

# TOP MANAGEMENT CHALLENGES

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**Facing the U.S. Department of Housing and Urban Development in FY 2022**

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## MEMORANDUM

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Date: November 12, 2021

Subject: Management and Performance Challenges for Fiscal Year 2022

From: Rae Oliver Davis  
Inspector General, G *Rae Oliver Davis*

To: Marcia L. Fudge  
Secretary, S

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The Reports Consolidation Act of 2000 requires the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), to issue a report summarizing what we consider to be the most serious management and performance challenges facing the Department. In turn, HUD is required to include this report in its annual agency financial report. This report represents HUD OIG's independent perspective on the top management challenges facing HUD in fiscal year 2022 and beyond.

We identified the following ten top management challenges, organized to align with HUD's strategic goals: (1) Advance Economic Opportunity; (2) Protect Taxpayer Funds, and (3) Streamline Operations:

- Eliminating Hazards in HUD-Assisted Housing
- Mitigating Counterparty Risks in Mortgage Programs
- Ensuring Access to and Availability of Affordable Housing
- Grants Management
- Fraud Risk Management
- Administering Disaster Recovery Assistance
- Sustaining Progress in Financial Management
- Managing Human Capital
- Management and Oversight of Information Technology
- Increasing Efficiency in Procurement

Further, in each section, we highlight progress made by HUD, the impact of pandemic relief funds, and related OIG work and other resources.

# Management and Performance Challenges for Fiscal Year 2022

To identify this year’s top management challenges, we considered issues affecting the U.S. Department of Housing and Urban Development (HUD) based upon our oversight work as well as research and reports published by the U.S. Government Accountability Office (GAO) and other oversight bodies. We incorporated capstone reports issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and the Pandemic Response Accountability Committee (PRAC) oversight work when identifying common challenges facing multiple Federal agencies.

We also reviewed HUD’s published reports, performance plans, congressional submissions and testimony, and responses to Office of Inspector General’s (OIG) reports. We considered observations and information from key HUD program and operational officials with whom we met to understand their perspectives on the most significant issues HUD faces and progress made by HUD in addressing previously identified challenges.

Many of the challenges we identified last year remain, but in this year’s report, we have made several key changes to the way the report is organized. We discuss the challenges associated with administration and oversight of pandemic relief funds as well as other challenges affected by pandemic-related issues. We have created distinct challenges for “Eliminating Hazards in HUD-Assisted Housing” and “Ensuring Access to and Availability of Affordable Housing,” which were combined in last year’s report. Additionally, we have incorporated several issues previously identified as the challenge, “Monitoring and Mitigating Risk,” into the new challenges of “Grants Management,” “Fraud Risk Management,” and “Mitigating Counterparty Risk in Mortgage Programs.” We have also highlighted how each challenge aligns with the three goals set forth in HUD’s 2018-2022 Strategic Plan to better connect them with HUD’s own priorities and strategic objectives.

In every section of the report, we summarize why we identified each of these areas as a top management challenge, discuss additional work that needs to be accomplished to address the challenge, highlight progress made by HUD, and share OIG work and other related resources.

The top challenges we identified, organized by HUD’s strategic goals, are

<b>GOAL I ADVANCE ECONOMIC OPPORTUNITY</b>	<b>GOAL II PROTECT TAXPAYER FUNDS</b>	<b>GOAL III STREAMLINE OPERATIONS</b>
Eliminating Hazards in HUD-Assisted Housing	Grants Management	Managing Human Capital
Mitigating Counterparty Risks in Mortgage Programs	Fraud Risk Management	Management and Oversight of Information Technology
Ensuring Access to and Availability of Affordable Housing	Sustaining Progress in Financial Management	Increasing Efficiency in Procurement
Administering Disaster Recovery Assistance		

## HUD’s 2018-2022 Strategic Goals

We highlight HUD’s Goals and selected Strategic Objectives that correspond with the top management challenges:

### I. ADVANCE ECONOMIC OPPORTUNITY

Strategic Objectives:

- Support Fair, Sustainable Home Ownership and Financial Viability
- Reduce Homelessness
- Remove Lead-Based Paint Hazards and Other Risks from Homes
- Enhance Rental Assistance
- Reduce Barriers to Affordable Housing
- Support Effectiveness and Accountability in Long Term Disaster Recovery

