

Testimony before the U.S. House of Representatives  
Committee on Financial Services  
Subcommittee on Oversight and Investigations

“Reducing Waste, Fraud and Abuse in Housing  
Programs: Inspector General Perspectives”



Testimony of  
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Chairman McHenry, Ranking Member Green, and Members of the Subcommittee, I am David A. Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to highlight our perspectives on waste, fraud and abuse in HUD programs, along with related HUD oversight issues. I will also discuss some of the results from our last two semiannual reports to Congress.

## **Background**

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. It 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 (CDBG) funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has responsibility for administering disaster assistance programs which has evolved substantially over the years. It also has assumed a prominent role in administering new mortgage assistance and grant programs in response to the Nation's financial crisis, to increases in foreclosures, and to declining home values.

Achieving HUD's mission while exercising the appropriate level of oversight to prevent or mitigate fraud, waste and abuse continues to be an ambitious challenge for its limited staff. Over the years, HUD has seen a steady decline in its staffing level while at the same time it was called upon to administer an increasing number of programs. At the end of fiscal year 2012, HUD had just over 8,300 staff compared to about 9,700 a decade earlier and even greater levels in the 1990s. This has forced HUD to continue to rely heavily on contractors to carry out many of its programs and to expect that local and state jurisdictions and recipients of HUD funds conduct their own oversight and due diligence. This only serves to magnify the importance of having robust information systems to help HUD meet its oversight responsibilities. Unfortunately, as I will point out later in my testimony, HUD systems fall short of what is needed. Moreover, it is continually challenged to effectively manage its contractor work force to ensure appropriate use of its limited funding.

Last year, I spoke about the Department and the Office of Inspector General working collaboratively to achieve a historical result in the national mortgage settlement of more than \$25 billion – the largest consumer financial protection settlement in U.S. history. We are building on that success and have undertaken an initiative to review fraudulent loan originations made by some of the nation's largest mortgage companies in the FHA program. These endeavors showcase the accomplishments that we have achieved not only with the Department, but working closely with the Department of Justice. While I continue to support our activities relating to this review, I also strive to manage my limited resources to provide proper oversight of the many other programs and operations within the Department.

## **Semiannual Report**

I am pleased to highlight the results from our latest two Semiannual Reports to the Congress, which showcase key results for the period April 1, 2012 through March 31, 2013. The Inspector General Act requires each inspector general to report on its results every six months. My office is charged with eliminating and preventing fraud, waste, abuse and mismanagement in HUD programs and operations, and the audits, evaluations and investigations conducted by my office have had a significant impact on safeguarding HUD and the taxpayer. During the last two 6-month cycles, we issued 135 audits and other reviews, which resulted in more than \$1.5 billion in funds put to better use, nearly \$2 billion in questioned costs, and more than \$1 billion in collections from audits. Our investigations led to \$613 million in recoveries, 579 indictments or informations, and 555 convictions of criminals that impacted HUD programs. Our audits and investigations assist HUD in identifying program vulnerabilities and the rest of my testimony will focus on the critical HUD programs and activities that are particularly susceptible to fraud, waste and abuse.

## **Role of the Office of Investigations**

Much of our work for this committee has focused on the results of our audits and evaluations but given the focus of this hearing, I wanted to also highlight the work of our Office of Investigations (OI). HUD OIG is charged with detecting and deterring fraud and criminal activities throughout all of HUD's programs. OI investigates allegations of violations of laws or regulations in the administration of HUD programs and activities, or misconduct on the part of HUD employees or recipients of HUD funds. Our highly skilled team of criminal investigators, information technology specialists, management analysts, investigative analysts, and administrative support staff are dedicated to this objective. Examples of OI's investigative results are included throughout the remainder of my testimony.

