

**OFFICE OF THE INSPECTOR GENERAL  
CHICAGO HOUSING AUTHORITY**

**REPORT OF THE OFFICE OF THE INSPECTOR GENERAL**

2017 FIRST QUARTER REPORT

**JANUARY 01, 2017 THROUGH MARCH 31, 2017**

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INSPECTOR GENERAL

APRIL 14, 2017



April 14, 2017

To Chairman Hooker, Chair Markowski and Members of the Finance/Audit Committee:

Enclosed for your review is the 2017 First Quarter Report on the activities and initiatives of the CHA Office of the Inspector General (OIG) pursuant to the mission and directives identified in the *Office of Inspector Charter*.

The OIG received 153 complaints during the first quarter. Out of the 153 complaints, the OIG opened 8 new investigations and provided investigative support to the Housing Choice Voucher (HCV) and Public Housing departments on 74 matters. The OIG has 35 open matters (criminal and administrative) in various stages of the investigations.

During this quarter, OIG investigations resulted in 2 criminal convictions, 2 sustained administrative investigations, and 1 administrative investigation that was not sustained. Additionally, an OIG administrative investigation of a vendor resulted in terminating the contract for cause.

The OIG issued Advisory #9 pertaining to a CHA employee's criminal conviction based upon the individual's conduct while employed by his/her former employer (another government agency). The CHA employee was convicted of felony theft subsequent to being hired by the CHA.

The OIG has increased the utilization data analysis activities to not only advance the OIG's mission to root out fraud, waste, abuse and mismanagement, but also to expand collaboration and knowledge sharing. The OIG is confident that these efforts will be a positive factor in supporting a more efficient and compliant operational environment. Strategic areas for analysis include, but are not limited to, potential conflict of interest, potential participant/landlord collusion, employee/vendor collusion, potential M/W/DBE procurement related violations/offences, and potential prevailing wage violations by prime construction contractors.

The Finance/Audit Committee closed session was held on February 21, 2017. I presented some of the OIG activities and initiatives from 2016. I will be presenting the OIG activities and initiatives for the first quarter of 2017 at the May 16, 2017 closed session of the Finance/Audit Committee session.

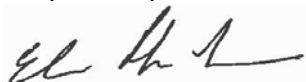
The OIG had a significant staffing change during this quarter. With Jim McNally's relocation to another state, Mike Kosanovich joined the OIG staff as the new Deputy Inspector General. Mike was the former Assistant Special Agent in Charge of the FBI's Chicago Field Office, directing the Public Corruption and

Financial Crimes Programs. He brings extensive experience in a variety of disciplines including financial/white collar crimes and corruption investigations. The OIG is fortunate to have Mike join our team and I look forward to utilizing his vast knowledge and contacts to better serve the OIG mission, thereby CHA.

Additionally, we want to congratulate CEO Eugene Jones Jr. on his selection to the 2017 FBI Citizens Academy (FBICA) class. The OIG nominated CEO Jones to be selected for Class of 2017. The mission of the FBICA is to foster stronger relationships within the community and to provide a greater understanding of the role of federal law enforcement through education, training and frank discussions. This eight-week program will provide business, religious, media, and community leaders a unique inside look at the FBI, and how it operates in the greater Chicago Area. I have no doubt that CEO Jones will represent the interests of CHA as well as issues and concerns facing Chicago.

As always, I thank Chairman Hooker, Chair Markowski and the members of the Finance/Audit Committee for its continued support and commitment to the OIG mission of rooting out as well as preventing fraud, waste, and abuse in the administration of CHA programs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Elissa Rhee-Lee', written over a light gray rectangular background.

Elissa Rhee-Lee  
Inspector General

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This quarterly report provides an overview of operations of the Office of the Inspector General (OIG) during the period of 01/01/2017 through 03/31/2017. This report includes statistical and narrative summaries of OIG activities for the past quarter.

#### **A. MISSION OF THE INSPECTOR GENERAL'S OFFICE**

The OIG is an independent oversight office whose mission is to promote economy, efficiency and integrity in the administration of programs and operation of the Chicago Housing Authority (CHA).

