The City of New York
Department of Investigation

MARK G. PETERS
COMMISSIONER

83 MAIDEN LANE, 4TH FLOOR
NEW YORK, NEW YORK 10038
212-825-5900

September 30, 2014

Commissioner Vicki Been
New York City Department of Housing Preservation and Development
100 Gold Street
New York, NY 10038

Re: Investigation into the Tenant Interim Lease Program

Dear Commissioner Been:

An investigation by the New York City Department of Investigation ("DOI") determined that, from approximately 2008 through 2013, Rita Copeland ("Copeland"), the former treasurer of the Tenant Association ("TA") for 51-55 East 129 Street in Manhattan ("East 129 Street"), a participating building in the New York City Department of Housing Preservation and Development ("HPD") Tenant Interim Lease Program ("TIL"), stole over $50,000.00 from this building. In so doing, she violated her duties to her fellow neighbors as their elected treasurer and broke the law. As a result, Copeland is under indictment issued by the Grand Jury of New York County for one count of Grand Larceny in the Second Degree, 14 counts of Falsifying Business Records in the First Degree and 14 counts of Forgery in the Second Degree.

This report is divided into three parts. First, this report provides background on TIL. Second, it provides a brief description of Copeland's crime and cover-up. Third, it concludes with reforms this Office crafted in conjunction with HPD that HPD has agreed to implement to help prevent the re-occurrence of a similar scheme in the future.

I. Background

TIL is an HPD program originating in the late 1970's whose purpose is to privatize city owned buildings into tenant owned and managed cooperative apartments. As an initial matter, a majority

of the tenants in these buildings must form a TA and conduct regularly scheduled elections, including the TA treasurer.

The TA treasurer is responsible for managing the TA's financial affairs and maintaining the books and records of the TA. As such, the TA treasurer collects rent (and records its collection), co-signs TA checks and pays all appropriate invoices for goods purchased and/or services rendered on behalf of the TA. In this regard, the treasurer ensures that TA funds are expended appropriately, reasonably and, as always, for building purposes.

Inasmuch as the building remains a city building during this interim period preceding privatization, HPD maintains three key levers of control over its buildings participating in TIL. First, HPD assigns a financial reviewer to review the TA's monthly financial report, which provides an accounting of the TA's income (i.e., rents received) and expenditures. Second, HPD has access to the TA's bank accounts through riders that the TA and bank execute upon establishing a bank account. Finally, HPD has the power to place delinquent buildings on probation and, as an ultimate sanction, it has the power to revoke a building from TIL.

As its namesake, TIL is an interim program. HPD's goal is for the building to demonstrate and achieve financial viability and stability within three to five years at which time HPD sells the building to its tenants at $250.00 per apartment. Reality, however, is different. According to records maintained by HPD, most buildings remain in TIL for an average of 13 years.[1]

II. The Fraud and the Cover-up

East 129 Street is a 30 unit building that has been in TIL since 2001. Except for a brief hiatus in 2008, Copeland served as East 129 Street's treasurer from 2001 through June 2013 and vice president from June 2013 until September 2013.

After receiving an allegation about various improprieties in the TA's financial transactions, DOI conducted an investigation into the TA's finances. This investigation revealed that in a five-year period, Copeland stole over $50,000.00 from the TA and covered-up this fraud. DOI's investigation determined that Copeland committed the fraud by:

- writing checks to herself;
- stealing rent; and
- living "rent-free."

Copeland covered-up this fraud by:

- submitting false and misleading financial reports to HPD;
- issuing phony rent receipts; and
- misappropriating rents paid by relocated tenants.[2]

