

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

REPORT OF THE OFFICE OF THE INSPECTOR GENERAL

QUARTERLY REPORT

JANUARY 01, 2020 THROUGH MARCH 31, 2020

ELISSA RHEE-LEE

INSPECTOR GENERAL

APRIL 15, 2020



April 15, 2020

To Chairwoman Hurlock, Co-Chair Chico and Distinguished Members of the Finance/Audit Committee:

Enclosed for your review is the 2020 Quarterly OIG Report on the activities and initiatives from January 1, 2020 through March 31, 2020 pursuant to the Office of the Inspector General Charter. This report contains statistical data, summaries of investigations, audits, advisories and reviews.

The OIG received 163 complaints the past three months. The OIG provided 46 investigative support matters to internal and external stakeholders; referred 62 complaints to other CHA departments; declined 29 complaints; initiated 10 investigations; recorded 11 indictments and one conviction; and closed six investigations.

We are living through a historic health crisis that is testing the mettle of us all and the OIG applauds the CHA in its response to this crisis. CHA leadership has done its best to protect residents and employees. There will be many lessons learned from this crisis, and I am confident they will be used to enhance CHA's Business Continuity Plan to respond to future crises. I also applaud the decisive and humanitarian decisions Mayor Lori Lightfoot made on behalf of Chicago residents with regard to this crisis.

In early March 2020 Mayor Lightfoot announced the selection of Tracey Scott as the new CEO for the CHA, and the Board approved her nomination at the March 30, 2020, Board meeting. The OIG extends sincere congratulations to CEO Scott. Collaboration between the IG and the CEO is critical in implementing OIG recommendations arising out of investigations, audits, reviews and advisories. The OIG looks forward to working with CEO Scott as she will begin her tenure facing many challenges.

The OIG is facing critical staffing issues, specifically a shortage of investigators. This has had a profound negative impact on our ability to respond and investigate fraud complaints against CHA in a timely fashion. Rest assured the dedicated OIG staff will continue to faithfully do their best, but our inability to initiate and complete investigations ultimately negatively impacts CHA.

Additionally, the OIG charter has been amended and is up for Board approval in May. I look forward to discussing some of the proposed changes with the full Board. I am hopeful and confident that the Board will protect the independence of the OIG and our ability to conduct confidential investigations to root out fraud, waste and abuse.

I thank Chairwoman Hurlock, Co-Chairman Chico and members of the Finance/Audit Committee for protecting the OIG. A strong and independent OIG is ultimately in the best interest of CHA. It is laudable that the Board recognizes the importance of rooting out fraud, waste and abuse within CHA.

Please be safe and take care during these trying times.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Elissa Rhee-Lee', written over a light grey 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 January 1, 2020 through March 31, 2020. This report includes statistical and narrative summaries of OIG activities for the past four months.

A. MISSION OF THE INSPECTOR GENERAL'S OFFICE

The OIG is an independent oversight law enforcement agency 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 pursues criminal prosecutions when appropriate. Additionally, the OIG issues report 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 funds.

B. INVESTIGATIONS AND PROGRAM REVIEW STANDARDS

The OIG conducts its investigations in accordance with the *Association of Inspectors General 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, always 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.

The OIG operations undergoes an independent peer review conducted by members of the National Association of Inspector General every three years to ensure compliance with the aforementioned governing standards.

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 the OIG's initiative.

The OIG received 163 complaints/matters during the past three months of 2020. Out of the 163 complaints, the OIG provided investigative support to both internal and external stakeholders for 46 matters. The OIG initiated 10 investigations, referred 62 complaints to other agencies or departments and declined 29 cases and currently have 16 cases yet to be assigned. Matters can be declined for a variety of reasons such as insufficient information provided, insufficient resources to address, and no actionable information contained in the allegation, or not within the OIG's jurisdiction. The OIG closed six investigations during the past three months.

Table # 1 Complaint by Method

Complaint by Method

Source	Number
Emails	55
Website Submissions	87
Hotline	18
In Person	2
Dropbox	0
Mail	1
Fax	0
Analytics	0
Total	163

Table # 2 Complaint Disposition

Complaint Disposition

Disposition	Number
Investigations	10
Preliminary Inquiry	0
Investigative Support	46
Referrals	62
Not yet assigned	16
Declined	29
Total	163

Table # 3 Subject of Investigation

Subject of Investigation

Subject	Number
Program Participants	5
Contractors, Subcontractors, Vendor	4
Employees	0
Other	1
Total	10

Table # 4 Investigative Classification

Investigative Classification

Classification	Number
Administrative	8
Criminal	2
Total	10

Table # 5 Closed Investigations

Closed Investigations During the Quarter

Classification	Number
Administrative	2
Criminal	4
Total	6

Table # 6 Indictments/Convictions

Indictments/Convictions

Action Category	Number
Indictments	11
Convictions	1
Restitutions	0
Debarment	0
Total	12