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

The Department faces a significant management challenge in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of limited resources to directly perform the oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability by the Department to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and ensure the use of funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult based on the diverse nature of HUD projects and due to the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight duties to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

In March 2013, we completed a follow-up review regarding our recommendations made to HUD pertaining to our March 2010 inspection of the State of Louisiana's Road Home Elevation

Incentive program. That review's objective was to determine whether homeowners used funds to elevate their homes as set out in their grant agreements. Our inspection covered 199 (about 10 percent) of the 1,906 property owners who received more than \$44.4 million in elevation grants during the first round of State funding in 2006 and 2007. Results of our inspections strongly suggested that the elevation grant program was at risk and could fail to achieve its intended goal of reducing homeowner flood risks from future hurricanes. Most homeowners had not elevated their homes, even though they received grants of up to \$30,000 in 2006 and 2007 to pay toward the construction costs. Seventy-nine percent of the inspected homes (158 of 199 properties) were not elevated. These noncompliant homeowners received grant funds exceeding \$3.8 million. Interviews with homeowners who had not elevated their homes revealed a lack of understanding about the obligations set out in the grant agreements.

Our follow-up review found that as of August 31, 2012, the State's documentation showed that a total of 24,042 homeowners had not elevated their homes, were noncompliant, were nonresponsive, or did not provide sufficient documentation to support that they had elevated their homes. Therefore, the State did not have conclusive evidence that the \$698.5 million in CDBG Disaster Recovery (CDBG-DR) funds had been used to elevate homes.

On September 5, 2013 my office non-concurred on proposed management decisions by the Office of Community Planning and Development (CPD). CPD concurred with the State of Louisiana's request to amend the State's action plan which will now allow homeowners who received a grant under the Road Home Incentive Elevation Program to demonstrate that they used those funds to *either* elevate *or* rehabilitate their home. CPD's changing the scope of work for the expired elevation incentive agreements, entered into as early as 2006, to now allow homeowners to either elevate or rehabilitate their homes is overriding the intent of the program and unfair to the reported 4,371 homeowners who played by the rules and either elevated their homes or paid back \$6.7 million in funds. The intent of the program was not to rehabilitate homes but to provide incentive awards to homeowners to elevate their homes to mitigate future damage. HUD's actions leave those homeowners and tax payers potentially exposed to home destruction again since those homes were not elevated. A similar program is now an integral part of discussions and efforts to deal with the devastation in the aftermath of Superstorm Sandy on the populated coasts of New York and New Jersey.

CPD's actions diminish HUD's ability to properly administer grant agreements and the affected homeowners' trust and confidence that HUD maintains the highest standards of integrity, efficiency, and fairness in its grant award process.

Keeping up with communities in the recovery process can be quite demanding for the Department as the amounts of money dedicated have escalated and previous funding had no deadlines for its expenditure. Disaster funding appropriated to the Department over the past several years has exceeded \$29 billion and active disaster grants nationwide have totaled approximately \$26 billion in obligations and \$20 billion in disbursements. Although many years have passed since some of the specific disasters occurred, significant funding remains unexpended. HUD must continue to maintain its focus on oversight efforts to ensure that funds are expended as intended.

Additional CDBG funding to the Department of \$16 billion in the aftermath of Superstorm Sandy further compounds this challenge. This funding must be monitored for internal controls,

audited for waste and investigated for fraud. With experience gained from a series of disasters where significant funds were appropriated through HUD, the OIG has been a major contributor in the detection and deterrence of disaster-related fraud, waste and abuse. To this end, in March 2013 we issued a comprehensive audit assessing the disaster recovery programs for hurricanes that hit the Gulf Coast states from August 2005 through September 2008. Our objectives were to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned.

The Gulf Coast States had made progress in recovering from the presidentially declared disasters as a result of several hurricanes. As of August 2012, the States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav, Ike, and Dolly funds. Thus, States had received almost \$24 billion and disbursed almost \$18.4 billion, resulting in about \$5.6 billion remaining to be spent. However, the States had budgeted only \$22.6 billion of the \$24 billion in CDBG-DR funds. Some of the delay in budgeting funds could be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. The States primarily used the funding to assist communities in repairing and rebuilding housing, compensating homeowners, repairing infrastructure damage, and providing economic development. The States could improve on reporting their activities, as some of their activities had no or nominal progress reported because they did not generally report their progress until the projects were complete. In addition, while the States generally met the various statutory mandates, Texas and Louisiana had not yet met two mandates relating to (1) repairing, rehabilitating, and reconstructing affordable rental housing stock and (2) benefiting low- and moderate-income persons.