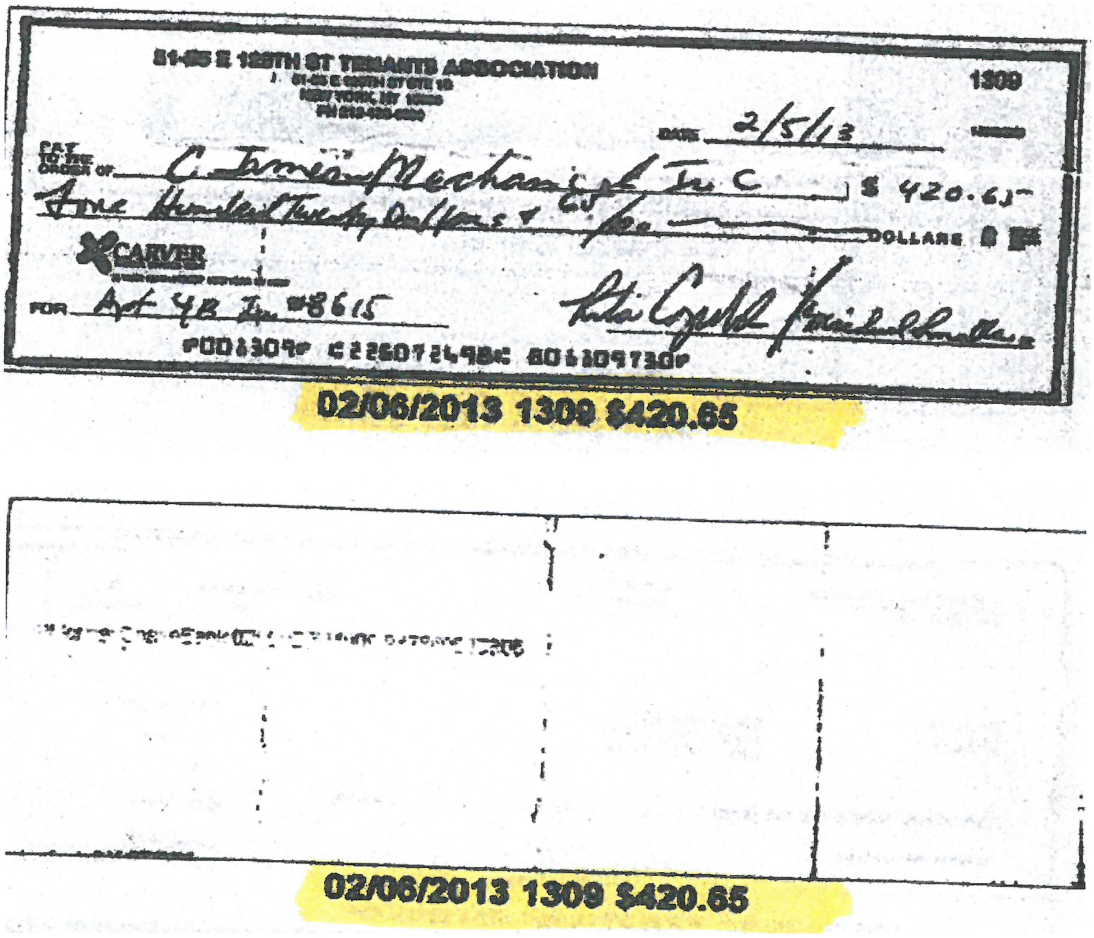
[1] Specifically, of the 125 buildings that participate in TIL, approximately 90% have been in TIL 10 to 15 years, with the remainder having been in TIL more than 15 years. Significantly, none of the 125 buildings have been in TIL less than 10 years, with the oldest building being in the program approximately 19 years.

[2] Relocated tenants are tenants who relocate from other TIL buildings undergoing necessary repairs.

A. Using "Whiteout" to Cover-Up Checks Made Payable to Herself

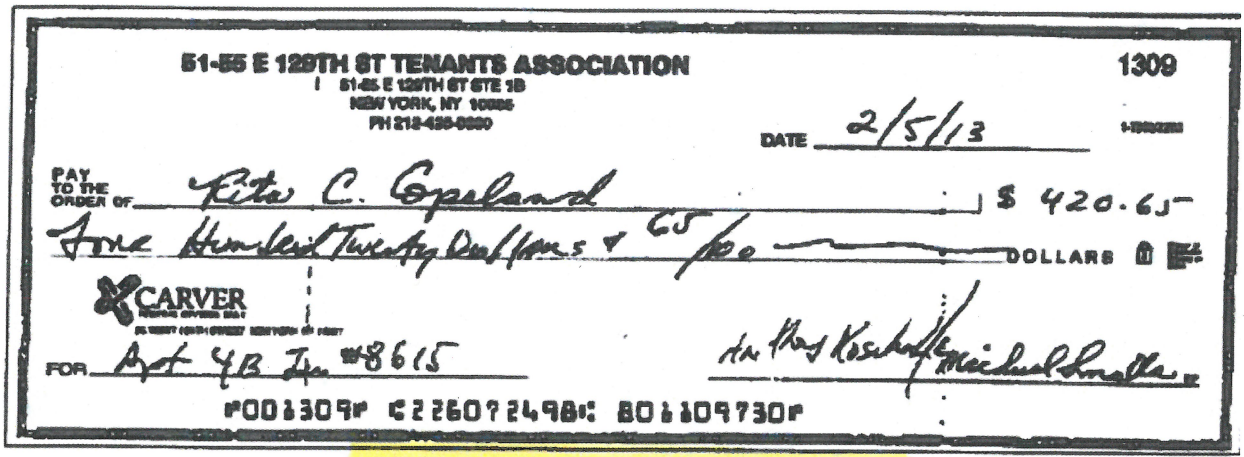
Copeland admitted to DOI investigators that, since 2008, she wrote approximately 15 checks to herself for a total value of approximately $5,000.00 and concealed this fact with "whiteout," which she submitted to HPD along with the TA's financial reports. Specifically, she issued a TA check made payable to herself and forged the signatures of two TA officers.[3] After cashing this check, she "whited-out" one of the signatures on the check and replaced it with her own, "whited-out" her name on the payee line and replaced it with the name of various TA vendors and even "whited-out" the endorsement section of the check. Copeland then submitted a copy of this altered check to HPD along with a copy of that altered payee vendor's invoice.

