



HIGH IMPACT AUDITS: The HUD Office of Inspector General and its Agent/Auditor Relationship

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Investigator/Audit Relationship

Topics to be Discussed

- Traditional Audit steps in the Inspector General community
- Traditional Audit Report
- Traditional Investigation in the Inspector General community
- Traditional Investigative Report
- Traditional joint Auditor/Investigator case



Topics, Continued

- Non-traditional joint Auditor/Investigator case
- Auditor/Investigator relationship pitfalls
- Case Examples
 - Golden First Mortgage Corp
 - First Tennessee Mortgage Corp
 - William Moorehead
 - K & L Real Estate
- Possible Pitfalls – Challenges
- Questions



Traditional Audit Steps

- Determine what/who to audit-(congress, complaint, agency)
- Notify Auditee-(written notification/subsequent entrance conference)
- Survey to Go/No Go Decision
- Move to Audit
- Issue Draft Finding Outline and Draft Audit Report
- Exit Conference and Final Audit Report



Traditional Audit Report

- Gathering documents, on-site and off-site
- Develop findings
 - Condition (what is)
 - Criteria (what should be)
 - Cause (why)
 - Effect
 - Recommendations
- Condition (what is)
- Criteria (what should be)
- Cause/Effect
- Recommendations/Conclusions
- Finalize and Refine Findings



Traditional Investigation Steps

- Receive initial allegation and preliminary inquiries
- Insuring allegations are valid and conduct is material
- Obtaining files and reviewing contents
- Open investigation
- Conduct multiple interviews
- Obtain employment, bank, personal records via IG subpoena or GJ subpoena
- Check other sources of records (public access, county, state, bankruptcy, etc.)
- Testify and Indict
- Plea? Trial - Sentencing



Traditional Investigation Report

- Basis for Investigation and Synopsis
- Subject Identification and Program Description
- Details and Records Review
- Disposition and Exhibits
- “This report is the property of the Office of Investigation. It contains neither recommendations nor conclusions of the Office of Inspector General.”



Golden First Mortgage Corp

Manhattan U.S. Attorney Settles Civil Mortgage Fraud Lawsuit Against Golden First Mortgage Corp. And Its Owner, David Movtady

FOR IMMEDIATE RELEASE

Wednesday, December 31, 2014

Unites States Obtains Judgment of \$36 Million against Golden First Mortgage Corp. and Recovers \$300,000 from David Movtady

Defendants Admit to and Accept Responsibility for Submitting False Loan Certifications to HUD-FHA

Preet Bharara, the United States Attorney for the Southern District of New York, announced today that the United States has settled a civil mortgage fraud lawsuit against GOLDEN FIRST MORTGAGE CORP. ("GOLDEN FIRST"), and its owner, operator and President, DAVID MOV TADY ("MOV TADY"). The Government's complaint, filed in April 2013, and amended in August 2013 (the "Amended Complaint"), sought damages and civil penalties under the False Claims Act for years of misconduct in connection with GOLDEN FIRST's participation in the Federal Housing Administration's ("FHA's") Direct Endorsement Lender Program. In the settlement approved today in Manhattan federal court by U.S. District Judge Jesse Furman, MOV TADY and GOLDEN FIRST admitted, acknowledged, and accepted responsibility for conduct alleged in the Amended Complaint, specifically that they failed to maintain a compliant quality control program and therefore did not conform to all U.S. Department of Housing and Urban Development ("HUD") and FHA regulations applicable to the Direct Endorsement Lender Program. This conduct was contrary to the representations in GOLDEN FIRST'S annual certification, including the annual certification signed by MOV TADY on September 15, 2008. The defendants also agreed to a \$36 million judgment against GOLDEN FIRST and a \$300,000 payment from MOV TADY. Finally, the settlement permanently bars MOV TADY from conducting any business with the federal government.

Manhattan U.S. Attorney Preet Bharara said: "This settlement holds Golden First and its owner, David Movtady, accountable for lying to the Government about compliance with HUD requirements and approving bad loans. This type of conduct costs the United States millions of dollars when the loans inevitably default, and this Office is committed to smuffing it out."

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First Tennessee Bank

Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

Monday, June 1, 2015

First Tennessee Bank N.A. Agrees to Pay \$212.5 Million to Resolve False Claims Act Liability Arising from FHA-Insured Mortgage Lending

First Tennessee Bank N.A. has agreed to pay the United States \$212.5 million to resolve allegations that it violated the False Claims Act by knowingly originating and underwriting mortgage loans insured by the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) that did not meet applicable requirements, the Justice Department announced today. First Tennessee is headquartered in Memphis, Tennessee.

"First Tennessee's reckless underwriting has resulted in significant losses of federal funds and was precisely the type of conduct that caused the financial crisis and housing market downturn," said Principal Deputy Assistant Attorney General Benjamin C. Mizer of the Justice Department's Civil Division. "We will continue to hold accountable lenders who put profits before both their legal obligations and their customers, and restore wrongfully claimed funds to FHA and the treasury."

Between January 2006 and October 2008, First Tennessee, through its subsidiary First Horizon Home Loans Corporation (First Horizon), participated in the FHA insurance program as a Direct Endorsement Lender (DEL). As a DEL, First Tennessee had the authority to originate, underwrite and endorse mortgages for FHA insurance. If a DEL such as First Tennessee approves a mortgage loan for FHA insurance and the loan later defaults, the holder of the loan may submit an insurance claim to HUD, FHA's parent agency, for the losses resulting from the defaulted loan. Under the DEL program, neither the FHA nor HUD reviews a loan before it is endorsed for FHA insurance. DELs such as First Tennessee are

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William Moorehead

Exec accused of taking \$1 million

Suspect skimmed from charity, CHA, U.S. officials say

Moorehead sentenced to 4 years in HUD fraud

Judge rebuffs leniency plea

Tuesday, May 1st, 2007 10:00 PM

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By BILL DWYER

Oak Park resident William Moorehead was sentenced to four years in federal prison Friday.

Brushing aside a plea for a more lenient sentence involving incarceration and house arrest, Federal Judge James Zagel ordered Moorehead, who faced between 46 and 57 months in prison under federal sentencing guidelines, to turn himself in to authorities to begin serving his sentence by July 12.

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Pitfalls- Challenges

- Keeping the Audit discipline, building the wall between investigation and traditional audit
- Investigators can not “direct” or “suggest”. In other words, don’t get auditors in the scope of an audit to do what you can’t or won’t do yourself.
- Transparency is crucial. If the auditor will be working with you from the outset, insure that is well documented, ie. grand jury list, no entrance conference, no recommendations, no conclusions



QUESTIONS

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