The OIG achieves this mission through:

- Criminal Investigations
- Administrative Investigations
- Program Reviews
- Performance Audits
- Analytics
- Advisories
- Fraud Awareness Training

From these activities, the OIG issues reports of findings and disciplinary and policy recommendations to ensure that CHA officers, the Board of Commissioners, employees and vendors are held accountable for running an efficient, cost-effective operation. Furthermore, the OIG seeks to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud and abuse of public authority in CHA's use of federal funds.

#### **B. INVESTIGATIONS AND PROGRAM REVIEW STANDARDS**

The OIG conducts its investigations in accordance with the *AIG Principles and Standards for Office of Inspectors General*, generally accepted principles, quality standards and best practices applicable to federal, state, and local offices of Inspectors General. These include both general standards and qualitative standards as outlined in the above publication. Additionally, the OIG, at all times, exercises due professional care and independent impartial judgement in conducting investigations and the issuance of reports and recommendations.

The OIG conducts audits of programs in accordance with *Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and Principles and Standards for the Offices of Inspector General*. Those standards require that we plan and perform the audit to obtain sufficient, and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The adherence to these standards ensures that audits and program reviews comprise the requisite independence, planning, organizing, staff qualifications, direction and control, coordination, reporting, confidentiality and quality assurance.

#### **C. INVESTIGATIONS**

The OIG conducts both criminal and administrative investigations into the performance of officers, employees, contractors, functions, and/or programs, either in response to complaints, audits or upon OIG's own initiative.

The OIG received 153 complaints/matters during the first quarter of 2017. Out of the 153 complaints, we provided investigative support to both internal and external stakeholders for 74 matters. We initiated 8 investigations, we referred 47 complaints to other agencies or departments and we declined 24 cases. Matters can be declined for a variety of reasons such as no specific information provided, insufficient resources to address, no actionable information contained in the allegation, or not within the OIG’s jurisdiction. Of the 8 matters resulting in investigations, 5 were ultimately closed during the first quarter.

**Table # 1 Complaint by Method**

Complaint by Method

Source	Number
Emails	11
Website Submissions	106
Hotline	27
In Person	1
Mail	3
Fax	1
Analytics	4
<b>Total</b>	<b>153</b>

**Table # 2 Complaint Disposition**

Complaint Disposition

Disposition	Number
Investigations	8
Investigative Support	74
Referrals	47
Declined	24
<b>Total</b>	<b>153</b>

**Table # 3 Subject of Investigation**

Subject of Investigation

Subject	Number
Program Participants	6
Contractors, Subcontractors, Vendor	1
Employees	1
Other	0
<b>Total</b>	<b>8</b>

**Table # 4 Investigative Classification**

## Investigative Classification

Classification	Number
Administrative	4
Criminal	4
<b>Total</b>	<b>8</b>

**Table # 5 Closed Investigations**

## Closed Investigations During the Quarter

Classification	Number
Administrative	3
Criminal	2
<b>Total</b>	<b>5</b>

**Table # 6 Indictments/Convictions**

## Indictments/Convictions

Action Category	Number
Indictments	0
Convictions	2
Restitutions	2
Debarment	1
<b>Total</b>	<b>5</b>

**Table # 7 Pending Investigations**

## Pending Investigations

Classification	Number
Administrative	4
Criminal	31
<b>Total</b>	<b>35</b>

**Table # 8 Pending Audits**

## Pending Audits

Audit Name	Time Frame
Follow-Up CHA Emergency Contracts	04/21/2017
PH Over Income	05/15/2017
Follow-Up Security Guard Services	06/05/2017
Occupancy Rate	04/28/2017

**INVESTIGATIONS NOT CONCLUDED WITHIN SIX MONTHS**

Under the *Inspector General Charter*, the OIG must provide quarterly statistical data on pending investigations/matters open for more than six months. Of the 35 pending matters, 25 have been open for at least six months. The following table shows the general reasons why these matters remain open.

