

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

REPORT OF THE OFFICE OF THE INSPECTOR GENERAL

QUARTERLY REPORT

JULY 01, 2020 THROUGH SEPTEMBER 30, 2020

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INSPECTOR GENERAL

OCTOBER 15, 2020



October 15, 2020

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

Enclosed for your review is the third Quarterly OIG Report on activities and initiatives from July 1, 2020 through September 30, 2020, pursuant to The Office of the Inspector General Charter. This report contains statistical data, summaries of investigations, audits, advisories and reviews.

In the 3rd quarter of 2020, the OIG received 134 complaints. The OIG provided 22 investigative support matters to internal and external stakeholders; referred 62 complaints to other CHA departments; declined 35 complaints; initiated two investigations; and closed three investigations.

OIG operations continue to be impacted by the Covid pandemic. The OIG's engagement with other law enforcement agencies, state and federal prosecutors, and our ability to obtain evidentiary documents have been significantly delayed. Nevertheless, the OIG continued to perform and make substantive progress in investigations and audits.

As of September 30, 2020, year to date, the OIG accomplished the following:

- The OIG obtained 11 criminal indictments, which includes one defendant (former CHA contractor) with 10 separate indictments. Additionally, 2 other defendants were sentenced in federal court as a result of their previous guilty pleas.
- The OIG closed 18 administrative investigations. The investigation of the Cabrini Green Local Advisory Council (LAC) and the Community Development Corporation (CDC) found that the CDC misused and mishandled CDC funds for over 10 years; failed to maintain transparency of their operations; failed to maintain organizational structure as required for a non-profit tax exempt entity; failed to adhere to conflict of interest policy; and failed to adhere to the intent of the 2000 Cabrini Green Consent Degree to use the CDC funds for the benefit of displaced and current residents of Cabrini Green. As a result, the CHA and the City of Chicago filed a motion in federal court to address and redress the findings from the investigation.
- The OIG issued five audit reports to CHA management.
- The OIG previously conducted a review and analysis of a private security firm for over billing. The contract was between a CHA Private Property Management firm (PPM) and a private security firm. As a result of the OIG analysis, the Chief Legal Officer reached a settlement agreement with the PPM for \$400,000 recovery for CHA.

I presented an update of OIG's investigations and audit to the Finance/Audit Committee of the Board of Commissioners on September 15, 2020.

On a personal note, after 34 years as an attorney, and at the conclusion of eight years as the Inspector General for CHA, I have decided to retire in December 2020.

I served as an Assistant States Attorney for over 14 years and will be ending my professional career in public service with the CHA. My years at the CHA has been profound. The OIG mission is such an integral part of good government and I am proud of our accomplishments through the years. I would like to personally acknowledge my team of OIG professionals who showed what integrity and objectivity is all about. The Inspector General's name is always mentioned in reports, press releases, and media coverage, but I want to acknowledge the high-quality investigations, audits, reviews and advisories that are the result of teamwork and the dedication of each member of the OIG staff.

The following OIG professionals have not only made my job easier but ultimately has benefited the CHA: Deputy Inspector General, Michael Kosanovich; Senior Auditors Ellaye Accoh and Beatriz Martinez; Senior Investigator Justin King, Investigator Donna Washington-Hayes, Auditor/Analyst, Ashley Lindemann; Analysts, Bruce Merrell and Shaniquia (Nicole) Anderson; and the recently retired Senior Investigator Mark Lischka. Their dedication and commitment to the OIG mission is remarkable. I have no doubt that they will continue to perform their duties and responsibilities with the same level of professionalism, passion, and integrity that I have seen throughout the years. Thank you so much.

Additionally, I want to thank CEO Tracey Scott, CHA staff and management for their cooperation throughout the years. I thank Chairwomen Hurlock, Vice Chairman Chico and members of the Finance/ Audit Committee for your continued support of the OIG mission. I look forward to reading about CHA's future accomplishments led by the Board of Commissioners' leadership to promote affordable subsidized housing for the citizens of Chicago.

Respectfully submitted,



Elissa Rhee-Lee
Inspector General

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The Quarterly report provides an overview of operations of the Office of the Inspector General (OIG) during the period of July 1 through September 30, 2020. This report includes statistical and narrative summaries of OIG activities for the past three 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 134 complaints/matters during the third quarter of 2020. Out of the 134 complaints, the OIG provided investigative support to both internal and external stakeholders for 22 matters. The OIG initiated two investigations, referred 62 complaints to other agencies or departments, 13 cases not yet assigned and declined 35 cases. Matters can be declined for a variety of reasons such as insufficient information provided, insufficient resources to address, no actionable information contained in the allegation, or not within the OIG's jurisdiction. The OIG closed three investigations during the past three months.

