



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

NOV 19 2013

*Memorandum*

TO: Shaun Donovan, Secretary, S

FROM:   
David A. Montoya, Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2014 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or Department) in fiscal year 2014. Through our audits, investigations, inspections, and evaluations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our Semiannual Reports to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The attachment discusses the challenges facing HUD.

Attachment

**HUD Management and Performance Challenges**  
**Fiscal Year 2014 and Beyond**

**Human Capital Management**

For many years, one of the U.S. Department of Housing and Urban Development's (HUD or Department) major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices. The Department contracted with the National Academy of Public Administration (NAPA) to consult on this problem. In 1999, a NAPA report noted that HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic and organized manner.

NAPA recommended that the Department establish an intraagency team of senior officials from the Offices of the Chief Financial Officer and Chief Human Capital Officer and administrative and budget officials from major program offices to assess the causes of HUD's erratic resource management practices and develop a more timely and predictable staffing process. In addition, NAPA recommended that this team lay the groundwork for creating ongoing, agencywide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality and skilled workforce.

A June 2012 review conducted by the Office of Personnel Management (OPM) found a number of weaknesses in HUD's human capital policies and practices. Specifically, OPM determined that HUD does not meet 41 of 68 expected outcomes across five Human Capital Assessment and Accountability Framework (HCAAF) systems. The five areas of HCAAF consist of Strategic Alignment, Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management, and Accountability. OPM's review traced many of the problems to a lack of human capital accountability activities and insufficient strategic management of human capital.

In March 2013, the U.S. Government Accountability Office (GAO) issued a report on HUD's strategic human capital and workforce planning, which stated that HUD is reexamining its resource management processes. The report did not fully consider all standards identified in a 1999 NAPA report. GAO's review found that HUD has provided central guidance on how work is defined and collected; however, HUD has not created incentives or accountability to staff to report accurate workload data. GAO found that the data collected are often not used to inform decision making, thus it is difficult to make an adequate decision as to HUD's resource needs. This is especially important as GAO reported in its February 2013 High Risk Series update that at the end of fiscal year 2012, at least 40 percent of HUD's staff was either already eligible or will become eligible to retire by 2016.

In June 2011, HUD introduced a transformation initiative within the Office of Multifamily Housing. By 2016, it proposes to complete a transformation of the way it works from a 1970s operating model to a 21st-century model that applies industry best practices, improves its ability to manage risk and deliver excellent customer service, and increases accountability and national

consistency. The challenge will be to ensure that this new style of functioning maintains adequate monitoring of properties and access to its clients. The transformation involves four initiatives to address the closing of offices: workload sharing across offices, risk-based underwriting and processing, targeted support for troubled properties, and streamlining the organization in headquarters and the field.

### **Financial Management Governance of HUD**

HUD faces a significant management challenge to fully establish and implement a successful financial management governance structure and system of internal control over financial reporting as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Chief Financial Officers Act of 1990 (CFO Act). Since the implementation of the CFO Act and the requirement for audited financial statements, the Office of Inspector General (OIG) has reported multiple significant deficiencies in HUD's internal controls over financial reporting, including a material weakness on HUD's fiscal year 2012 financial statements, which can be directly related to a weak financial management governance structure.

HUD's current financial management structure, which administers \$57.6 billion in appropriations for fiscal year 2013, relies upon delegations of key financial management functions to HUD's program offices, including but not limited to review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. A majority of HUD's program offices do not have positions with well-defined duties relating to financial management or internal controls over financial reporting. This condition has fostered an attitude and environment in which program-related issues, concerns, and decisions are prioritized, thereby limiting the relative importance of financial management responsibilities.

Additionally, HUD has been operating without a CFO since August 2011, and there have been recurring vacancies in HUD's Assistant CFO positions over the past 3 years. Currently, three out of four Assistant CFO positions have not been permanently filled. These vacancies have limited HUD's ability to set an appropriate tone at the top regarding the importance of HUD's financial management and the implementation and maintenance of internal controls over financial reporting.