For instance, this is an image of an unendorsed check dated 05 February 2013 allegedly made payable to "C. James Mechanical, Inc." for the amount of $420.65, which Copeland submitted to HPD as part of East 129 Street's monthly financial report:



[3] Under TIL guidelines, TA checks must be signed by two officers.

This, however, is a copy of the unaltered cancelled check establishing that, in fact, she wrote and endorsed this check to herself:


51-55 E 129TH ST TENANTS ASSOCIATION
51-55 E 129TH ST STE 1B
NEW YORK, NY 10035
PH 212-426-0000

1309

DATE 2/5/13

PAY TO THE ORDER OF Rita C. Copeland $ 420.65

Four Hundred Twenty Dollars & 65/100 DOLLARS

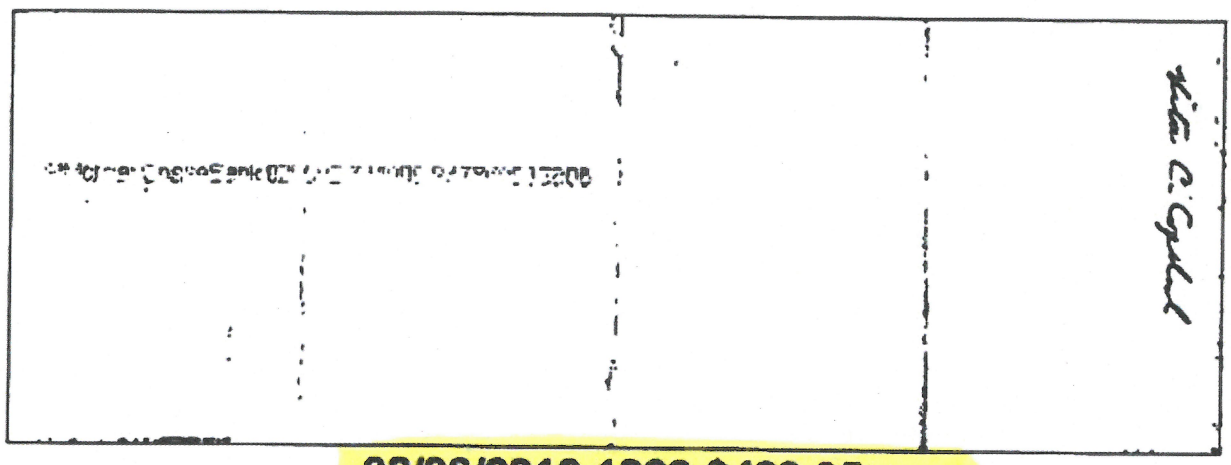
CARVER

FOR Apt 4B Inv #8615

Anthony Koschoff / Michael Smalls

⑈001309⑈ ⑆226072498⑆ 801109730⑈

