¹ All tenant files located at the apartment office were confiscated by the OIG investigators. Some files were not located.

and selected all tenants we identified as potentially fictitiously reporting minimal monthly gifts as their only source of income.

Of the 193 subsidized tenants during our review period, we identified 76 that could have been nonexistent tenants or tenants with fictitious incomes. The tenants moved out after or prior to the complaint date. Further, most reported gifts as their sole income source, the income appeared to be falsified, and their utility allowance reimbursement checks were stolen. Finally, the tenants were not reported as living on the property in January 2016 when the OIG investigators obtained the utility records. For these 76 tenants, we compared information in the utility records to various Tenant Rental Assistance Certification System reports, including move-in and move-out reports and payment histories, and a stolen check list obtained from investigators for the 76 tenants. We determined that 72 of the tenants were clearly nonexistent. We excluded 4 tenants that the investigators included in their criminal complaint and reported the remaining 68 nonexistent tenants in this report.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Policies and procedures that Beverly Place's owner implemented to ensure that its project-based Section 8 program was administered in accordance with HUD's rules and regulations.
- Policies and procedures the Beverly Place's owner implemented to provide adequate oversight of apartment managers at Beverly Place.
- Policies and procedures that Beverly Place's owner implemented to ensure that its monthly HUD billings were accurate and included only occupied units.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following item is a significant deficiency:

- The owner did not have sufficient controls in place to ensure that it implemented its project-based Section 8 program in accordance with HUD's rules and regulations, including that its monthly billings to HUD were accurate (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$574,930	
1B		\$150,082
1C		77,621
Totals	574,930	227,703

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

May 30, 2017

Mr. Jacob Williams
Assistant Regional Inspector
US Department of Housing & Urban Development
Office of Inspector General

Subject: May 24, 2017 Draft Audit Report; Beverly Place Apartment Subsidized Nonexistent Tenants

Dear Mr. Williams:

Thank you for providing the ownership of Bell Properties -Beverly Place LLC with the opportunity to review and comment on the above captioned subject. This correspondence represents the ownership's response after review of the subject report. We are certainly very appreciative of the fact that your office places a high priority on resolving disputed issues and seeking agreement on effective corrective actions contained within your report(s). In our view, the heart of this matter lies in establishing what level of culpability exists with ownership as it pertains to the criminal acts committed by our former employees. Please note that we do not refer to the actions of our former employees as "Fraud or Fraudulent". Rather, their actions were nothing less than *Criminal Acts*. Actions so diabolical, hidden, and shocking in nature that they went undetected for years, even when audited by third party entities whose sole mission is to seek out and detect such activity.

We must first comment and take issue with statements made in your Highlights Section-What we Found. We do not fully agree with your statement that "The owner did not administer the project-based Section 8 program at Beverly Place in accordance with HUD Regulations" or continuing on down the paragraph, "This condition occurred because the owner did not establish effective control systems, which allowed the onsite employees to commit fraud". As you are aware, there exists many elements to properly operating and maintaining a section 8 project based property. Administrative requirements exist in many areas such as providing a safe and decent sanitary environment, actively meeting local and federal building codes, meeting satisfactory REAC scores and of course providing quality affordable housing options to the local community. In each of these areas, the ownership has always been actively involved and evidence exists in many forms that establish this as fact. With regard to the criminal acts committed by former staff, the ownership did in fact administer the project based section 8 program in accordance with HUD regulations. As an example, OMB Circular A-133 requires that we procure the services of an independent auditing firm to annually audit our financial statements and to also perform audits of randomly selected files. As we are sure you are aware, this did indeed occur and no signs of illegal activity were detected in any of the audited years in question. Secondly, we were willing and engaged participants with Southwest Housing Compliance Corporation during the Management & Occupancy Reviews performed each year during our ownership from 2007-2011. In each year of their audits, audits that specifically included selecting random files for review, no form of illegal activity was detected. Moreover, we would note that in each year of our MOR's we were rated as Satisfactory and even achieved an "Above Average" in 2010, a rarity for SHCC in their rating system. Lastly, in 2008 we procured the services of a third party TRACS processing firm. As you are aware, many (most) property management firms place this responsibility with on site staff. Our approach was to separate this important procedure so that it would allow another form of checks and balance to exist. We feel that this was a good step and has certainly streamlined our voucher requisitioning process. The ownership, through its upper management, closely monitored the results of each of these areas. No irregularities were ever detected at Beverly Place. In fact, it appeared through our own observations and those of

Comment 1

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other third parties that Beverly Place on site staff were performing at a very high level. Once again, evidence exists that establish this in many facets of the property's operation, *to include file compliance*. This understandably begs the question as to how this type of activity existed for so long and went undetected even under audit. Our position is simply that criminal activity has no real rationale or meaning. It can be random and in this case very well hidden and planned out. To imply that as owners, we should accept de facto responsibility for the actions of these criminals is simply not reasonable. Once again, this was not fraud, it was criminal activity that led to the rightful loss of liberty for its perpetrators.

Comment 1

1. We wish to provide further thoughts on additional comments within your report that add to our position that this was criminal activity and not substantial failure on our part to properly administer section 8 programs

Comment 2

- Under page 5, first paragraph, The Owner Billed HUD for Tenants With Falsified and Questionable Income. As you state, HUD Handbook 4350.3 requires third party verification of income. You reference that Beverly Place staff obtained this verification through a notarized statement or affidavit signed by both the tenant and the person providing the assistance. However, both tenants and contributors later denied signing such statements. One certainly has to question how such documents could be legitimately notarized if such an action requires proper identification? In the eyes of any reasonable individual looking at these files, including auditors and owner representatives, this would seem to be a very legitimate third party verification. That it later turned out to be false certainly speaks to the level of deceit put forth.