Further, the Office of the Chief Financial Officer (OCFO) lacks a position or division to (1) monitor the issuance of accounting policies and standards from entities such as the Federal Accounting Standards Advisory Board and OMB and determine their impact on HUD and (2) interpret program office financial reporting policies and determine whether they comply with generally accepted accounting principles (GAAP) and other financial management regulations. Our audits have indicated that instead, accounting procedures are often determined by program office preference without the oversight of OCFO and regard for accounting standards. The absence of this function has been the root cause of multiple significant deficiencies identified in our audits. Without executive leadership within OCFO, it is difficult to maintain the proper institutional balance of financial resources between program execution objectives and financial management requirements.

Another concern is that HUD's financial management handbooks are either significantly outdated or incomplete. OCFO has attempted to implement accounting policy and procedures through the issuance of memorandums, but this method does not provide easily accessible guidance and reference for staff, nor does it provide for a permanent source of financial management standard operating policies. Financial management policy in a centralized location that is easily accessible by staff is instrumental for the continuity of accounting policies and procedures during periods of staff turnover. Since 2008, HUD's OCFO has had a 44 percent turnover in staff, with 15 percent turnover between 2011 and 2012. Additionally, 10 divisions or offices within OCFO have experienced decreases in full-time employees of 33 percent or more. Combined with the lack of a basic policy framework necessary to implement a compliant financial management system, this situation creates a significant challenge in ensuring compliance with accounting standards and other regulations. HUD must fully commit to establishing, documenting, and implementing its accounting policies and procedures in a permanent and easily accessible manner.

HUD does not effectively monitor internal control, creating a significant challenge in management's ability to implement a successful system of internal control. HUD has established procedures for internal control monitoring and oversight reviews of agency financial management activities; however, in recent years, these reviews have either been delayed or not completed. For example,

- HUD's management control review program is designed to have program offices annually assess the risk of their programs based upon the general control environment, inherent risks, and the effectiveness of existing controls and to periodically review internal controls to determine whether identified risks are mitigated. However, the program is not consistently implemented across all program offices, and risks are not assessed annually.
- The front-end risk assessment process is intended to review new or revised programs before implementation, but several reviews have not been finalized well after the first year of the respective programs.
- Quality management reviews, which are designed to ensure that HUD programs and processes perform in accordance with statutory requirements and efficient management principles, were not completed for fiscal years 2012 and 2013.
- Compliance reviews to ensure that program offices follow their established funds control plans were not performed during fiscal year 2012.

The lack of oversight and monitoring from the nonperformance of these reviews limits the level of assurance management has that essential internal control functions in place across the Department are properly designed and implemented and can be relied upon.

Overall, the deficiencies in HUD's financial management governance structure have resulted in a departmentwide imbalance in which financial management requirements are subordinated to program office operational objectives. HUD's OCFO could provide better financial information to manage the day-to-day operations of the Department, as well as assist in policy and budget formulation, if HUD's financial management were appropriately structured and the CFO were given the authorities and resources needed.

### **Financial Management Systems**

Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and the Government National Mortgage Association (Ginnie Mae) and addressing many of the previous weaknesses that OIG identified. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used for core processing. With the award of the contract in September 2010, HUD anticipated implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. However, in March 2012, work on HIFMIP was stopped, and the project was later canceled. HUD spent more than \$35 million on the failed HIFMIP project.

In the fall of 2012, HUD reevaluated its alternatives, and the New Core Project was created to move HUD forward to implement a new core financial system. The New Core Project has the same scope as HIFMIP and will initially replace the functionality of two of the applications currently used for core processing. The Department expects to use a phased approach to eventually modernize all of its financial systems and processes. In July 2013, the New Core Project management team recommended migration to a Federal shared service provider. The team concluded that this option would provide the most value to HUD by leveraging modern technologies in cloud computing while reducing implementation risks.