Table # 1 Complaint by Method

Complaint by Method

Source	Number
Emails	30
Website Submissions	87
Hotline	15
In Person	0
Dropbox	0
Mail	0
Fax	0
Analytics	2
Total	134

Table # 2 Complaint Disposition

Complaint Disposition

Disposition	Number
Investigations	2
Preliminary Inquiry	0
Investigative Support	22
Referrals	62
Declined	35
Not yet assigned	13
Total	134

Table # 3 Subject of Investigation

Subject of Investigation

Subject	Number
Program Participants	0
Contractors, Subcontractors, Vendor	1
Employees	1
Other	0
Total	2

Table # 4 Investigative Classification

Investigative Classification

Classification	Number
Administrative	1
Criminal	1
Total	2

Table # 5 Closed Investigations

Closed Investigations During the Quarter

Classification	Number
Administrative	0
Criminal	3
Total	3

Table # 6 Indictments/Convictions

Indictments/Convictions

Action Category	Number
Indictments	1
Convictions	1
Restitutions	0
Debarment	0
Total	2

Table # 7 Pending Investigations / Preliminary Inquiries

Pending Investigations / Preliminary Inquiries

Classification	Number
Administrative	25
Criminal	21
Preliminary Inquiry	0
Total	46

Table # 8 Pending Audits

Pending Audits

Audit Name	Time Frame
Emergency Contract at Lake Parc Place*	12/31/2020
HCV Inspections Audit*	12/31/2020
CPD Intergovernmental Agreement Audit*	12/31/2020
Audit of PPM Tenant Accounts Receivable *	12/31/2020
Job Order Contracting (JOC) Audit	12/31/2020
Audit of Property Office’s Equipment, Appliances, and Materials on CHA sites	12/31/2020
Follow Up Fleet Audit*	12/31/2020
HCV Abatement Audit	12/31/2020

*See Closed Audits Section below for the current status of each audit.

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 46 pending matters, 22 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	14
B. Indicted cases, but no criminal disposition	8
C. On-hold, to not interfere with another on-going investigation	0
Total	22

D. NOTABLE INVESTIGATIVE SUPPORT

CHA Health Partnership Initiative

In collaboration with CHA's Resident Services Department, the OIG reviewed six health partnership application this quarter utilizing open source information. Of the one application 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.

E. SIGNIFICANT INDICTMENTS

2018-06-00038

On February 6, 2020, Robert M. Kowalski was indicted by a Federal Grand Jury in US District Court for the Northern District of Illinois (NDI). In a superseding indictment Kowalski was charged with 11 counts including five counts of Bankruptcy Fraud (Title 18 USC Section 157), two counts of concealing assets (Title 18 USC Section 152), one count of failing to file an individual Federal Income Tax Return for 2013 (Title 26 USC Section 7203) and four counts of filing false corporate and individual Federal Income tax returns for 2015, 2016 and 2017 (Title 26 USC Section 7206(1)).

On August 27, 2020, a second superseding indictment of Kowalski reaffirmed the original bankruptcy charges and added additional charges including conspiracy to commit embezzlement and falsify bank records. In addition, the new indictment added several tax counts for allegedly failing to file income tax returns and filing false personal and corporate returns for various years.

Kowalski became a CHA landlord in 2011 and 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 LLCs, received HAP payments for over 90 CHA HCV participants, and in 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. Between March 2018 and 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.

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 three closed criminal cases during the third quarter of 2020. All three cases were sustained. The following are summaries of the sustained cases.

2019-06-00012

A CHA OIG investigation was initiated in June 2019 involving former CHA Construction Inspector Carson Hughes (Hughes). The investigation revealed that from May 29, 2019 through June 15, 2019, Hughes solicited bribes and kickbacks from contractor(s) hired to do rehab work for the CHA. Hughes proposed the contractor(s) submit fraudulent work orders and supplements for work that was never done. Hughes then offered to sign off on the fraudulent invoices in exchange for a portion of the payments generated by the submission of those false documents.

On June 27, 2019, the Grand Jury sitting in the Circuit Court of Cook County returned an eight-count indictment charging Hughes with four counts of Bribery and four counts of Official Misconduct.

On August 21, 2020, Hughes pled guilty to one count of Attempt-Official Misconduct (amended count) before the honorable Judge Ursula Walowski and was sentenced to 12 months' probation with Conditional Discharge.

The OIG did not concur with the decision of the Cook County State's Attorney's Office, which allowed Hughes to plead guilty to an amended count.

The OIG considers this investigative matter closed.

2016-06-00038

An OIG Investigation was initiated in December 2016. The investigation involved the following four individuals:

- Spiro Kouvelis (Kouvelis) – Owner of numerous HCV properties under the business entities G&L Development 2, LLC or 5243 S. Damen, LLC.
- Kevin Goodwin (Goodwin) – Owner of Goody's Development, LLC, a business that managed properties that were rented to HCV tenants.
- Lillian Juarez (Juarez) – Formerly employed as an Inspections Supervisor by HCV contractor CVR, who was contracted to administer the CHA's HCV program. Juarez's duties included interacting with HCV landlords and tenants regarding the HCV Program and scheduling property inspections.