Although the States had made progress, based on our prior audits and a review of the program's data, there have been some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurements, and homeowners' insurance. If HUD makes needed changes, it should improve HUD's administration of Sandy funding as well as future disaster funding.

As it relates to our own work involving oversight of Sandy funding, HUD OIG will employ our own best practices garnered from years of experience in reviewing disaster recovery efforts. Starting at the earliest stages, we are working diligently with the Department and the States affected to examine their program design and to review their implementation plans for ways to efficiently promote desired disaster assistance. This involves our assistance in advice on program design and documentation requirements, in educating program administrators to recognize disaster assistance vulnerabilities, and in numerous other activities that should mitigate opportunities for fraud, waste and abuse during the disaster assistance roll-out.

After initial stage activities and as HUD funding begins to flow, we will use our evaluation and inspections capability and data mining capacity to review implementation activities. One of the primary tasks for this function will be to analyze and mine vast amounts of data to look for indicators of fraud and mismanagement. In addition to evaluations, our efforts in investigating disaster fraud are threefold: beginning with our fraud awareness and prevention efforts, auditing to ensure compliance with laws, rules and regulations in order to disrupt mismanagement or

fraud at its earliest occurrence and finally, civil and criminal investigations of allegations of disaster related frauds as funding begins in earnest.

### **FHA Single Family Mortgage Insurance**

The Mutual Mortgage Insurance (MMI) Fund is the largest of the Federal Housing Administration's (FHA) four mortgage insurance funds. The Fund consists of a system of accounts used to manage FHA's single-family mortgage insurance programs. For the past four years, the fund has failed to meet its legislatively-mandated 2 percent capital ratio and each of these four years has seen a further decline in the ratio to the point where, based on the latest actuarial study in November of last year, the fund has a negative economic value of \$16.3 billion. Based on current projections, the capital ratio will not reach the 2 percent level until 2017, marking 8 years below the 2 percent threshold. Moreover, for the first time in its history, FHA may need to use its mandatory appropriation authority to supplement its reserves. Based upon FHA's deteriorating financial condition, the Government Accountability Office (GAO) recently included FHA concerns in its "high risk" area relating to "Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance." Restoring the fund's finances has been a priority of HUD. While HUD has increased premiums and taken other steps to restore the financial health of the Fund, we have focused on civil fraud investigations with the Department of Justice in an effort to further prevent or mitigate fraud, waste and abuse and return losses to the Fund account. It is also incumbent upon the Department to make every effort to prevent or mitigate fraud, waste and abuse in FHA programs.

In the early part of 2011, the OIG, in partnership with the Department and the U.S. Department of Justice (DOJ), initiated a number of mortgage lender reviews whereby statistical samples were drawn of claims, defaults, and all other loans in order to determine the accuracy and due diligence of the underwriters of FHA loans by a number of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed containing multiple significant deficiencies that should not have been underwritten. The reviews completed to date have resulted in a total of \$1.24 billion in civil settlements for alleged violations of the False Claim Acts and for failure to fully comply with FHA requirements. The loan level reviews my office has been conducting, and which have resulted in large civil fraud settlements with major lenders, is a responsibility we would expect HUD to be doing for itself as part of its inherent program oversight and risk management.

### **Joint Civil Fraud Division**

In recent years, we have made a concerted effort to actively pursue civil remedies to recover losses from fraud against FHA's single-family mortgage insurance programs and have dedicated significant resources to this effort. OIG's new Joint Civil Fraud Division is the primary resource for OIG civil fraud investigations of HUD programs. The emphasis on civil fraud has begun to pay off for both HUD and the taxpayers both financially, through settlements and court-ordered judgments, and as a deterrent to those who would defraud HUD programs.