02/06/2013 1309 $420.65



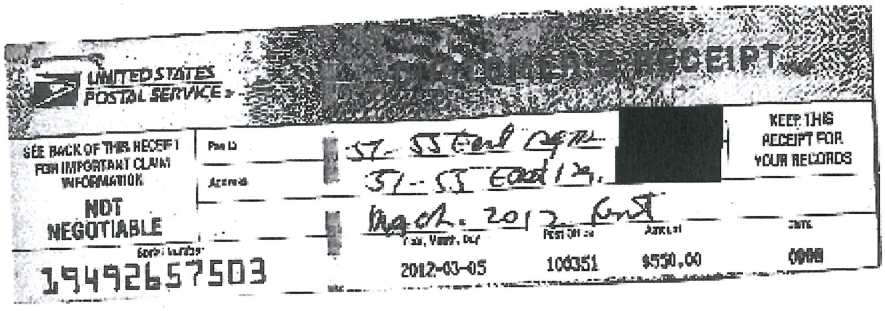
02/06/2013 1309 $420.65

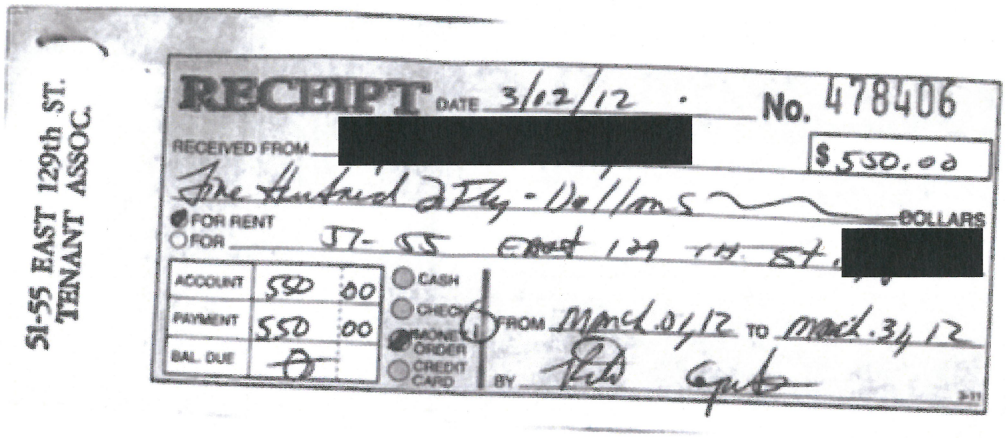
B. Issuing Phony Rent Receipts to Cover-Up Stolen Rents

One tenant, a cab driver who works evenings, has been living at East 129 Street for approximately 15 years and pays his $550.00 monthly rent with money orders from the United States Postal Service. With a limited ability to read and write English, this tenant provided Copeland blank money orders, trusting that Copeland would make these money orders payable to the TA.

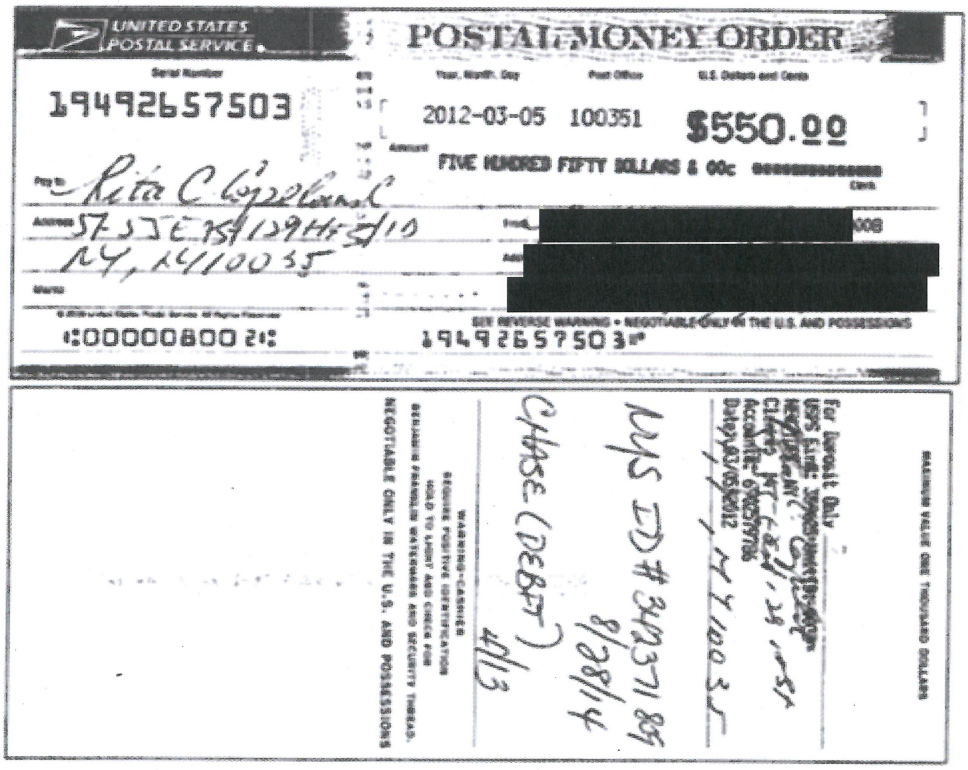
Copeland did not. She made these money orders payable to herself and concealed this crime by issuing the tenant a rent receipt stating that he paid in full that month's rent.