On July 30, 2013, HUD signed an interagency agreement with the Bureau of Fiscal Services (DFS) to obtain full Federal shared services. Full service leverages DFS's financial management, procurement, human resources, and travel applications. HUD will be one of the first cabinet-level agencies to migrate to a Federal shared service provider. We are concerned, however, about HUD's ability to successfully complete such a large-scale system migration. While HUD's focus is on implementing a new core system in a shared service center, most of the mixed systems will remain with HUD, along with the "cuff" systems that users have developed over time to overcome deficiencies. In addition, the Department relies on several different contractors to support the various financial management applications, and the development of the necessary interfaces will rely on the interface designs created during the failed implementation of the HIFMIP project. Although HUD has just started to define the project's scope, the "go live" date is currently scheduled for October 1, 2014.

We remain concerned about the current state of FHA's information technology (IT) systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. To address these challenges, in August 2009, FHA completed the Information Technology Strategy and Improvement Plan, which identified FHA's priorities for IT transformation. The plan identified 25 initiatives to address specific FHA lines of business needs. Initiatives were prioritized, with the top five being single-family related. In all, the FHA transformation initiative was intended to improve the Department's management of insurance programs through the development and implementation of a modern financial services IT environment that is expected to improve loan endorsement processes, collateral risk capabilities,

and fraud prevention. However, to date, FHA has completed a few but not all of the goals due to a lack of funding. FHA is working on acquiring risk management tools but has made substantive progress only on its initial system design phase.

Overall, it appears funding constraints diminished the ability to complete the new application systems and phase out and deactivate the outdated systems. Progress has been made, but many of the initiatives are still in the design phase. With these delays, HUD risks investing its resources on projects that may not meet critical mission needs. This brings about another concern: the ability to maintain antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to rise, these legacy systems that are 15 to 30 years old must be maintained to effectively support the current market conditions and volume of activity. However, the use of aging hardware and software could result in poor performance and high maintenance costs. If the IT infrastructure is not modernized in a timely manner, it will become increasingly difficult and expensive to maintain operations and maintain interfaces to other IT systems.

As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. For instance, HUD did not (1) implement effective interface procedures to ensure that FHA and Ginnie Mae data were protected during transmission and access to these data were restricted while stored in the shared electronic folder, (2) follow adequate separation of duties controls to ensure that a voucher processing group could not modify some of the banking information used for drawdown processing, (3) validate all telecommunication links and Web interfaces during disaster recovery testing, and (4) ensure that procedures for managing the configurations of systems in HUD's computing environment were followed. As a result, HUD's financial systems continue to be at risk of compromise.

According to OMB requirements, the Chief Information Officer has ultimate responsibility for the governance, management, and delivery of IT mission and business programs within the Department and has an effective operative means of meeting this responsibility. However, HUD OCIO has been relegated to the role of policy making, lacking the authority to enforce policies and meet IT governance responsibilities. For example, while OCIO issues guidance for the development of systems and security documents such as security self-assessments, systems security plans, risk assessments, and configuration management plans, it remains merely a collector of the documents. We found many instances of documents developed by the program offices being out of date and not accurately reflecting the current environment. OCIO has indicated that it did not always have the resources available to monitor the applications and ensure that the program offices implemented the policies and procedures to meet Federal IT requirements. Instead, OCIO has written policies and procedures that delegate the responsibilities for meeting Federal IT requirements to the program areas. This delegation results in no centralized individual being responsible for HUD's IT mission and business programs.