In late 2009, HUD OIG recognized a growing and alarming trend related to FHA single-family mortgage insurance programs. OIG auditors repeatedly identified FHA-approved lenders that were not following HUD loan underwriting requirements, and were approving loans that did not

qualify for FHA insurance. HUD relied on lender certifications that assured HUD that program rules were followed and the loans were insurable. Unfortunately, FHA became responsible for thousands of loans that never should have been insured. As the borrowers on these poorly underwritten loans defaulted, the FHA insurance fund paid millions of dollars in claims to the lenders and has suffered unprecedented losses in recent years. In addition, HUD OIG's Office of Investigations had been actively investigating FHA mortgage fraud and while it was very successful in having a number of individuals prosecuted, the cases were localized in nature. Further, while there might have been many loans at issue, typically information on only a handful of loans was fully developed to serve as the basis for a prosecution. As a result, restitution orders in those cases could not fully address the full scope of the fraud, especially by large institutions, and the losses that FHA suffered.

In early 2010 due to the increasing prominence of FHA in the mortgage marketplace and its significant percentage of loan originations, and departmental concerns emanating from the Commissioner over growing defaults, OIG conducted a review of the underwriting practices of 15 FHA-approved lenders with high default and claim rates which produced alarming results. Nearly half of the FHA loans evaluated were not qualified for FHA insurance, indicating a systemic problem with FHA lender underwriting practices and the need for more HUD oversight and enforcement efforts.

As result, in mid-2010, OIG formalized its commitment to civil fraud reviews by creating a new division, the Civil Fraud Division, bringing all forensic auditors under one umbrella and working as one team under a centralized supervisory structure. This team quickly became the focal point of HUD OIG's civil fraud work. Our work resulted in several high profile high dollar cases. The most significant case was a nearly \$1 billion settlement with Bank of America, regarding fraudulently-insured loans underwritten by Countrywide, the largest settlement reached for a False Claims Act case in HUD history. HUD OIG was also instrumental in the successful outcomes of civil cases brought by various other U.S. Attorneys' Offices that resulted in FHA-related settlements with other lenders: Deutsche Bank – MortgageIT (\$196 million), CitiMortgage (\$123 million), and Flagstar Bank (\$133 million).

In light of the apparent systemic problems with the underwriting of FHA insured loans and successful pursuit of civil enforcement against violators, I directed my staff to join forces with DOJ and HUD's Office of General Counsel on another initiative, begun in early 2012, to focus on the underwriting practices of 10 of the largest FHA-approved lenders. To date, the underwriting of thousands of FHA insured loans has been reviewed, as has the overall FHA loan origination and underwriting practices of the selected lenders. Results to date have been presented to nearly all of the lenders and settlement talks have begun; however, the reviews are still underway. Given the sheer volume of loans involved and the high error rates identified in the underwriting, settlements and favorable court actions may result in significant recoveries by the government from each of the 10 lenders.

In recent months, this same multi-agency team kicked off a second lender initiative, again focusing on FHA loan underwriting practices of a similar-sized group of large lenders. These reviews are in the early stages, with even more U.S. Attorneys' Offices joining in the effort than in the first large lender initiative. As you might expect, these large, multi-agency initiatives take considerable resources. To address these complex lender initiatives and other ongoing and

continually increasing civil workload, I directed additional resources to this effort and further enhanced the team by dedicating investigative expertise to the division in late 2012, adding a Special Agent in Charge. This move afforded the division more direct access to, and coordination with, investigators within OI, and prosecutors have expressed their approval of the new approach.

As FHA's prominence grew in terms of market share and its simultaneous increase in liabilities due to its stepping into a role to stabilize the housing market OIG had to develop new ways to address a rapidly expanded \$1 trillion FHA portfolio. A key to our success to date has been the partnership developed between DOJ's Civil Fraud Unit (CFU), HUD's Office of Program Enforcement (OPE), and HUD OIG.