**Table # 9 Investigations Not Concluded within Six Months from Initiation**

<b>Reasons</b>	<b>Number of Investigations</b>
<b>A.</b> Complex investigation, generally involve difficult issues of multiple subjects and/or under review by prosecuting agency	16
<b>B.</b> Indicted cases, but no criminal disposition	9
<b>C.</b> On-hold, in order to not interfere with another on-going investigation	0
<b>Total</b>	<b>25</b>

**D. NOTABLE INVESTIGATIVE SUPPORT**

**OIG Support to HCV**

The OIG had received information from a Federal Law Enforcement Agency that Housing Choice Voucher participant Yvette Taylor (Taylor) had been indicted by a Federal Grand Jury on May 26, 2015 for submitting or causing the submission of 526 false federal income tax returns from 2008 to 2013 involving 146 victims. Taylor had attempted to obtain fraudulent tax refunds totaling \$1,023,114. Taylor pled guilty on April 19, 2016 to 1 count of mail fraud and 1 count of aggravated identity theft. On December 16, 2016, Taylor was sentenced to prison for 3 years and probation for 2 years. Taylor was also ordered to pay restitution totaling \$138,802. Taylor was ordered to report to prison on February 28, 2017. An informal hearing was held on February 14, 2017 with Taylor, who was attempting to maintain her voucher for her 2 children. On February 22, 2017 the Hearing Officer ruled in favor of the CHA and Taylor has been terminated from the HCV program.



## **E. CLOSED INVESTIGATIONS SYNOPSIS**

An OIG investigation can be either administrative, criminal or both. Administrative investigations generally involve violations of HUD regulations and/or CHA rules, policies or procedures. For sustained administrative investigations, the OIG prepares a summary report of the investigation and its findings. These summary reports are presented to the CEO and the impacted department to facilitate an appropriate resolution. They are available upon request to the Audit Committee.

In Housing Choice Voucher (HCV) landlord/participant criminal cases, once there is sufficient evidence gathered for potential prosecution, the criminal investigation will be presented to a prosecuting agency for review. If the criminal case is declined by the prosecuting agency, the evidence can be referred to CHA departments for appropriate administrative sanctions including termination of participant's voucher, debarment, or civil action remedies.

### **CLOSED CRIMINAL CASES**

Two criminal cases were sustained and closed. The following is a summary of these cases:

#### **Helen Davis**

Helen Davis (Davis) of Chicago was indicted on August 9, 2016 by the Cook County States Attorney's Office for fraudulently receiving government funds from the Chicago Housing Authority and the Social Security Administration.

The indictment alleged that between January 1996 and February 2015, Davis stole in excess of \$250,000 (approximate CHA loss - \$139,479) from the CHA and the SSA by concealing income and assets through the use of a secondary Social Security number and an alias. Additionally, Johnson submitted documents to the CHA that allowed her to collect housing assistance payments as a landlord under one identity, while residing as a Housing Choice Voucher participant in the same property under another identity.

On January 19, 2017, Davis pled guilty to two counts of Theft by Deception > \$100,000 and was sentenced to a 30 months' probation and received a Restitution Judgment Order in the amount of \$135,000 to the CHA.

#### **Charles Thomas**

On October 01, 2009, the OIG received a complaint that Charles Thomas (Thomas), a CHA contractor d/b/a Thomas Painting was not paying wages in compliance with the Davis – Bacon Act. An investigation by the OIG revealed that Thomas Painting fraudulently reported in excess of \$450,000 for wages that were not paid in accordance with the Act. In July 2010, this matter was referred to HUD-OIG. Charles Thomas was indicted for Davis – Bacon violations by a Federal Grand Jury in November 2012.

On December 18, 2014 the United States Attorney's Office filed a Superseding Information charging Charles Thomas with one misdemeanor count of Title 18 USC 1012, Fraud against HUD. The superseding indictment was based upon Davis-Bacon violations and Thomas submitting

approximately 92 false certified payrolls to the CHA. On January 22, 2016 Charles Thomas was sentenced to 2 years' probation, 400 hours of community service and ordered to make restitution totaling \$282,172.72. On January 22, 2017 HUD debarred Charles Thomas for a period of 5 years.

#### **CLOSED ADMINISTRATIVE CASES**

One administrative case was closed and not sustained. Two cases were closed and sustained. The following is a summary of sustained cases:

##### **OIG Ref #2017-01-00015**

On January 05, 2017, the OIG received a complaint regarding a CHA vendor. This company was awarded a professional services contract from the CHA for a period ending in January, 2018. This company was to provide workforce development training, career counseling and subsidized and unsubsidized employment placement for CHA residents. This company recruits, screens, trains and places CHA adult residents into subsidized employment. The complaint alleged that the company's owner exhibited inappropriate statements directed at its employees, CHA residents, CHA employees and resident trainees.