- Shawn Betts (Betts) – Formerly employed as an Inspector for HCV contractor CVR. Betts’ duties included inspecting properties to determine if they were in compliance with CHA rules and regulations

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.

On 11/15/2018, the Federal Grand Jury sitting in the US District Court, NDI, returned a multi-count indictment charging Kouvelis, Goodwin, Juarez and Betts with Wire Fraud. Kouvelis, Goodwin and Betts were also charged with Conspiracy.

All defendants cooperated with Investigators to seek reduced sentences.

All defendants pled guilty to one count of Wire Fraud before the honorable Judge Rebecca Pallmeyer.

On August 28, 2019, Juarez was sentenced to 30 months’ probation with conditions.

On September 25, 2019, Kouvelis was sentenced to 24 months’ probation. This included four months of community confinement and 400 hours of community service providing assistance to people in Section 8 housing. Kouvelis was also required to pay a fine of \$10,000.

On July 14, 2020, Goodwin was sentenced to 24 months’ probation and was required to pay a fine of \$1,000.

On July 17, 2020, Betts was sentenced to 24 months’ probation, including a forfeiture of \$3,500.

The OIG considers this investigative matter closed.

2019-07-00055

An OIG investigation initiated in July 2017 involved a former CHA vendor and its’ principal. The investigation was initiated after the US Attorney’s Office had received a referral from the Bankruptcy

Judge and the US Trustee overseeing the vendor's bankruptcy petition. The investigation involved allegations of federal tax violations and bankruptcy fraud.

The investigation was worked jointly with HUD OIG and the Internal Revenue Service (IRS) Criminal Investigation Division.

The matter was declined by the U.S. Attorney's office in September 2020 due to the death of the principal.

2016-12-00051¹

A CHA OIG Investigation was initiated involving the Cabrini Green LAC Community Development Corporation (CDC) in January 2017. Information received alleged mishandling of funds, conflict of interest and mismanagement.

The OIG investigation determined that the CDC failed to adhere to the intent of the Consent Decree. Despite receiving over \$1.5 million between 2015 and May 2019, the CDC provided little or no benefits to the displaced and current residents of Cabrini Green. The CDC also frequently violated and ignored professional conflicts of interest advice by allowing CDC Board members and family and friends of Board members to profit and receive benefits from CDC funding. The CDC also failed to adhere to its regulatory responsibilities as an IRS recognized Tax-Exempt Organization and potentially put at risk the developments that received government tax credits.

The investigation further revealed that the CDC was controlled extensively by Carol Steele (Steele) and she controlled all aspects of the CDC decision-making process. Steele appointed all Board members since 2009, including family members and friends. Expenditures and actions taken by the Board were frequently not documented or recorded in the Board minutes. Since September 1, 2016, Steele was both the LAC President and the CDC President.

Due to projected receipt of over \$7 million in revenue by the CDC, the OIG recommended that the CHA return to Federal District Court to seek guidance on the oversight function to ensure proper implementation and enforcement of the Consent Decree.

On July 21, 2020, the CHA and the City of Chicago, filed a motion in US District Court, NDI, asking the court to modify and enforce the Consent Decree to allow for more oversight of the funds. The matter is still pending under Case No. 96 C 6949.

CLOSED ADMINISTRATIVE CASES

There were no closed administrative cases during the third quarter of 2020.

¹ Case # 2016-12-00051 was closed as an administrative investigation in the 2nd Quarter of 2020. A summary was not included in the report due to the CHA and the City of Chicago's pending action in federal court

G. CLOSED AUDITS AND REVIEWS SYNOPSIS

The investigative team continued 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. The audit staff's support on investigative matters will continue to be an integral part of OIG investigations.

The OIG did not close any audits during this reporting period. The OIG is awaiting responses from CHA management to the following five audits: Emergency Contract at Lake Parc Place Audit; CPD Intergovernmental Agreement Audit; HCV Inspections Audit; Audit of PPM Tenant Accounts Receivable; and Follow Up Fleet Audit.

The OIG is looking forward to these responses and appreciates CHA management for their willingness to continue to improve CHA programs.

H. ANALYTICS

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

Registered Sex Offender List Analysis

As part of a routine analysis, the OIG continued 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)*.²

The OIG found nine lifetime offenders who listed CHA addresses on the registry for this reporting period, seven of whom 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 according to the participant's voucher. This indicated that the CHA participants may have unauthorized occupants living in their unit. As a result, HCV provides each participant with 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

² This Act became effective on June 25, 2001.

I. OUTSTANDING ITEMS

The OIG worked collaboratively with CHA management for administrative follow-up after an investigation or audit referral to their department. The OIG often recommends administrative actions in regard to a participant, contractor or employee and requests a written response after such action is taken. Currently, the OIG is awaiting one management response from the Department of Procurement & Contracts; six management responses from the General Counsel; and three management responses from Property.