The Joint Civil Fraud Division has a nationwide focus and partners with prosecutors from coast to coast. While mortgage fraud is a high-priority that encompasses a majority of the current workload, the division is expanding its focus to conduct more investigative work in HUD's other main program areas of community planning and development, public housing, and multifamily housing, with an emphasis on grant fraud and the civil remedies this may produce.

HUD OIG's Joint Civil Fraud Division also investigates "*qui tam*" (whistleblower) cases, and pursues civil actions and administrative sanctions against entities and individuals that commit fraud against HUD. The division pursues civil actions and administrative sanctions under a variety of statutes, including the False Claims Act (FCA), the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) statute and the Program Fraud Civil Remedies Act (PFCRA). It also pursues debarments, suspensions, and limited denials of participation through HUD's Departmental Enforcement Center. In addition to the more traditional use of civil and administrative tools, the Division is also pursuing referrals to State boards of licensing agencies for entities and individuals that commit civil fraud to the detriment of HUD (for example, independent public accountants, notaries, attorneys, etc.).

HUD OIG and the U.S. Attorney's Office of the Central District of California successfully used the FIRREA statute against a real estate professional that defrauded HUD, ultimately reaching a \$5 million settlement in July 2012 – the largest settlement against an individual seen by HUD since having the statute apply to FHA-insured loans. We are proud to have worked with the Congress to add FHA as a predicate to the FIRREA statute. Although FIRREA can result in considerable monetary recoveries, the recoveries generally end up going to the U.S. Treasury, rather than the defrauded agency. HUD OIG believes that a change in this practice is warranted so that the injured agency is at least made whole, to the extent possible. This change would also allow for limited funds to be placed back into the programs designed to help eligible participants, or, in the case of FHA, to help to restore the financial health of the insurance fund.

### **FHA Single Family Audit and Investigative Results**

In addition to the focus on civil fraud, the FHA single-family program continues to be a major focus of HUD OIG. During the last two semiannual periods, OIG issued 25 audits in this program area reporting \$325 million in questioned costs and nearly \$800 million in funds to be put to better use. In addition to audits of participating lenders, we completed internal audits of various aspects of HUD's administration of the program. For example, HUD continues to face



challenges in ensuring its single-family programs benefit eligible participants and is not paying improper claims. In a recent review of FHA's pre-foreclosure sale program, OIG identified that, based on our statistical projection FHA paid an estimated \$1.06 billion in claims for 11,693 pre-foreclosure (short) sales that did not meet the criteria for participation in the FHA program. Another audit looked at HUD's oversight of the Home Equity Conversion Mortgage Program and concluded that HUD's policies did not always ensure that borrowers complied with program residency requirements. Finally, we completed an audit of HUD's oversight of its REO management and marketing program and found that HUD did not have adequate procedures in place to ensure consistent and adequate enforcement of asset and field service manager contracts.

Regarding FHA's REO program, the need for reform was also recently highlighted in a June 2013 GAO report. GAO compared FHA's REO performance with Fannie Mae and Freddie Mac (enterprises) and found that FHA's performance lagged both enterprises. Its combined 2007-2012 returns were about 4-6 percent below the enterprises' returns. The enterprises took an average of around 200 days after foreclosure to dispose of REO properties. FHA took about 340 days – more than 60 percent longer. For 2011 alone, if FHA's return and disposition timeframe had equaled those of the enterprises, it could have increased its proceeds by as much as \$400 million and decreased its holding costs by up to \$600 million. Overall, FHA would have reduced its REO losses by \$1 billion. GAO made 10 recommendations intended to increase FHA's returns on the disposition of REO properties.

Moreover, on the investigative side, during the last two semiannual periods, HUD OIG investigators completed a total of 159 administrative or civil actions; 159 convictions, pleas or pretrial diversions; and had financial recoveries totaling about \$568 million. In one case, for example, nine bank officials were sentenced to varying terms of up to 10 years in federal prison in a case involving 1,900 FHA loans with a potential loss to FHA of \$30 million.

