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Office of Inspector General

Investigative Report

140320-01

October 2, 2014

Chris Hirst, Inspector General

Enhancing Public Trust in Florida's Affordable Housing

**Office of Inspector General
Investigative Report
Case Number 140320-01**

INTRODUCTION

On March 19, 2014, the Florida Housing Finance Corporation (Florida Housing) Office of Inspector General (OIG) received an email via the Hardest Hit Fund (HHF) Report Fraud, Waste, and Abuse Website from Mr. Paul Donahue alleging application fraud on the part of Mr. James Sturgeon, HHF Principal Reduction (HHF PR) recipient.

Mr. Sturgeon applied for HHF PR funds on September 27, 2013 and reported that Mr. Donahue was a member of the household. On his HHF PR application, Mr. Sturgeon indicated that his address was 6611 Garfield Street, Hollywood, Florida, along with his salary income and the disability income of Mr. Donahue. Mr. Sturgeon was approved for \$50,000 in HHF PR funds on 12/20/2013.

The OIG initiated an investigation based on the allegation provided.

ALLEGATIONS

It is alleged that Mr. Sturgeon falsified his HHF PR application by failing to report rental income provided by his roommate, Paul Donahue. The HHF PR Advisor manual, as of July 2013, requires applicants to report income of the borrower, co-borrower, borrower's spouse, and other adult household members. If supported, the allegation would constitute a violation of federal and/or state laws, including:

- Title 18, United States Code, §1001, False Statements;
- Section 817.03, Florida Statutes (F.S.), Making false statement to obtain property or credit;
- Section 817.545, F.S., Mortgage Fraud; and/or
- Section 837.06, F.S., False Official Statements.

EXECUTIVE SUMMARY

From March 20, 2014, to August 18, 2014, the Office of Inspector General staff conducted interviews and reviewed significant documentation/records as it relates to the allegations. As a result of the investigation, Office of Inspector General staff determined that the allegation of application fraud/false statements against Mr. Sturgeon, was not supported.

COMPLAINANT INTERVIEW

During the course of the investigation, several telephone interviews were conducted with Mr. Donahue by the Office of Inspector General. The following represents Mr. Donahue's statement in substance:

- He indicated that he had been paying rent and telephone expenses in cash to Mr. Sturgeon.
- He stated that he was uncomfortable with Mr. Sturgeon's behavior and was forced to move out of Mr. Sturgeon's home.
- He also indicated that due to his illness and disability that he did not have adequate means to voluntarily leave Mr. Sturgeon's home.

- Mr. Sturgeon filed a restraining order against Mr. Donahue and Mr. Donahue left Mr. Sturgeon's residence on February 22, 2014.

Mr. Donahue was requested by OIG to provide a written affidavit to affirm his alleged rental arrangement with Mr. Sturgeon. Mr. Donahue provided the OIG a written affidavit signed on July 22, 2014. (Exhibit 5) In this affidavit, Mr. Donahue affirms that he did pay rent and utilities in the amount of \$700 per month to Mr. Sturgeon to live at the Garfield Street residence. He indicated that the payments were made on the 3rd of each month. He also stated that he has paid this from May 25, 2005 until February 22, 2014. Additionally, the past five years, Mr. Donahue has paid Mr. Sturgeon's cell phone bill of \$35 per month. Mr. Donahue indicated he was evicted from Mr. Sturgeon's home through a Broward County restraining order filed by Mr. Sturgeon.

DOCUMENTATION/RECORDS ANALYSIS

A review of the rental agreement (Exhibit 1) dated May 25, 2005. This statement signed by Mr. Sturgeon documents the living arrangements beginning in 2005 between Mr. Sturgeon and Mr. Donahue and includes the amount of rent that Mr. Donahue was paying at this time.

A review of Mr. Donahue's checking account bank statements from Bank of America (Exhibit 2) dated January 6, 2012 and October 8, 2013. These records show Mr. Donahue had consistently made withdrawals of \$700.00 at the beginning of each month. (Note: Mr. Donahue also provided bank statements supporting \$700 cash withdrawals for the intervening months.)

A review of Mr. Sturgeon's unsigned 2013 Federal Income Taxes. (Exhibit 3) This document supports Mr. Sturgeon's income as reported on his 2013 Federal Income Taxes. Mr. Sturgeon did not report rental income on his 2013 Federal Income Taxes.