Table # 7 Pending Investigations / Preliminary Inquiries

Pending Investigations / Preliminary Inquiries

Classification	Number
Administrative	31
Criminal	24
Preliminary Inquiry	3
Total	59

Table # 8 Pending Audits

Pending Audits

Audit Name	Time Frame
Emergency Contract at Lake Parc Place	6/30/2020
CPD Intergovernmental Agreement Audit	6/30/2020
HCV Inspections Audit	6/30/2020
Rent Collection Audit	6/30/2020

INVESTIGATIONS NOT CONCLUDED WITHIN SIX MONTHS

Under the *Inspector General Charter*, the OIG must provide statistical data on pending investigations/matters open for more than six months. Of the 56 pending matters, 27 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

Reasons	Number of Investigations
A. Complex investigation, generally involve difficult issues of multiple subjects and/or under review by prosecuting agency	18
B. Indicted cases, but no criminal disposition	9
C. On-hold, to not interfere with another on-going investigation	0
Total	27

D. NOTABLE INVESTIGATIVE SUPPORT

CHA Health Partnership Initiative

In collaboration with CHA's Resident Services Department, the OIG reviewed nine health partnership applications this quarter utilizing open source information. Of the nine applications reviewed, there was no derogatory information identified. The OIG will continue to review partnerships on an ad-hoc basis and ensure activities provided by health partners are in the best interests of the CHA and its residents.

OIG Ref #2018-06-00038

On February 6, 2020 Robert M. Kowalski was indicted by a Federal Grand Jury in the United District Court of the Northern District of Illinois. Kowalski was charged in a superseding indictment with 11 counts including 5 counts of Bankruptcy Fraud (Title 18 USC Section 157), 2 counts of concealing assets (Title 18 USC Section 152), 1 count of failing to file an individual Federal Income Tax Return for 2013 (Title 26 USC Section 7203) and 4 count of filing false corporate and individual Federal Income tax returns for 2015, 2016 and 2017 (Title 26 USC Section 7206(1)). Kowalski has been a CHA landlord since 2011. Kowalski has conducted business with the CHA through limited liability corporations including Indomitable LLC, Piorun Properties LLC, and Mountain Duck Properties LLC. From 2011 through 2018, these entities were paid over \$2,000,000 in Housing Assistance Payments (HAP) on behalf of CHA Housing Choice Voucher participants. From 2011 through 2018, Kowalski, through his LLC's received HAP payments for over 90 CHA HCV participants and during 2018, Kowalski had 15 units in which he was receiving HAP from the CHA. Kowalski filed for Bankruptcy on March 29, 2018. The scheme, as it relates to the CHA alleges that Kowalski concealed from his bankruptcy creditors his interest in Mountain Duck Properties and five related land trusts. From March 2018 through March 2019, Kowalski collected approximately \$34,600 in rent checks which he concealed from his creditors. The superseding indictment also alleges that the Piorun Properties LLC 's 2015 US Corporate

Income Tax Return filed by Kowalski understated income in that it did not report income that Piorun Properties LLC received from the CHA relating to the Mountain Duck Properties. The CHA OIG has been providing assistance to the US Attorney's Office and to the various Federal Law enforcement agencies involved in this investigation.

E. SIGNIFICANT INDICTMENTS

There were 11 significant criminal indictments and one conviction during the first quarter of 2020. The following is a summary of these cases.

OIG Ref #2019-01-00068

A CHA OIG investigation was initiated in January 2019 involving Brian J. Rice (Rice). Rice was a former employee of Nan McKay & Associates, which was contracted to administer the CHA's Housing Choice Voucher Program.

The investigation revealed that between November 2018 and June 2019, Rice used his CHA credentials to solicit bribes from individuals applying to be placed on CHA's waiting list and those already on the list waiting to receive CHA vouchers.

Upon receiving payment, Rice allegedly provided applicants with a voucher and false information to provide to landlords. Once a landlord submitted the fraudulent information to the CHA, they were informed that neither the voucher nor the required tenant number could be verified.

Individuals allegedly paid between \$1,800 and \$2,500, and it is estimated that Rice collected more than \$116,000 in bribes. While Rice repaid some of the money, in other instances he allegedly changed his phone number so that individuals who paid bribes could no longer contact him.

The CHA OIG identified in excess of 50 victims of Rice's scheme. It is estimated that the number of victims is significantly higher, however, because many individuals were reluctant to come forward and cooperate.

During the course of the investigation, CHA OIG Investigators interviewed or made contact with over 30 victims and witnesses.