We also have concerns with HUD's ability to summarize and report all transactions and events related to community planning development (CPD) programs accurately and in a timely manner

in accordance with GAAP until appropriate system changes are implemented in HUD's accounting systems. HUD's accounting systems for CPD programs were designed to process disbursements using a first-in, first out (FIFO) methodology. Under FIFO, the funds are committed and drawn from the oldest to the newest funds having the same grant program, source of funds, recipient of funds, and type of funds. However, as we have previously reported and OMB and GAO have upheld, this methodology was not a generally accepted accounting practice for grants in the Federal Government. To properly account for these transactions in accordance with GAAP, the same source of funding for an obligation should also be used to record disbursements against that obligation. HUD will need to make system changes to eliminate the FIFO logic, but the scope and cost of this effort is significant. While the system changes will probably have the largest impact on the HOME Investment Partnerships Program, they will also affect other formula programs within CPD, creating a continuing challenge for HUD.

### **Information Security**

Our annual evaluation of the HUD IT security program, as mandated by the Federal Information Security Management Act (FISMA), revealed that core foundational pillars for an effective program either do not exist or have been poorly implemented. The existing governance framework for IT security and privacy is fragmented, and the roles and functional responsibilities are not clearly defined. Policies and procedures have not been established in accordance with the latest Federal guidance. HUD's system inventory is not accurate or maintained in a manner to ensure that all systems have security safeguards, a valid authority to operate, and full accountability for IT security. HUD has significant deficiencies in 7 of the 11 programs on which OIG reports to OMB, including Continuous Monitoring, Incident Response, Security Training, Plans of Actions and Milestones, IT Risk Management, System Contingency Planning, and Contractor System Oversight. HUD deployed a network asset discovery and management tool in fiscal year 2013 and when the enterprise solution is fully implemented, it will have capability to identify, monitor, and manage all IT assets on the HUD network, which would partially enhance its security posture.

HUD's annual IT budget of \$392 million in fiscal year 2013 and the program leadership have not facilitated an effective program. The Department will be challenged to ensure that leadership establishes a strategic direction for the future of the program, which is consistent with changing technology, evolving Federal guidance, emerging IT threats, and budget constraints. The impending transition of IT service introduces additional challenges when the HUD IT service contract expires in June 2014. Going forward, HUD will need to consider security requirements and incorporate them into IT services procurement actions as needed. Instilling a pervasive IT security culture throughout HUD will be dependent upon a strong and skilled Chief Information Officer, executive support, and well-trained resources in developing and implementing a FISMA-compliant program.

### **Single-Family Programs**

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to realize the benefits of home ownership. HUD manages a growing portfolio of single-family insured mortgages exceeding

\$1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

For the past 4 years, the FHA fund has failed to meet its legislatively mandated 2 percent capital ratio. Each of these 4 years has seen a further decline in that ratio, and according to the 2012 actuarial study, the fund had a negative economic value of \$16.3 billion. Based upon the 2012 projections, the capital ratio will not reach the 2 percent level until 2017, marking 8 consecutive fiscal years below the 2 percent threshold. Moreover, for the first time in its history, FHA has requested a \$1.7 billion draw from the U.S. Treasury to supplement its reserves at the end of fiscal year 2013. Due to the continuing stress on the insurance fund's estimated reserves, GAO included FHA concerns in its latest "high risk" update relating to "Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance." Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund. OIG has collaborated with HUD and the U.S. Department of Justice (DOJ) to pursue civil fraud investigations in an effort to recover losses from lenders that fraudulently originated FHA loans. It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs.

FHA plays a major role in supporting the housing market, and FHA has implemented initiatives to strengthen the insurance fund. For example, the Reverse Mortgage Stabilization Act of 2013 afforded FHA tools to manage the fund better and in a timelier manner. For example, recognizing the need to stabilize its reverse mortgage program and to improve the health of the fund due to significant claims paid for reverse mortgage losses, FHA has implemented various structural changes to the program through mortgagee letters instead of a lengthy rule-making process. Further, FHA now has the authority to seek indemnification from its direct endorsement lenders, which account for 70 percent of all FHA-approved lenders. With this authority, FHA will be able to obtain indemnification from all its approved lenders for loans that fail to comply with its guidelines.