The investigation was sustained by the OIG. Based upon multiple interviews, the OIG investigation documented a pattern of inappropriate and graphic statements by the subject. The witnesses described a pattern of behavior by the subject that included inappropriate statements relating to religious beliefs; sexual preference; race and gender. Multiple witnesses described the statements as offensive.

The OIG also determined that the subject failed to disclose a proposed debarment of the company by another city agency as required in the Contractor's Affidavit, Section V, part A.1. and B. The OIG found that at the very minimum, the subject was required to attach a detailed factual explanation of the proposed debarment of this company. Section V, B, of the Contractor's Affidavit states: If the Contractor is unable to certify to any of the statements in this certification, the Contractor shall attach a detailed factual explanation to this certification.

The OIG determined that the subject violated numerous material terms of its contact with the CHA and recommended that the contract should be terminated immediately. The OIG also recommended that the subject be barred from all CHA work. Consequently, the CHA terminated this contract.

##### **OIG Ref #2016-10-00076**

On October 31, 2016, the OIG received information that a Local Advisory Council (LAC) had been renting out a room on CHA property to residents and various third parties. The OIG investigation determined that the LAC had rented out CHA space on approximately 44 separate occasions since April 2016 in order to raise funds. The LAC charged CHA residents and other third parties \$150 per use and collected over \$5,250. The investigation also determined that the property management staff and the CHA staff were aware of this ongoing practice. However, no written

guidelines were found and it was not clear what guidelines the LAC were given by the CHA. The OIG investigation also determined that since the LAC elections in September 2016, this LAC office at this CHA Development had ignored directives given by the Chief Property Officer and by the Deputy Chief. The OIG also made the following recommendations:

- The CHA Property Office should prepare a written policy for the use of CHA space by CHA residents, non-residents, the various Local Advisory Councils and the Central Advisory Council. This Policy should be distributed to the various Private Property Management (PPM) firms and to their Property Managers, the CAC and the various LAC's:
  - The policy should stipulate that CHA residents should not have to pay a fee to use CHA space that is available for their use.
  - CHA Management should control and approve any rental agreements of CHA property to all third parties.
- The PPM firms should provide better oversight and management control of their property.
- The LAC should not have any responsibility, oversight or control over the use of the various rooms and resources at this CHA Development.
- Finally, it should be clearly communicated to the Security Companies on site that they do not report to the LAC and that their directives come from the CHA and the PPM firms.

## **F. CLOSED AUDITS AND REVIEWS SYNOPSIS**

The investigative team continues to rely heavily on the audit and analytics team for investigative support in financial frauds and forensic accounting matters. This support is critical to allow the OIG to conduct and lead multi-jurisdiction, complex investigations. It was anticipated that the need for audit staff support on investigative matters will continue to be an integral part of OIG investigations.

The OIG did not close any audits during the first quarter, but currently has four pending audits. The OIG is awaiting CHA Management response on the Occupancy Rate Audit from the Chief Property Officer. The completed Occupancy Rate Audit should be completed in the second quarter.

## **G. ANALYTICS**

The following are the significant data analytic initiatives for this quarter:

### **Landlord/Tenant Collusion**

Recent criminal indictments show a clear trend of participant and landlord relationships as a basis for criminal fraud schemes. Thus, the OIG completed an analysis to determine whether a landlord was both renting to a relative, and residing jointly in a HCV unit. Nine cases were

opened by OIG investigators in the fourth quarter of 2016. Of these, six investigations were sustained and issued an intent to terminate (ITT) letter or Prohibitive Activity and Conduct (PAC) warning during this quarter. These cases took an average of 70 days from the date they were referred to the date on record of being issued an ITT.

The OIG will continue to track these cases in an effort to identify whether they result in a termination.

### **Registered Sex Offender List Analysis**

According to the Quality Housing and Work Responsibility Act of 1998 (Section 578), the admission of lifetime sex offenders to federally assisted housing is prohibited. HUD regulations for this requirement in 24 CFR became effective on 06/25/2001. A recent Chicago Sun-Times investigation, however, identified six registered sex offender names (offenders) listing public housing addresses and 14 listing HCV addresses. To provide support and validation, the OIG conducted an independent assessment and compared CHA property records to an IL state police database that includes the names and addresses of all registered offenders in Illinois. It is important to note that offenders in Illinois who are subject to the Sex Offender Registration must register annually for a period of ten years. Only those convicted and statutorily defined as a sexual predator, sexually dangerous, sexually violent or a child murderer must register for his or her natural life.