This is an example of a money order receipt this tenant provided Copeland trusting she would make this payable to the TA, which Copeland documented to make it appear this tenant was paying his rent, and accompanying rent receipt:





This, however, is the underlying money order illustrating that, in reality, Copeland made this money order payable to herself:



Based upon calculations this Office conducted, Copeland stole over $25,000.00 in this fashion.

C. Using Rents from Relocated Tenants to Cover-Up Stolen Cash Rents and a "Rent Free" Life

At least one tenant paid his rent in cash. Much like the tenant who paid his rent with blank money orders, this tenant provided his rent in cash to Copeland trusting that she would deposit this rent in the TA's account. Once again, Copeland did not; she kept this money for herself. What is more, Copeland admitted to DOI investigators that she lived "rent-free" for at least five years and covered up these facts by allocating rents paid by tenants who relocated from other TIL buildings to East 129 Street.

Based upon calculations thus far conducted, it is estimated that the total fraud arising out of Copeland's misappropriation of cash rents and five years of "rent-free" living is approximately $30,000.00.

III. Reforms Addressing Vulnerabilities Uncovered During this Investigation

Copeland's fraud was made possible, in part, by significant corruption vulnerabilities. Working in collaboration with HPD, this Office identified numerous vulnerabilities and has drafted various reforms HPD has agreed to implement to help prevent the re-occurrence of a similar theft.

A. Financial Training for TIL Employees

TIL employees who are responsible for reviewing and analyzing monthly financial reports are not sufficiently trained in financial accounting, auditing and other forms of financial analysis.

We were informed that HPD employs financial reviewers who are responsible for reviewing and analyzing a portfolio of TIL buildings' monthly financial reports. These reports, which must contain copies of bank statements, cancelled checks and other documentation supporting the TA's income and expenses, can be complex, particularly because financial reviewers are responsible for numerous buildings.[4] This task is made even more challenging, as HPD has not historically provided adequate training for these financial reviewers. Further compounding matters, many of these financial reviewers lack meaningful prior experience in financial reporting, auditing and analysis to review thoroughly and adequately these financial reports.

Therefore, HPD has agreed to the following:

- HPD will provide training in reviewing and auditing financial reports for all financial reviewers.

Copeland was able to cover-up this fraud by submitting invoices as backup documentation to the altered checks that, in reality, she made payable to herself. Trained financial reviewers could have analyzed in detail these invoices, which would presumably have included a random spot-check of their authenticity. Additionally, trained financial reviewers would have looked beyond the

[4] TIL employs six financial reviewers with each responsible for overseeing approximately 20 buildings.

documents actually submitted to HPD such as copies of rent receipts. This analysis would have revealed Copeland's issuance of rent receipts for rents that were never deposited into the TA's accounts. Adequately trained financial reviewers who understand and develop a level of experience and expertise in areas of financial reporting and auditing could have helped prevent or uncover sooner this fraud.

B. Access Rights to TA Bank Accounts

HPD does not have full access rights to TA's bank accounts even though these accounts hold monies that are effectively property of the City and such accounts contain provisions which seemingly provide HPD full and unfettered access to such accounts.

During our meetings with TIL representatives, we were informed that, because HPD does not direct TA's to specific banks to conduct their banking,[5] HPD requires TA's to include riders in the accounts at banks of their choosing that provide HPD full access to the TA's banking statements and other records of transactions. In reality, however, we were informed that HPD rarely exercises its rights under these riders and that, when exercised, banks often do not honor these riders.

Therefore, HPD has agreed to the following reform:

- HPD will ensure that it has full and unfettered access to the books and records of the TA's accounts by enforcing its riders through any and all appropriate actions, including but not limited to communications with the bank's senior representatives, legal department and, where appropriate, conferring with the New York City Law Department to initiate legal enforcement proceedings.

Copeland was able to cover-up her check writing scheme because of this corruption vulnerability. The possession and exercise of such access rights to the TA's bank account would have prevented Copeland from writing checks to herself and submitting to HPD altered versions of these checks with that first altered check.

C. Relocated Tenants

HPD's accounting of tenants who relocate temporarily to other TIL buildings is opaque and inconsistent with the accounting of permanent tenants.