In spite of these positive steps, we remain concerned about HUD's resolve in taking the necessary actions going forward to protect the fund. As we noted in recent testimony, HUD is often hesitant to take strong but needed actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program. For example, FHA has been slow to implement a rigorous and timely claims review process. OIG has repeatedly noted in past audits and other types of lender underwriting reviews HUD's financial exposure when paying claims on loans that were not qualified for insurance. Based on results of a 2011 review of mortgage lenders in partnership with HUD and DOJ, OIG reiterated recommendations made in 2006. Specifically, the Department needs to develop and implement procedures to review a statistical or risk-based selection of loans, for which FHA paid a claim on the mortgage insurance within the first 2 years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance. While HUD agreed to act on our recommendation, our 2013 follow-up review found that HUD had not adequately implemented the necessary corrective actions.



OIG has taken further steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD and DOJ in a number of FHA lender reviews that have led to lawsuits against the lenders for failing to comply with FHA requirements. Within the last 2 years, the government has reached civil settlements with FHA lenders totaling nearly \$1.5 billion for alleged violations of the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act. A majority of the settlement amounts paid are of direct benefit to the FHA insurance fund. More recently, OIG has initiated additional lender reviews in which statistical samples of FHA loans were drawn to determine the accuracy and due diligence of the underwriters of loans by some of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed that should not have been insured due to significant deficiencies in the underwriting. These reviews are ongoing.

HUD also faces challenges in ensuring that its single-family housing programs benefit eligible participants through minimizing losses and by not paying improper claims. In a recent review of FHA's Preforeclosure Sale Program, OIG found that FHA paid foreclosure sale claims that did not meet the sale proceeds criteria and were, therefore, not eligible in accordance with the program requirements. This condition occurred because HUD did not design program controls to ensure that program objectives are met and that it only pays preforeclosure sale claims that meet the sale proceeds requirements. FHA stated that it would review the threshold established for minimum net preforeclosure sale proceeds and perform a cost benefit analysis for alternative criteria. Further, it agreed to reevaluate its minimum net sales and use its Quality Assurance Division to review a sample of preforeclosure claims to ensure that the minimum net sale proceeds requirements are met. The Department has made progress in resolving the recommendations resulting from another preforeclosure sale audit that was completed last fiscal year. In that audit, OIG found that FHA did not always pay claims for only those preforeclosure transactions that met the criteria for participation in the program. FHA agreed that existing program policy and lender execution against that policy are inconsistent. To improve alignment and ensure that the long-term interests of the FHA insurance fund are met, FHA issued Mortgagee Letter 2013-13 in July 2013, (1) establishing documentation requirements for verifying assets, income, and expenses and (2) specifying income documentation requirements for the income deficit test that must be met for borrowers that do not meet the streamline requirements.

We remain concerned that increases in demand on the FHA program are having collateral implications for the integrity of Ginnie Mae mortgage-backed securities (MBS) program, including the potential for increases in fraud. Ginnie Mae securities are the only mortgage-backed securities to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's government or agency MBS pools. By the end of fiscal year 2013, Ginnie Mae's MBS portfolio exceeded \$ 1.457 trillion. Among Ginnie Mae's key challenges is to enhance MBS issuer monitoring to assess the risk of the imminent default of a "top tier" (top-10-ranked) lender effectively and in a timely manner. Historically, Ginnie Mae issuer defaults have been infrequent, involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion-dollar rise in Ginnie Mae's nationwide mortgage servicing as well as its repurchase of billions of dollars in defaulted

whole loans to meet its guarantees to MBS investors. In the near term, these changes have strained both operating and financial resources. In fiscal 2013, another designated “top tier” lender is going through bankruptcy court supervision. Ginnie Mae is depending upon several court-selected large hedge fund investors and their subsidiary servicers to acquire the \$46 billion government servicing portfolios as well as major financial investment by the U.S. Treasury to achieve a successful outcome.