### II. PROTECT TAXPAYER FUNDS

Strategic Objective:

- Improve Financial Controls through Financial Transformation

### III. STREAMLINE OPERATIONS

Strategic Objectives:

- Organize and Deliver Services more Effectively
- Modernize Information Technology
- Reform Regulations

# Eliminating Hazards in HUD-Assisted Housing

Related HUD Strategic Goal I: Advance Economic Opportunity

**HUD is required to ensure that its assisted properties are decent, safe, sanitary, and in good repair**

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It is HUD's policy that all property proposed for use in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances where a hazard could affect the health and safety of occupants or conflict with the intended use of the property.<sup>1</sup> HUD continues to face several challenges in ensuring that properties used for its programs are free of such hazards. This year, we focus this top management challenge on HUD's approaches to identifying and mitigating specific hazards and HUD's progress in enhancing its process for inspecting physical conditions in HUD-assisted housing.

## **Lead in Housing**

Federal resident lead-based paint hazard reduction laws are designed to protect renters and home buyers of pre-1978 housing from lead-based paint hazards in housing. HUD regulations implement this law for HUD programs, establishing procedures for evaluating whether a hazard may be present, controlling or eliminating the hazard, and notifying occupants of what was found and what was done in such housing.<sup>2</sup> HUD is responsible for ensuring compliance with these regulations through enforcement mechanisms, increasing community awareness of lead and other health and safety hazards through outreach events, and increasing participation in HUD and stakeholder services. HUD OIG and GAO continue to identify challenges related to lead-based paint hazards in HUD-assisted housing.

A March 2020 HUD OIG audit report found that HUD did not have a strategy to assess the progress of lead-based paint remediation in public housing developments. HUD OIG also found that HUD did not monitor public housing agencies (PHAs) for compliance with the hazard reduction requirements of the Lead Safe Housing Rule. As a result, HUD lacked assurance of the effectiveness of the Lead Safe Housing Rule in eliminating lead-based paint from public housing. Lastly, HUD lacked assurance that families with children under 6 years of age were not exposed to lead-based paint hazards in PHAs' housing developments and, thus, protected from lead-based paint poisoning.<sup>3</sup> The recommendations from this audit report require the Office of Field Operations to address whether exemptions from the Lead Safe Housing Rule are being made and the processes for tracking compliance with this rule. As

of September 30, 2021, all 10 recommendations remained open. The Office of Public Housing noted that competing priorities are preventing the program office from having the new policy ready by this year.

In December 2020 GAO issued a report on lead paint in housing, finding that HUD had not conducted a comprehensive risk assessment to identify project-based rental assistance (PBRA) properties posing the greatest risk to children under the age of 6. GAO recommended that HUD periodically conduct a risk assessment for the PBRA program to identify which properties have the greatest risk of exposing children under the age of 6 to lead paint hazards. In addition, GAO recommended that HUD develop and implement plans to proactively manage lead paint risks identified. In January 2021, HUD reported that it planned to have these recommendations implemented by January 2022.<sup>4</sup>

In addition to new lead-based paint hazard challenges, GAO identified three open recommendations that it believes warrant priority attention.<sup>5</sup> In June 2018, GAO made two recommendations that called for HUD to enhance compliance monitoring and enforcement of lead paint regulations. The third recommendation called on HUD to request authority from Congress to amend the inspection standard to identify lead paint hazards in the Housing Choice Voucher Program. In response, HUD's fiscal year (FY) 2021 budget justification requested funds to test an alternative lead paint testing method in the Housing Choice Voucher Program.<sup>6</sup> However, according to GAO, HUD needs to continue taking steps to analyze potential effects of alternative lead paint testing methods and use the results to inform its decisions about requesting new authority from Congress.<sup>7</sup>

### **Radon and Other Hazards in Housing**

Radon is a naturally occurring, colorless, and odorless radioactive substance and is the second leading cause of lung cancer in the United States after smoking. Testing is the only way to determine indoor radon levels. HUD regulations require all properties proposed for program use to be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances where a hazard could affect the health and safety of the occupants. However, issues related to radon and carbon monoxide have been found in HUD-assisted housing.