### **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. We continue to report that HUD's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996, which encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis.

The lack of an integrated financial system impedes HUD's ability to generate and report the information needed to both prepare financial statements and, more importantly, manage operations on an ongoing basis accurately and in a timely manner to conduct more robust oversight and mitigate fraud, waste and abuse.

A June 2013 GAO report entitled; "HUD Needs to Improve Key Project Management Practices for Its Modernization Efforts," evaluated the implementation of project management practices for HUD's IT modernization efforts. GAO determined that because HUD has not taken fundamental project management steps to fully define its modernization efforts, the Department is not well positioned to successfully manage or execute the associated projects. HUD's current

IT environment has not effectively supported its business operations because its systems are overlapping and duplicative, not integrated, necessitate manual workloads, and employ antiquated technologies that are costly to maintain.

### **Community Planning and Development (CPD) Programs**

HUD's CPD programs seek to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments and expanded economic opportunities for low- and moderate-income persons. Most of our work in this program area relate to HUD's largest formula grant programs, HOME and CDBG. During the last two semiannual periods, OIG issued 38 audits in the CPD program area reporting over \$800 million in questioned costs and about \$15 million in funds to be put to better use. HUD OIG investigators completed a total of 37 administrative or civil actions; 35 convictions, pleas or pretrial diversions; and had financial recoveries totaling about \$2.5 million.

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 Census data.

The HOME program addresses an important need for affordable housing in our country, a need that was increasing in the wake of the economic downturn and high unemployment. However, my office has expressed concerns about the controls, monitoring and information systems related to the HOME program.

Twice in 2011 and once in 2012, my office testified on oversight and fraud issues relating to this program. Our external audit work, which focuses on problem grantees, commonly found the lack of adequate controls. This included issues in subgrantee activities, in resale and recapture provisions to enforce HUD's affordability requirements, in incorrectly reporting program accomplishments, and in 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.

The susceptibility of this program to fraud is illustrated in a recent investigative case from East St. Louis, IL. A builder attempted to obtain more than \$1.9 million in public financing, to include \$800,000 in HOME funds, for a failed development located in an urban community. The defendant contracted with a city to construct a \$5.6 million low-income affordable housing project. Instead, he provided cash payments and promises of future employment to the director of the city's Community Development Department (CDD). The defendant admitted that he did this to ensure that he would receive favorable treatment from the city as he attempted to develop the project. The director of CDD also pled guilty in May 2011 to aiding and abetting, wire fraud, and bribery for accepting improper benefits in connection with business conducted by his office.

He unlawfully obtained \$66,449 in HOME funds from the city's Community Development Department.

I noted earlier the problems with HUD's financial systems and this particularly impacts the HOME program. HUD uses its Integrated Disbursement and Information System (IDIS), to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. It was our contention that HUD's design and implementation of IDIS was not in compliance with Federal financial management system requirements. The system arbitrarily liquidates obligations on a "first-in-first-out" basis, irrespective of the budget fiscal year funding source, and decreases the amounts that HUD would be required to return to the U.S. Treasury after the programs' fixed-year appropriations expires. Because the Department did not agree with our interpretation and we could not seek alternative actions that met the intent of our recommendation, we forwarded our concern to the GAO, which ruled on the matter in a July 17, 2013 decision. GAO agreed with our position and concluded that HUD has not complied with the requirements of Section 218(g) of the HOME Investment Partnership Act, 42 U.S.C § 12748(g), which imposes a two-year deadline by which participating jurisdictions must commit grant funds allocated to them. Section 218(g) requires that HUD recapture grant funds that remain uncommitted by participating jurisdictions after the statutory deadline and reallocate such funds through additional formula grants to participating jurisdictions. Because of deficiencies with IDIS, HUD faces challenges in implementing GAO's decision.

HUD also uses the system to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-to-date information system as described earlier, HUD would be able to better monitor the HOME program in a more transparent way.