With the approval of OMB and Congress, Ginnie Mae significantly increased its management capacity in fiscal year 2012. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions.

### **HOME Program**

HUD’s ability to accumulate and provide data to monitor compliance with HOME Investment Partnership Act (HOME statute) requirements for committing and expending funds will remain a concern until appropriate system changes in the Integrated Disbursement and Information System (IDIS) are implemented. The HOME program is the largest Federal block grant to State and local governments, designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty level, and population in accordance with U.S. Census data. IDIS is a nationwide database that stores funding data and other current information regarding program activities, which are used to monitor grantee performance and compliance and to support information reported to Congress.

In 2009, OIG challenged HUD’s cumulative method for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, in 2011, we contacted GAO and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion affirming OIG’s position on the issue and cited HUD with noncompliance with section 218(g). In its decision, GAO reiterated that the language within the statute regarding compliance with section 218(g) was clear and unambiguous and to that end, HUD’s cumulative method did not comply with the statute. Accordingly, GAO advised HUD to cease the use of the cumulative method and to take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline.

The ramifications of the GAO legal opinion will require extensive reprogramming and modification to HUD’s IDIS system. HUD estimates that the changes will cost \$3-\$5 million and will take between 12 and 15 months to complete. However, we believe that with a more robust, up-to-date, and compliant information system, HUD would be able to better monitor grantee performance in a more timely, efficient, and transparent way; strengthen its internal controls; bring the system into compliance with HOME statute requirements; and accurately and reliably report financial transactions. Our oversight work in this program continues. To its credit, HUD has worked quickly to develop a plan to modify its IDIS system.

Our external audit work, which focuses on problem grantees, commonly found a lack of adequate controls. These findings included issues with subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrectly reporting program accomplishments, and incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring was occurring, particularly at the subgrantee level.

Our work in this program continues, and we have been working with Appropriations Committee staff to help the Department strengthen controls. To its credit and in part in response to our prior audit work, HUD proposed new rules that were finalized on July 24, 2013. The new rules should strengthen HUD's future enforcement authority for the HOME program and provide jurisdictions with regulatory guidance to enhance the efficiency and effectiveness of the program. The new rules include a 4-year completion deadline, an assessment of project underwriting, developer capacity and market need, and conversion of home-buyer units to rental units.

Before the revised rule became final, OIG issued a report concluding that the proposed regulation changes and controls, if properly implemented, should mitigate the systemic deficiencies identified in prior HUD OIG audit reports with the exception of (1) the program's oversight of grantee monitoring and (2) validating the reliability of HOME data. The Department has taken steps to improve HOME program management, and OIG continues with its oversight work in this area.

### **Public and Assisted Housing Program Administration**

HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. These programs are administered by more than 4,058 intermediaries and provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program, 2.3 million households through the Housing Choice Voucher program, and nearly 1.2 million households through the multifamily project-based program.

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's onsite confirmatory reviews, it is clear that the self-assessments are not always accurate, and there remains some question as to the reliability of the information contained in PIH systems. PIH management believes it will address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which has recently been implemented. Until the two

systems are completely implemented, HUD will continue to face challenges in monitoring this program.

During 2012 and 2013, Congress approved funding reductions to the Housing Choice Voucher program amounting to \$975 million. These reductions provide PIH with a significant challenge to provide housing to the same number of families with much less funding. To accomplish this, PIH needs to ensure optimum use of program funding. PIH developed a spreadsheet tool for use by PHAs and PIH staff to assist in projecting leasing, spending, and funding over a 2-year period. The purpose is to facilitate decision making by PHAs and guide HUD oversight and technical assistance so that PHAs can fully use their funding. The goal is to avoid large cyclical swings of participant lease-up followed by attrition and to eliminate abrupt funding cutbacks that may cause the canceling of vouchers. In a recent audit report, we identified areas for improvement in PIH's protocols and controls for monitoring PHAs to assist in identifying funding shortfalls.