In April 2021, HUD OIG reported that HUD did not have a departmentwide policy for dealing with radon contamination. Instead, HUD relied on each program office to develop radon policies that align with HUD's environmental regulations. Absent a departmentwide radon policy, each program office developed a radon policy or approach with varying degrees of testing

## **OIG Work and Other Resources**

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[HUD Program Offices' Policies and Approaches to Radon](#), HUD OIG Report No. 2020-OE-0003 (April 8, 2021)

[Contaminated Sites Pose Potential Health Risks to Residents at HUD-Funded Properties](#), HUD OIG Report No. 2019-OE-0003 (February 14, 2021)

[Lead Paint in Housing: HUD Has Not Identified High-Risk Project-Based Rental Assistance Properties](#), GAO Report 21-55 (December 2020)

[HUD's Oversight of Public Housing Agencies' Compliance with Lead Safe Housing Rule](#), HUD OIG Report No. 2020-CH-0003 (March 18, 2020)

[HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require](#), HUD OIG Report No. 2019-OE-0001 (February 4, 2020)

NBC News article titled, ["Carbon monoxide is killing public housing residents, but HUD doesn't require detectors"](#) (March 1, 2019)

and mitigation requirements, which does not align with HUD's environmental regulations or support industry standards, which state that radon testing should occur every 2 years after a mitigation system is installed. Given that environmental reviews generally occur only for specific funding or approval actions and exposure to radon shows no immediate health effects or other warning signs, HUD could not ensure that residents in HUD-assisted housing received consistent and sufficient protection from the hazardous health effects of radon exposure. HUD OIG recommended that HUD develop and issue a departmentwide policy, which notes that radon is a radioactive substance, ensures that radon testing and mitigation are consistent and sufficient for all HUD programs, and aligns with HUD's environmental regulations.<sup>8</sup> The Office of Environment and Energy indicated that it aimed to publish the departmentwide policy in the fourth quarter of FY 2021. As of October 6, 2021, the recommendation remained open.

In addition to radon, carbon monoxide poisoning has also created safety issues within HUD-assisted housing. In January 2019, two tenants died, and two others were hospitalized with injuries from carbon monoxide poisoning due to gas leaks within a South Carolina housing authority complex. Later, it was determined that none of the complex's units were in safe condition, and they were deemed "unlivable." As a result, the building was shut down, and the tenants were moved to other residences. Inspections later revealed that there were no carbon monoxide monitors in the apartments, even though they were required by State law. The complex's most recent physical inspection score was 86 out of 100, and carbon monoxide detectors were not included on the inspection survey. Congress recently required HUD take steps to ensure that specific HUD properties had carbon monoxide detectors and alarms.<sup>9</sup> HUD has made some progress in addressing the issue. For example, HUD reported that in 2019, it added the purchase and installation of carbon monoxide detectors as an eligible cost under HUD's Public Housing Capital Fund for emergency safety and security needs and provided several million dollars to PHAs for the purchase and installation of detectors.<sup>10</sup> However, HUD needs to ensure that it has consistent policies for hazardous substances to ensure the safety of residents in HUD-assisted housing.<sup>11</sup>

### **Contaminated Sites May Expose Residents to Unsafe Conditions**

Superfund sites are areas contaminated by hazardous waste that was dumped, left out in the open, or otherwise improperly managed. Superfund sites include manufacturing facilities, processing plants, landfills, and mining sites.<sup>12</sup> To address the

## **Progress Reported**

HUD has developed draft procedures for staff to enforce lead paint regulations that were under internal review and expected to be finalized before the end of FY 2021.

HUD is developing a risk-based monitoring plan and structure to mitigate and address risks with respect to lead paint compliance monitoring. As of March 2021, this process remained ongoing.

HUD has developed a risk-based inspection plan to address the backlog of inspections over the next 18 months.

Since 2017, HUD meets quarterly with EPA to identify HUD-assisted properties that may be impacted by contamination, and has a formal protocol for addressing HUD – assisted properties on or near superfund sites.

According to HUD, since March 2021, HUD's Uniform Physical Condition Standards inspections cover carbon monoxide-generating appliances and attached garages, and the existence and functionality of CO detectors.

Superfund site issue, in 2017 HUD and the Environmental Protection Agency (EPA) established a memorandum of understanding to improve interagency communication and information sharing regarding certain public and HUD-assisted housing near Superfund sites to protect residents against health and environmental risks. However, HUD OIG identified challenges related to HUD's environmental review processes for sites used for HUD-assisted housing.