Our work in this program continues and we have been working with the 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. If properly implemented, the rules should strengthen HUD's future enforcement authority. In a recent audit, my office summarized the results of audits of the program completed during a 6-year period and assessed whether the then proposed rule changes would mitigate the systemic deficiencies identified in prior OIG audit reports. We concluded that if the new regulations are properly implemented, they will address our prior findings except that improvements are still needed with (1) HUD headquarters' oversight of its field office monitoring activities and (2) validating the reliability of data in HUD's IDIS. While the Department has taken steps to improve HOME program management, my office continues with its oversight work in this area.

Regarding the CDBG program, much of our audit work in this program was highlighted earlier in the section relating to disaster assistance programs. Other audits typically are at the grantee level and seek to determine whether grant funds were administered for eligible activities and that the grantee met program objectives. For example, HUD OIG audited a \$6 million loan of CDBG funds to a not-for-profit community development corporation, which was expected to be used to revitalize an historic hotel and surrounding properties. The grantee did not properly evaluate, underwrite, and monitor its loan to the not-for-profit and, after nearly 10 years and \$6 million expended, the project did not meet its designated national objective of job creation.

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

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and to public housing agencies (PHAs). 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 its public housing operating subsidies, the tenant based housing choice voucher and the Section 8 multifamily project-based programs. These programs are administered by thousands of intermediaries and provide affordable housing for 4.5 million households. PIH programs continue to be a priority of HUD OIG. During the last two semiannual periods, OIG issued 33 audits in this program area reporting about \$25 million in questioned costs and nearly \$6 million in funds to be put to better use.

We have performed numerous audits of PHA's Housing Choice Voucher program that focused on whether the units met applicable physical quality standards. In response to our audit work in this area, HUD has been working to revise its standards and to develop a uniform inspection protocol to provide for improved oversight of the physical condition of the rental units that are participating in the program.

HUD has challenges in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in HUD's information systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear 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 should be able to address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which has been implemented, according to PIH. Until both systems are completely implemented, HUD will continue to face challenges monitoring this program.

Our investigative activity in this program area continues to be significant. During the last two semiannual periods, HUD OIG investigators completed a total of 121 administrative or civil actions; 314 convictions, pleas or pretrial diversions; and had financial recoveries totaling more than \$14 million. Of continuing concern is the level of public corruption exhibited by some of the local government officials entrusted to administer these programs. To highlight a recent example, the former executive director of the Chelsea Massachusetts Housing Authority pled guilty and was sentenced to 36 months in prison, followed by two years of supervised release for falsely reporting his salary in annual budgets required by HUD and the Massachusetts Department of Housing and Community Development. He was also indicted by the Commonwealth of Massachusetts for unlawfully soliciting contributions from State employees and other individuals to support multiple campaigns.

Because of long-standing concerns that my office has had with HUD's PIH programs, I am highlighting our current and future work products, recommendations and best practices in this area on our new website to focus stakeholder and HUD management's attention on problem areas that we and others have reported on over the years that will provide HUD and the Congress

a clear path to correct such enduring problems. The areas of concern we are highlighting are as follows:

- Ethics/Governance Structure
- Housing Quality Standards
- Improper Payments
- Issues Related to the Performance of Executive Directors and other Officials and Their Movement from One PHA to Another
- Moving to Work
- PIH Program Oversight and Enforcement
- Procurement and Contracting
- Questionable/Ineffective Use of Administrative Funds
- Receiverships

Our goal is to foster positive change that will improve the management of the nation's public and assisted housing and ultimately the lives of the people who benefit from these programs. This will be a long term and continuing process that will require HUD to put forth innovative solutions and the OIG stands ready to assist where appropriate. In addition, the PHAs themselves and the organizations that represent them can play a critical role in addressing many of these concerns. Working together, we can all help to solve many of these recurring problems.

### **Conclusion**

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and economic crises that, in addition to its other missions, have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. Because of the limited capability of the Department to provide direct oversight and federal budget cuts throughout the government it is more critically important than ever that program participants and beneficiaries take responsibility for their proper oversight of their programs. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.