Comment 3

- Page 5, first paragraph pertaining to the 18 assisted tenants and missing Enterprise Income Verification Reports. We are puzzled by this comment but believe we can provide the necessary documentation. Please note this was provided to the original OIG investigators on September 20, 2015.

Comment 4

- Page 6, last paragraph. We disagree with your statement that "The owner relied on the project's contract administrator to detect and prevent occupancy errors". The fact is that HUD, through its procurement process, relied on the contract administrator to detect and prevent occupancy errors or criminal activity such as this. The fact that it went undetected does not bring into question the competency of SHCC. They are a nationally well respected PBCA. What this speaks to is the level of deceit put forth by the former on-site staff.

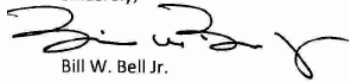
Comment 5

- Page 7, Conclusion. We do not agree with or understand where the \$802,000 figure is derived from. Included with this response are Court Documents for each of the individuals involved in this crime. In said documents which we presume to be accurate and factually documented, Ms. Nguyen and Ms. Murphy were responsible for \$393,583.00 each, in loss of funds to HUD. Mr. Hogan who was not an employee of Beverly Place was responsible for an additional \$187,706. Moreover, according to the Guilty Plea set forth by each party, restitution was also set forth as part of their agreement. Our position is that this is the correct path to choose and the owners should not be held responsible for the criminal acts of these individuals. In any event, you should understand that the ownership will request access to all records establishing whatever figure HUD is requesting returned should we not come to an equitable resolution.

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As stated in our opening paragraph, we appreciate being provided the opportunity to respond to your draft report. We have found our interactions with your offices to be nothing less than professional and courteous. We are thankful for your approach to your work and hope to soon put this unfortunate situation behind us.

Sincerely,



Bill W. Bell Jr.

OIG Evaluation of Auditee Comments

Comment 1 The owner did not fully agree with the report assertions that it did not administer the project in accordance with HUD requirements, that it did not have effective internal controls systems, and that the lack of effective internal controls systems allowed its employees to commit criminal acts, not fraud. The owner said it had always been actively involved in the areas covered by administrative requirements regarding providing a safe, decent, and sanitary environment, meeting local building codes, and providing quality affordable housing options, and there is evidence of this. The owner noted that its yearly independent public accountant audits and contract administrator reviews included reviews of randomly selected files and that neither the auditors nor the contract administrators detected signs of illegal activity. It further noted that contract administrator reviews resulted in satisfactory or above average ratings. The owner concluded it is unreasonable to hold the owners responsible for the actions of its employees.

The owner did not have sufficient control systems in place to ensure it administered the project in accordance with HUD requirements as shown in the audit. The report stated that the managers took advantage of owners, HUD, and the tenants by committing fraud. However, the owner is responsible for ensuring that its monthly billings and signed certifications to HUD were correct. We also acknowledge that neither the independent public accountant's audits nor the contract administrator reviews detected the illegal activities by the apartment managers. However, those reviews are not designed solely to detect fraud, and they do not alleviate the owner of its responsibility. During the audit, the owners implemented additional internal controls to increase management oversight and monitoring. However, the best protection against fraud is employing strong internal controls that are continually reviewed and updated.

Comment 2 The owner stated that the notarized income statements appeared to be a legitimate third party verification.

On the surface, the notarized income statements appeared to be a legitimate third party verification. However, an effective control system could have questioned some of the indicators related to the statements. For instance, statements were not always notarized during the required yearly income recertifications. The owner may have discovered the scheme sooner if it had taken additional steps to directly confirm the information with the parties who reportedly signed the forms.

Comment 3 The owner believed it could provide necessary documentation for 18 tenants questioned in the report, because it had provided this information to the OIG investigators in September 2015.

We reviewed files obtained by the investigators for evidence of earned income verification. We found 18 instances in which there was no evidence that earned income verification reports were obtained or that an attempt was made to obtain

them. The missing reports included 5 files that were never provided and 13 files that were provided but did not contain the evidence. If the owner can find the documentation, it should provide it to HUD during the audit resolution process.

- Comment 4 The owner stated that HUD procured the contract administrator and relied on it to detect and prevent occupancy errors or criminal activity. The owner disagreed with our statement that it relied on the contract administrator to detect and prevent such instances. The owner also commented that the fact that the occupancy errors or criminal activity went undetected does not bring into question the competency of the contract administrator.

HUD procured the contact administrator to review program operations. In addition, we based our statement in the report on an audit interview in which the owner stated that because the contract administrator did not detect the problems, there was no reason for the owner to expect wrongdoing. The last review by the contract administrator, at the time of our field work, was in 2011. Further, although we did not question the contract administrator's competence, the report contains two recommendations that will help the contract administrator ensure that both it and the owner implement effective controls to help prevent future similar frauds.

- Comment 5 The owner stated that it did not agree with the \$802,000 questioned in the finding and should not be held responsible for the criminal acts, and provided various court documents showing that the individuals involved had been convicted and were responsible for restitution to HUD. The owner stated that the two former on-site managers were each responsible for \$393,583, and the third person who was not an employee was responsible for an additional \$187,706.

As stated in the report, the owner violated its housing assistance payments contract with HUD for its Section 8 program and submitted erroneous certifications by charging HUD for vacant units and for tenants whose income and tenancy had been falsified or not properly verified. The amounts reported in the court documents were based on the stolen reimbursable utility allowance checks and assistance payments for 5 units. We removed the reimbursable utility allowances and payments for the 5 units from the universe of payments during the audit. Therefore, the questioned costs do not duplicate the court ordered restitution. After the exit conference, we provided documentation to the owner detailing the questioned costs.