On 1/15/2020, the Grand Jury sitting in the Circuit Court of Cook County returned 10 separate indictments charging Rice with 34 separate counts including bribery, wire fraud, theft by deception and forgery. Rice's criminal court case in Cook County is still ongoing.

Prosecution of the matter is being handled by the Illinois Attorney General's Office

OIG Ref #2014-03-00034

Lester Coleman, the owner of Coleman Development Corp (CDC) was indicted on federal fraud charges for defrauding the Chicago Housing Authority (CHA). Coleman, through CDC obtained contracts in excess of \$3 million dollars by misrepresenting the amount of work performed by CDC and the amount of employee wages paid. CDC was a certified minority owned enterprise.

As mandated by the US Department of Housing and Urban Development (HUD), the CHA required that minority-owned business enterprises, referred to as MBEs, along with women-owned business enterprises, referred to as WBEs, had ample opportunity to participate in the performance of contracts financed in whole or in part with federal funds. To further these ends, CHA rules required that a bidder, or a contractor who was awarded a CHA contract, allocate certain percentages of the total contract price to participation by one or more MBE or WBE.

CHA rules also required that employees working on a CHA project within specific trades had to be paid at least the prevailing wage rates set by the U.S. Department of Labor, pursuant to federal labor laws. The CHA required any contractor working on a CHA project to submit certified weekly payroll reports which set forth, among other things: the name of each

employee, the number of hours worked by each employee, the hourly rate of pay for each employee, and the gross wages earned by each employee.

According to the indictment returned in the Northern District of Illinois, Coleman caused CDC to bid on approximately 6 contracts and falsely represent that CDC, as an MBE, would itself perform an amount of work sufficient to satisfy the CHA's MBE requirements, knowing that CDC did not have the capacity to perform the necessary amount of work. Coleman then entered into subcontractor agreements with Subcontractor A to perform substantially all of the services that Coleman represented to the CHA that CDC itself would perform. COLEMAN caused CDC to submit payment requests to the CHA on these projects that included supporting documents that falsely represented the amount of work done by CDC and others, inflated the labor and materials costs incurred by CDC, and falsely underreporting the amount of work done by Subcontractor A. COLEMAN also submitted to the CHA, payment requests that falsely represented the identity of certain subcontractors. COLEMAN also caused CDC to falsely represent to the CHA that the employees working on the projects would be paid the prevailing wages required by federal labor laws. COLEMAN caused CDC to submit to the CHA, certified payroll reports which falsely represented that CDC had paid its employees prevailing wage rates and that particular individuals had performed work on projects, knowing that CDC had not paid its employees the prevailing wages and that certain named individuals had not performed work on the projects or had not performed the amount of work listed in the payroll reports.

OIG Ref #2016-12-00050

On 11/15/2018, the Federal Grand Jury sitting in the United States District in Illinois returned a multi-count indictment charging Spiro Kouvelis (Kouvelis), Kevin Goodwin (Goodwin), Lillian Juarez (Juarez) and Shawn Betts (Betts) with Wire Fraud. Kouvelis, Goodwin and Betts were also charged with Conspiracy.

Kouvelis and Goodwin were former landlords in the CHA's Housing Choice Voucher (HCV) program. Juarez and Betts were formerly employed by HCV contractor CVR.

The investigation revealed that from 2011 and continuing until June 2014, Kouvelis and Goodwin made cash payments and provided other things of value to Juarez and Betts, who in exchange agreed to perform acts as employees of CVR that benefitted Kouvelis and Goodwin.

Specifically, Kouvelis and Goodwin made cash payments ranging between \$1,000 and \$1,300 or other things of value to Juarez in exchange for providing them with non-public information that identified HCV tenants looking for a residence; attempting to resolve disputes with tenants on terms beneficial to Kouvelis and Goodwin; waiving inspection fees for Section 8 properties that they owned or managed; and scheduling and expediting inspections for Section 8 properties that they owned or managed.

In addition, Kouvelis and Goodwin made cash payments ranging between \$50 and \$150 to Betts in exchange for passing properties that should have failed their inspections. Betts would then provide information about the deficiencies in the properties for Kouvelis and Goodwin to repair to avoid detection of the scheme by others.

All defendants cooperated with Investigators to seek reduced sentences. Kouvelis and Juarez previously pled guilty to one count of wire fraud and have been sentenced. On 1/28/2020, Betts pled guilty before the honorable Judge Rebecca Pallmeyer to one count of wire fraud. Betts' sentencing was scheduled for 4/29/2020, but will be continued due to Covid 19.

On 2/26/2020, Goodwin pled guilty before the honorable Judge Rebecca Pallmeyer to one count of wire fraud. Goodwin's sentencing is scheduled for 6/5/2020.

The investigative matter will remain open pending the outcome of their sentencing.

