

**United States House of Representatives
Committee on Financial Services**

**Subcommittee on Oversight and Investigations
&
Subcommittee on Insurance, Housing and Community Opportunity**

**STATEMENT
OF
TIMOTHY TRUAX**

**Rayburn House Office Building
November 02, 2011**

Chairwoman Biggert, Chairman Neugebauer, Honorable Members of the Subcommittees, I first want to thank you for the opportunity to come before you today and assist your awareness of the potential for fraud within the HUD Home Program. Let me state from the outset that I know the program has its flaws and can be defrauded, and I possess this knowledge because I sit before you as a man who has fully acknowledged his criminal culpability before the federal Middle District Court and who awaits his sentence in the matter. It is not easy to admit that I have engaged in criminal actions and it is a fact that that I take no particular pride in presenting to you today. And I can say with a certainty that is imputed to a person such as myself who *has* defrauded the home program, that I am willing to bet that there such fraud continues at the hands of others who hold a position as I once held.

In appearing before you today, please know that I neither consider myself as some knight in shining armor, nor do I see myself a crusader for justice. I am a man who engaged in a criminal act, was caught and awaits his payment to society. However, if through my testimony before you today, you find a way to improve the system and close the loopholes that I exploited, the program will be much better, much stronger and more effective in its achievements.

My experience in the construction industry began in 1994 as a heavy equipment operator. Ten years later, I became employed b y Dauphin County in the facility maintenance program where I engaged in all aspects of construction and remodeling. When the position of Home Rehabilitation Specialist opened, I applied for the position and was so employed until my resignation in 2010 due to the present criminal charges.

My duties as the home rehab specialist included soliciting applications from home owners who qualified for government assistance in repairing their residences, soliciting the contractor bids for work to be completed, awarding the contracts and verifying that the work had been completed before the contractor was paid. Essentially, I was the master of my own domain in that I was rarely supervised and inspected by HUD only once every three years.

When HUD determined it wanted to audit the home rehab program, a representative from the Philadelphia office would contact me to request that I select files and homes for inspection when the representative visited. Being the primary person in charge of the entire process, it was my sole decision what homes and related files would be selected. The examiner would review the files and only sometimes complete a home visit to verify that the work was completed as represented in the file. Regardless, since I was the one selecting the files, I had complete control over what the examiner would see.

At first, the ease with which the program could be defrauded did not occur to me; however, as my tenure in my position grew, I eventually realized just how easily the program *could* be used to my personal advantage. This realization was further enhanced by an on-line article I read out of California where a Community Development Block Grant employee created fictitious companies in order to defraud the system. My entry into the process was rather simple, primarily because I was the proverbial wolf safeguarding the hen house.

Whenever an applicant submitted an application for home rehabilitation, I would review it and, as the process should work, the application would be publicized for bids to be

submitted by contractors interested in completing the work. In the early portion of my employment, that *is* how it was done; however, when I began abusing the program, I would forward the home owner's application to certain select contractors and keep them informed of the lowest bids I received at any one point, ultimately providing the chosen contractor with the lowest external bid information so that he could submit an even lower bid and thereby be awarded the work. Many times, because I had no oversight, I would simply provide the selected contractor with the application and take the bid he submitted as being the lowest, ultimately awarding the work to that contractor. Given that the Philadelphia examiner would visit only once in three years and review only the files which I selected for review, the process was virtually foolproof ... or so I thought.

Before I continue, I would like to state in my defense that my original intent through all of my criminal activity was to simply get a few dollars as compensation from the contractors for helping them get work. It was my intent to "manage" the individual file until such time as the contractor would get financially settled and return at a later time to properly complete the work assignment. The payment from the contractor to me would remain mine and the contractor would absorb its payment to me during the later completion of the work. The concept was that by that time, the contractor would have enough other work to be able to afford to absorb its payment to me.