A review of Mr. Sturgeon's HHF PR application (Exhibit 4) dated September 27, 2013. This record shows Mr. Sturgeon as reporting his wage income. No other income was reported.

A review of Mr. Donahue's Affidavit (Exhibit 5) dated July 22, 2014. This record shows Mr. Donahue's sworn statement that he paid rent to Mr. Sturgeon.

WITNESS INTERVIEWS

On August 27, 2014, a telephone interview was conducted with Mr. Douglas L. Murphy by the Office of Inspector General. The following represents Mr. Murphy's statement in substance:

- Mr. Murphy indicated that he was currently renting a room to Mr. Donahue.
- He stated that he performed a limited background check on Mr. Donahue.
- Mr. Murphy indicated that he did not verify whether Mr. Donahue had paid rent to Mr. Sturgeon.
- Mr. Murphy stated that Mr. Donahue had spoken of his prior difficulties with Mr. Sturgeon and was aware of the complaint that Mr. Donahue had filed with the OIG.
- Mr. Murphy indicated that Mr. Donahue was always timely with his rent and was adamant about asking for a receipt.
- In addition, Mr. Murphy indicated that Mr. Donahue always paid his rent in cash.

SUBJECT INTERVIEWS

On May 29, 2014, a telephone interview was conducted with Mr. James Sturgeon, HHF PR recipient by the Office of Inspector General. The following represents Mr. Sturgeon's statement in substance:

- Mr. Sturgeon stated he had applied for the HHF PR program in October of 2013 and was approved for funding on November 19, 2013.
- He indicated that throughout 2013 (the time of his application) that he worked for Johnson and Wales as an Education Coordinator.
- He was paid biweekly and received what he called “overload” payments since he sometimes provided teaching services.
- Mr. Sturgeon stated that he did not receive any other types of income in 2013 such as (bonuses, rental income, etc.).
- He also indicated that he did have a roommate, Mr. Paul Donahue, during this time and that his (Mr. Donahue’s) income was from disability.
- When asked if Mr. Donahue paid any rent to live at his residence, Mr. Sturgeon indicated that Mr. Donahue had lived rent free at his home.
- He noted that Mr. Donahue may have felt entitled to live at his home and may have wanted to take revenge by reporting fraud against Mr. Sturgeon since he no longer lived there.

The OIG requested and was provided a copy of Mr. Sturgeon’s 2013 Federal Taxes.

FINDINGS/CONCLUSIONS

It is alleged that Mr. Sturgeon fraudulently filed a HHF PR application by not reporting rental income received from Mr. Donahue. The allegation was **Not Supported** for two reasons.

The OIG found that the non-reporting of rental income was not a program requirement in this instance. Mr. Sturgeon did accurately report the household size of two and he also reported the disability income of Mr. Donahue. Mr. Donahue’s disability income was in fact greater than what the alleged rental income would have amounted too. The OIG requested the HHF program staff to perform a pro forma¹ calculation of Mr. Sturgeon’s application with Mr. Donahue’s rental income added. Mr. Sturgeon was eligible using both the pro forma calculation amount and the actual amount that was submitted by Mr. Sturgeon.

In addition, as to whether Mr. Sturgeon actually received rental income, there was no formal lease agreement or receipts to document that Mr. Donahue paid rent to Mr. Sturgeon; although Mr. Donahue did provide a May 2005 letter referencing rental payments. Mr. Donahue’s sworn affidavit of paying rent to Mr. Sturgeon is consistent with his supporting bank statements documenting cash withdrawals. However, no documentary evidence or third party testimony was found to support that Mr. Sturgeon was receiving rental income from Mr. Donahue.

INSPECTOR GENERAL COMMENTS

The OIG recommends that this Investigation be closed.

¹ Pro Forma refers to being based on financial assumptions or projections: as *a*: reflecting a transaction (as a merger) or other development as if it had been or will be in effect for a past or future period <a *pro forma* balance sheet>.

CERTIFICATIONS

This investigation has been conducted in compliance with the "Quality Standards for Investigations" found within the *Principles and Standards for the Offices of Inspector General*.

Joseph Aita, H.H.F. Auditor
Name, Title, Office of Inspector General

APPROVALS

Joseph Aita
Name
Investigator

10-2-14
Date

Chris Hirst
Chris Hirst
Inspector General

10-2-14
Date