F. 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 order to maintain confidentiality and integrity of the pending investigations, the OIG has omitted any information on pending/open investigations. In criminal investigations, if there is sufficient evidence gathered for potential prosecution, the investigation will be presented to a prosecuting agency for review.

CLOSED CRIMINAL CASES

There were no closed criminal cases in the first quarter of 2020.

CLOSED ADMINISTRATIVE CASES

There were six closed administrative cases during the first quarter of 2020, none of which were sustained.

In November 2019 the OIG investigated an allegation that a Private Property Management Firm employee removed two surplus refrigerators for personal gain. This allegation was not sustained. However, the OIG recommended that the Property Office update its Property Management Procedural Manual to provide PPMs with specific direction on the proper disposal of CHA surplus property and to include a prohibition on employees and contractors from taking such material for personal use or gain..

G. CLOSED AUDITS AND REVIEWS SYNOPSIS

The investigative team continues to collaborate with the audit and analytics team for investigative support in financial frauds and forensic accounting matters. This collaboration is critical to allow the OIG to conduct and lead multi-jurisdiction, complex investigations. The audit and analytics staff's support on investigative matters will continue to be an integral part of OIG investigations.

The OIG did not close any audits during the first quarterly reporting period.

The OIG issued a draft report of the Emergency Contract at Lake Parc Place Audit and is currently waiting for CHA management’s response to the report. The OIG also issued a draft report of the CPD Intergovernmental Agreement Audit and is waiting to conduct an audit close-out meeting before allowing CHA management time to respond to the findings. These audits are expected to be finalized by the end of next quarter.

H. **ANALYTICS**

The following are significant data analytic projects for the past six months:

Registered Sex Offender List Analysis

As part of a routine analysis, the OIG continues to identify the number of lifetime registered sex offender names (offenders) listing a public housing or HCV address, pursuant to the *Quality Housing and Work Responsibility Act of 1998 (Section 578)*.¹

Results

The OIG found nine lifetime offenders who listed CHA addresses on the registry for this reporting period. Two of these individuals were identified in previous quarterly analyses. Two of the additional offenders registered at the same address as an HCV participant and were not listed as household members to the according participant’s voucher. This indicates that these CHA participants may have unauthorized occupants living in their unit. As a result, HCV sends each participant a notice requesting proof of residency for the offender and must provide documentation showing the subsidized address has been removed from the registry.

There is one offender that is registered at the same address as a Public Housing resident.

Status from Previous Analyses

Enforcement Action	Total (95)
Terminated	8
Settlement Agreement	1
Under Eviction	0
PAC Agreement or Warning Notice	15
ITT issued	5
Document Outstanding Notice Sent	15
No Further Action	51

¹ This Act became effective on June 25, 2001.

I. LAW ENFORCEMENT AND OIG PARTNERSHIPS

Benefits Fraud Working Group is sponsored by the Cook County State's Attorney's Office (CCSAO) and meets on a regular basis. The OIG investigators attended the meeting on 1/10/2020 to discuss the status of current CHA OIG Benefits Fraud cases with prosecutors from the CCSAO.

Executive Leadership Group meets on a quarterly basis to discuss various issues related to the participating agencies. The group is comprised of law enforcement executives from various federal agencies. The Deputy IG attended a meeting on 1/29/2020 at the US Department of Labor, Office of Inspector General.

Association of Inspector Generals - 2020 Winter Inspector General Institute

From March 8-12, 2020, the Deputy IG attended the Association of Inspectors General's *Inspector General Institute*® certification program and was awarded the designation of Certified Deputy Inspector General® for successfully completing the certification program. Instruction covered six broad areas of core competency: context of the inspector general function; ethics; legal issues; office management issues; investigating fraud, waste, and abuse; and audits, inspections, and reviews.

J. OUTSTANDING ITEMS

The OIG works collaboratively with CHA management after an investigation or audit is referred to their department for administrative follow-up. The OIG often recommends administrative actions be taken regarding a participant, contractor or employee and requests a written response after such action is taken. The OIG attaches a form that needs to be filled out by CHA with their course of actions within 60 days upon receipt of report.

Business Units Responsible	Case #	Subject	Description	Date Sustained
General Counsel, DPC & CCD	INC-2019-04-00034	Contractor	Debarment under consideration	6/24/2019
General Counsel	INC-2018-04-00014	Contractor	Debarment under consideration	2/21/2017
General Counsel	INC-2017-12-00001	Contractor	Debarment under consideration	9/17/2018
General Counsel	INC-2017-01-00015	Contractor	Debarment under consideration	6/24/2019
General Counsel	INC-2018-04-00015	Participant	Eviction under consideration	12/3/2019

Property	INC-2019-11-00040	Contractor	Recommendation to update PPM Manual	01/20/2020
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