Although at first I felt I wasn't doing anything really wrong because I had convinced myself that the contractors I was assisting were going to eventually complete the work as awarded. Eventually, I realized that the first contractor for whom I developed this fraudulent practice had absolutely no intention of ever properly completing the work, and

when that realization hit me, it was too late for me to turn back. I thought I would be able to pay back every penny which I received as a result of my wrongful actions but soon realized that I could never repay the money I was responsible for taking from the program. Regardless of *when* such realization may have occurred, my actions were wrong from the very beginning and I should have never started the process in the first place. I was wrong in my thinking and in my actions.

As to how I selected the contractors in my particular activity, I met one of the three individuals with whom I took the money in the course of my work. Because I have not received their permission to present the contractors' individual names, I will refer to them by way of "Contractor #1", "Contractor #2" and "Contractor #3".

Contractor #1 was referred to me by way of a third party as a contractor who might be interested in getting involved with the county program. I contacted him to come to the office and make application to the program, which he did and for which he was approved as a contractor.

Contractor #1 completed roughly four or five jobs and appeared to do more than acceptable work. Throughout the time and because of my on-going contact with him, we developed a friendship.

On one occasion when Contractor #1 and I were socializing after work hours, he turned the conversation turned to the state of his financial situation and overall business. He openly wondered if there was any easier method to better secure open bids which led me to thinking that perhaps I could help him out on a temporary basis. My entire thought process was that if I were to help him, that ultimately when he stabilized a bit more, he

would rehabilitate a home using funds from his own finances. Remembering the fraud in the California Block Grant program, I realized there was a way we could help each other. After further conversation, I made the decision to engage in the course of actions that eventually brought me here before you today.

It was never my intent to defraud or steal money from anyone, but I got caught up in my own financial problems and discussed receiving some of the money I would pay him through the program. It was wrong and I freely admit what I did was wrong; but, at the time, with my own personal finances being so messed up, I didn't think of the wrongness of my actions. In my own stupid way, I simply figured the money would somehow be replaced when Contractor #1 renovated a home out his own finances and the money I received would be replaced though his completed work. Unfortunately that didn't happen. Contractor #1 was involved in drugs and alcohol and, although he never intended to live up to his word, he led me to believe that he would do the honorable thing.

At the time all of this was happening with Contractor #1, he had an employee I will refer to as Contractor #2. Apparently, Contractor #2 was aware of Contractor #1's and my arrangement because when I eventually wised up and realized that Contractor #1 wasn't going to live up to his deal with me, I ended the work with him and approached Contractor #2 to take over the jobs. When I did, Contractor #2 brought up the arrangement I had with Contractor #1 and indicated he wanted the same arrangement. Since I had already gotten myself into this mess, I was hoping Contractor #2 would honor the arrangement and complete the jobs that Contractor #1 was supposed to finish. That simply did not happen.

I met Contractor #3 through a mutual friend. When he found out what I did for a living, he expressed an interest in becoming part of it and we met to discuss the process. He completed all of the requirements and worked a couple of jobs which—upon review—sort of bidding, adding in overhead costs, and the such. After losing a few bids, he asked me to help him better learn the process and, since I had already been involved in what I thought was assistance to Contractor #1 and Contractor #2, I figured I may as well try to help him because he seemed like a hard worker who sincerely wanted to do well. And since I was already in trouble because of Contractor #1 and Contractor #2, I was hoping to find a way to make everything right through the work of Contractor #3.

I do want to state that throughout the process of working with Contractor #1 and Contractor #2, I repeatedly told them both that I had realized that what I was doing with them in terms of their bids and payments was wrong. I kept stressing that because I wanted them both to live up to their original words to me that they would each pay out of their own pockets for a home renovation. Regardless, both of them continued to pressure me to make “progress” payments to them.

Progress payments are fees paid at certain points in the work, such as 25 percent completed, 50 percent completed, 90 percent completed, and the final 10 percent would be withheld until the job was reported as completed and a final inspection was made.