HUD's monitoring and oversight of PHAs participating in the Moving to Work demonstration program (MTW) is particularly challenging. The MTW program provides PHAs the opportunity to design and test innovative, locally designed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. In the more than 14 years since the demonstration program was implemented, HUD has not been able to report on whether the program is meeting its objectives. HUD has requested and Congress is considering expanding the program to include more participants. However, this is being done without first understanding whether participating PHAs are reducing costs to gain increased housing choices and incentives for families to work. HUD is experiencing challenges in developing programwide performance indicators that will not inhibit the participants' abilities to creatively impact the program.

This conclusion is also supported by a 2012 GAO report, which found that MTW guidance does not specify that PHA MTW plans provide that performance be quantifiable and outcome oriented. By not identifying the performance data needed to assess the results of the MTW program, HUD is unable to effectively evaluate this demonstration program. In fiscal year 2013, OIG continued to report that participating PHAs have significantly departed from their MTW agreements. HUD needs to quantify a formal process for terminating participants from the demonstration program for failure to comply with their agreement. We are looking further into controls over legal and lobbying expenses by participating PHAs.

We also noted that executive directors removed or leaving under questionable circumstances are appointed as executive directors at other agencies in different parts of the country. This is concerning since it allows someone who has a poor track record to continue poor management practices or possible malfeasance elsewhere. This will be a challenge to HUD as it does not track the movement of executive directors between PHAs.

Since the passage of the Improper Payments Information Act of 2002, HUD has made an effort to reduce erroneous payments in its PIH programs; however, departmentwide progress has stalled.

Last year, we noted that estimated errors were made by the intermediaries and tenants intentionally underreported income in three major rental housing assistance programs, resulting in improper subsidy payments. HUD had a total gross error amount of \$1.23 billion in improper payments for fiscal year 2011. This reflects an overall error rate of 3.9 percent, which is a 1 percent increase from the fiscal year 2010 study.

### **Administering Programs Directed Toward Victims of Natural Disasters**

Congress has frequently provided supplemental appropriations through HUD's Community Development Block Grant (CDBG) program to help communities recover from natural and man-made disasters. The CDBG program is flexible and allows CDBG Disaster Recovery (CDBG-DR) grants to address a wide range of challenges. These grants have been used to help New York recover from the attack on the World Trade Center on September 11, 2001, to help towns in the upper Midwest recover from severe flooding (in 1993, 1997 and 2008), and to help the Gulf Coast in the wake of the hurricanes of 2005. Although HUD has made progress in recent years with assisting communities recovering from disasters, HUD faces several management challenges in administering these grants.

As a result of the high number of disasters, HUD faces difficulties in monitoring disaster program funds because of limited resources to perform the oversight, the broad nature of HUD program requirements, and the lack of understanding of CDBG-DR grants by the recipients. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover. However, HUD must be diligent in its oversight duties to ensure that grantees have completed their projects in a timely manner and that they use the funds for intended purposes.

CDBG-DR appropriations generally grant the HUD Secretary broad authority to issue waivers and alternative requirements. Because HUD is waiving some of the standard CDBG program requirements, HUD must ensure that each disaster recovery activity includes performance and expenditure schedules as part of its action plan for overall accountability. HUD must be consistent in granting of waivers and may do so as long as such waivers or alternative requirements are not inconsistent with purpose and rules governing the CDBG program. One such inconsistency occurred in fiscal year 2013 when CPD waived some Road Home Incentive Elevation Program requirements after agreeing to enforce them in the audit resolution process.

Keeping up with communities in the recovery process can be a challenging proposition for HUD. HUD CDBG-DR funding over the past several years has exceeded \$35 billion. These active disaster grants nationwide have approximately \$30 billion in obligations and \$24 billion in disbursements. Although many years have passed since some of the specific disasters occurred, significant disaster funds remain unexpended. HUD must continue to maintain its oversight efforts to ensure that funds are expended as needed.