Copeland was able to cover-up the fact that she was stealing rents and living "rent free" because of a confluence of two vulnerabilities arising out of HPD's accounting of relocated tenants; tenants who relocate from other TIL buildings undergoing necessary repairs. First, relocated tenants do not pay rent directly to the building where they relocated. Instead, relocated tenants pay rent to the TA's from where they originated who, in turn, pays the hosting TA that relocated tenant's rent. Second, HPD does not require the TA to include the relocated tenants in its rent rolls.[6] As a result,

---

[5] We were informed that directing a TA to open an account at a specific bank or specific banks would raise a "procurement issue."

[6] A rent roll is a roster of the TA's rent paying tenants and whether those tenants are in arrears.

the rent rolls of buildings hosting relocated tenants provide no indication whether those relocated tenants are in arrears or current with their rent.

These gaps in the method relocated tenants pay rent and their lack of accounting on the rent rolls of buildings where they relocated effectively place these relocated tenants behind a cloak of invisibility. Rendered immune from effective review by the host building's financial reviewer, this makes possible for unscrupulous treasurers to simply steal money from the TA and cover it up with rents paid by those relocated tenants.

Therefore, HPD has agreed to the following reforms:

- Revise rent rolls to include the relocated tenant's name, rent charged and rent collected;

- Include the primary address of the relocated tenant on the rent rolls of the building where they are residing;

- Require TA's to provide copies of rent checks payable on behalf of relocated tenants, as is similarly required for permanent tenants; and

- Ensure rent receipts for relocated tenants are included in host TA's financial records.

These reforms provide needed transparency to the accounting of relocated tenants, including an accounting of their rents collected and rent arrearages, if any. The opacity in the accounting of such relocated tenants provided Copeland the necessary cover to hide this scheme, without which Copeland may never have engaged in the first instance.

D. Other Changes

HPD does not effectively monitor buildings that are and remain delinquent in complying with TIL program rules and regulations.

During the course of our investigation, we learned that, in practice, HPD's enforcement mechanisms are limited. Although empowered with the ability to place buildings on probationary status, we were informed that, in reality, HPD rarely places buildings on probation. Additionally, we were informed that, even on probation, buildings not only fail to rectify their scofflaws, but even incur additional infractions during this probationary period. In the face of such delinquent TA's, we were informed that HPD rarely exercises its right to terminate such buildings from TIL or otherwise take meaningful action to ensure the viability of the building.

In fact, we were informed that TIL effectively provides buildings at least six months of probation, through its program named "3-2-1." Under this regime, delinquent buildings are placed on three months of probation and are provided an additional two months of probation, if they fail to correct the delinquencies that gave rise to their probationary status after that initial three month period. In the event these buildings fail to correct those underlying delinquencies in that two month period, HPD provides an additional one month of probation. And, even after these buildings continue to

remain in non-compliance, they remain on probation. As a result, what was intended to be a maximum of six months of probation, in practice, transforms into a near permanent state of probation, effectively metamorphosing the tenant interim lease program into the tenant permanent lease program.

Therefore, HPD has agreed to the following reforms:

- HPD will amend its probation letters to include a corrective action plan that outlines specific and detailed steps the probationary building must execute with associated milestone dates to correct their scofflaws that is distributed to all tenants.

- HPD will schedule meetings with both TA's and tenants at HPD for every TIL building that is at least six months delinquent in submitting their monthly financial reports.

- HPD will schedule corruption lectures to be conducted by DOI for TIL buildings.

By providing buildings on probation clear guidance in the form of a correction action plan and transparency by providing this document to all affected tenants, TIL can effectively remain an interim program and, in particular, probation can effectively remain a temporary and more meaningful sanction. As well, by providing DOI corruption lectures to TIL buildings, tenants can be informed directly about the consequences of any misdeeds, such as the consequences of filing misleading financial reports.[7]

Most significantly, however, these reforms, in conjunction with other reforms HPD has agreed to implement, will foster self-sufficiency, promote stability in our neighborhoods and boost home ownership.

If you require further information, please contact me at (212) 825-3335, or Assistant Inspector General Ondie Frederick at (212) 825-2499.

Very Truly Yours,

Mark G. Peters

By:

Gregory D. Cho
Inspector General

[7] On May 7, 2014, this Office conducted a corruption lecture with the tenants of East 129 Street. Among others in attendance was Copeland. As well, at the request of a tenant who attended this lecture, a follow-up meeting was held, during which time tenants discussed their concerns and suspicions during Copeland's tenure and management practices generally of East 129 Street.