This is where I really burned myself because I caved in and took Contractor #1's, Contractor #2's and Contractor #3's word for it that that they completed the required work at the proper interval. I totally bear the fault for not being diligent and checking on them before I paid them. After Contractor #1 didn't live up to what I thought was an agreement, I should have ended my involvement and ignored Contractor #2 and—ultimately—

Contractor #3. Unfortunately, I did not. Each time I re-started the process with another contractor, it was my thinking that this time it would be different, this time I would be able to make things right and put an end to the stuff I was doing. Well, it didn't and I got myself in more and more trouble. And, simply put, I let my job down, I let me supervisors down, I let the county down and I dishonored my family name in the process.

Unfortunately, the process was entirely too simple to defraud merely by way of its own set-up. With an examination by the supervising Philadelphia HUD representative taking place only once every three years, and then relying upon me to choose the files for review, I knew my wrongdoings may never get revealed. Obviously, I never considered getting caught and took advantage of the program's total lack of proper oversight.

When an investigator came to ask me questions about the "situation", I realized at that point that my actions had been found out and that I would never get the chance to rectify my wrongs as I had planned. Accordingly, when the investigator came to me with questions, I figured he pretty well knew the whole story.

That being said, I knew what I had done was wrong and I was sincerely sorry for getting involved in the matter. So, from the very first question by the detective, I fully and willingly cooperated and told him everything I knew, everything I did, and everyone who was involved. I never asked for a lawyer through any of that process because I knew what I did was wrong and I wanted to help make it right in any way I possibly could.

The Dauphin County detective asked me to make recorded telephone calls on his behalf so that I could get Contractor #1, Contractor #2 and Contractor #3 to admit their involvement on tape. I did that willingly. I also willingly agreed to wear a wire and arrange a meeting with Chandler Wells; however, Contractor #3 never showed up for whatever reason.

I truly and sincerely regret that I ever got involved in this, and I don't state this because I'm caught and am headed to incarceration. Obviously, no one really wants to go to jail and I have always hoped I would never go there either. But the reality of this is that I am going to jail.

My regret comes from what my actions caused so many people. I harmed the county which employed me, and they didn't deserve that. Because of this process, my marriage disintegrated, with my wife divorcing me and taking my daughter to live with her. I've lost my house because I can't pay for it. I can't get a job because of my actions and the resulting charges. And the worst of it all is how I have hurt my school-aged daughter.

Before I got involved with this matter, I was more than just a dad for her—I was her friend too. She felt comfortable coming to me to discuss some of her personal matters and school work, and I felt that we had a mutual respect for each other. It was the best relationship a father could ever ask for with his 13-year old daughter. Unfortunately, my selfish and wrongful actions severely hurt that relationship.

My daughter has been the brunt of jokes at her school after the matter was publicized in the local newspaper. Since then, she's felt ashamed of her father and I've really hurt my status in her eyes. Facing the impending jail time, she's also going to be losing any real contact with her father. Words simply cannot express how this hurts me and how sorry I am for everything I did.

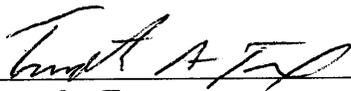
My actions hurt so many people and I truly am sorry for what I did. I cannot apologize enough for my wrongs and hope to one day re-gain the trust and love of my family and friends. I know I'll probably never get another job with responsibility like the one I had

with Dauphin County; however, I am going to work my hardest at proving to society that I can be a productive and helpful member.

Again, I thank you for the opportunity to appear before you today in the hopes of preventing any future theft of vital program money in a like manner. I sincerely and truly apologize to these Subcommittees, the HUD program, Dauphin County, and the people of our community for my actions.

Thank you for allowing me to provide this statement to you.

Respectfully submitted,

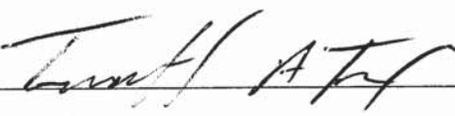


Timothy Truax

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“TRUTH IN TESTIMONY” DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Timothy Allen Truax	Self
3. Business Address and telephone number: 	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
	
7. Signature:	

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