The OIG found two offenders, classified as sexual predators and required to register for a lifetime, registered at public housing addresses, while 30 lifetime offenders listed HCV addresses on the registry. Each respective head of household who lives at an address matching the registry was admitted into CHA after 2001; however, most offenders identified were not listed as household members and may only support that these individuals were/are unauthorized occupants living in the participant's unit.

The OIG will provide this analysis to the respective departments on a quarterly basis and receive information regarding any administrative action taken as a result.

### **Information Sharing Initiative**

The OIG has developed an information-sharing initiative which provides critical CHA participant information to federal, state and local law enforcement agencies in an effort to address crime issues in the most violent areas of the city. Enhanced cooperation with these agencies can directly impact the quality of life for CHA participants in those areas. The project will require the mapping of CHA Public Housing buildings, scattered sites, and Housing Choice Voucher sites, overlaid with the high-crime areas that law enforcement agencies are targeting.

## H. NOTABLE ADVISORY

### Advisory 9

The OIG issued Advisory 9 to CHA Management regarding a CHA employee who was recently convicted of felony theft based upon the individual's past conduct at his/her prior government employer. The OIG recommended disciplinary action up to and including a serious consideration of terminating the individual's employment with CHA. The OIG further advised that the CHA Employee Handbook be amended to include that all employees have an affirmative duty to notify CHA HR if the employee has been arrested or charged with a criminal offense. This will give CHA a better opportunity to review appropriate action pending the disposition of the criminal case. The OIG has not received a response from CHA Management at this time.

## I. FRAUD AWARENESS TRAINING

The OIG will present a fraud awareness training to all CHA staff in September 2017. There will also be a complaint intake and analytics training in Q2 of 2017. The OIG will continue to provide training to diverse groups of internal and external stakeholders in 2017. The OIG believes that training is pivotal in the reporting and prevention of fraud, waste and abuse of CHA funds.

## J. INTERNAL OPERATIONS

### STAFFING CHANGES

The OIG welcomed a new Deputy Inspector General, Mike Kosanovich, in February 2017. The following blog was posted on CHA's intranet and gives insight into Mike's long and successful career.<sup>1</sup>

*"As a kid, Sunday nights were special for Michael Kosanovich. He watched old FBI shows with his dad, and dreamed of being an agent. And though he went on a different track for a decade, his childhood aspirations eventually became reality.*

*In a distinguished 24-year FBI career, Kosanovich investigated some of the most high-profile cases of the last quarter century: he worked the 2000 bombing of the U.S.S. Cole; investigated the 1996 TWA plane crash and the 1995 Oklahoma City bombing. And he was assigned to the unit investigating Osama bin Laden when the World Trade Center and Pentagon were attacked on Sept. 11, 2001. The Waukegan native worked violent crimes, drugs, gangs, terrorism, and public corruption. His FBI career came to a close in 2014, as Assistant Special Agent-in-Charge for the FBI's Chicago Division, providing executive oversight to the Complex Financial Crimes Program.*

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<sup>1</sup> Written by CHA Communications Manager, Matthew Aguilar

*Now, after two years as Global Security Director for GE Transportation, Kosanovich is here at CHA, the new Deputy Inspector General in the Office of the Inspector General. He replaced the departed James McNally and started last month.*

*“I had a great job with GE – it was Fortune 500 company, and I was Global Security Director, responsible for employees and sites all over the world,” he said. “But one thing I missed was the gratification of being a public servant. So there wasn’t much hesitation when I went home and talked with my wife. She told me: ‘If you think it’s the right decision, then do it.’ I had known (CHA Inspector General Elissa Rhee-Lee) for about 10 years, so it was a no-brainer for me. A godsend, really. I had to follow my passion. This is really where I want to be.”*

*Rhee-Lee is thrilled to have such an esteemed FBI alumnus on her staff.*

*“Mike not only has an extraordinary background in all types of investigations, he is a true testament of a person dedicated to public service,” she said. “Mike epitomizes integrity in all that he does. We are truly lucky to have him.”*