HUD OIG reviewed the circumstances at the West Calumet Housing Complex (WCHC)—a public housing development located in East Chicago, IN—which opened in 1972 on the site of a former lead smelting plant. HUD and other agencies missed multiple opportunities to identify site contamination at WCHC. As a result, WCHC residents continued living in unsafe conditions for decades, and inadequate oversight resulted in the lead poisoning of children in WCHC. Between 2005 and 2015, a child living in WCHC had a nearly three times greater chance of having elevated blood lead levels than children living in other areas of East Chicago.

In an evaluation report issued in 2021, HUD OIG found that while HUD had taken steps to improve communication with EPA, it could do more with the information received to understand how contaminated sites might impact HUD-funded properties. As a result of HUD's approach to identifying contaminated sites, residents of contaminated properties may experience prolonged exposure to potential contaminants, and HUD may be unaware of situations like WCHC. HUD OIG made four recommendations to HUD. HUD has outlined strategies and actions it is taking or planning to take to resolve the recommendations. However, as of September 2021, the program offices indicated that they would take actions on the recommendations between the first and the fourth quarters of FY 2022.<sup>13</sup>

### **HUD Delayed Improvements to Physical Inspection Standards and Suspended Physical Inspections and Is Challenged in Administering Recovery Options for Troubled PHAs**

HUD created the Uniform Physical Condition Standards (UPCS) to standardize the physical inspection process for its real estate portfolios and ensure that its properties are decent, safe, sanitary, and in good repair. Based on the UPCS, HUD performs inspections that assess the physical condition of Federal Housing Administration (FHA)-insured multifamily properties and public housing properties. HUD has acknowledged limitations of the current inspections and in August 2019, launched a 2-year, voluntary National Standards

## **Impact of the Pandemic**

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In March 2020, HUD suspended physical inspections of HUD assisted public housing and multifamily properties due to the COVID-19 pandemic.<sup>16</sup>

This resulted in a backlog of inspections and led to delays and waivers of biennial inspections for both tenant-based and project-based voucher (PBV) units.

In lieu of biennial inspections, PHAs may rely on the owner's self-certification that there is no reasonable basis to have knowledge of existing life-threatening conditions.

HUD extended a waiver of regulations requiring PHAs to conduct supervisory quality control inspections of a sampling of units under contract until December 31, 2021.

In April 2021, Secretary Fudge announced that HUD would substantially increase inspections in June 2021. Accordingly, REAC developed a risk based approach to conduct inspections across the entire assisted portfolio through the second quarter of FY23.

According to HUD, REAC has completed over 4,500 inspections and is currently on target to complete its inspections according to its plan.

for the Physical Inspection of Real Estate (NSPIRE) demonstration to re-examine its 20-year-old physical inspection process.<sup>14</sup> Successful implementation of the demonstration has been threatened by delays, and current inspections of HUD-assisted properties were suspended due to COVID-19.

The NSPIRE demonstration model was designed to more accurately reflect the residents' living conditions and simplify the inspection process. To successfully complete the NSPIRE demonstration and assess the quality of new inspection standards or make needed revisions, HUD must complete 4,500 physical inspections. However, HUD has identified some challenges, including the procurement of a viable and secure information technology (IT) system. HUD OIG initiated an evaluation of HUD's process for managing IT acquisitions and its IT contracts concerning NSPIRE.

While the demonstration was set to end in October 2021, HUD extended the demonstration through April 30, 2023.<sup>15</sup> HUD announced that it would "substantially increase" housing inspections beginning on June 21, 2021. As of September 30, 2021, HUD continued to experience challenges in conducting physical inspections, including under the demonstration model. Even with the extension, there is concern about having the capacity to complete all 4,500 physical inspections in time. Without the results of the inspections, HUD cannot assess the quality of the new inspection standards or make needed revisions.

In a 2020 report, HUD OIG also found deficiencies in the Office of Public and Indian Housing's (PIH) processes for internally referring troubled PHAs for receivership when a troubled PHA does not make substantial improvements. By law, HUD staff must refer a troubled PHA to the Assistant Secretary for Public and Indian Housing to petition for judicial receivership or appointment of an administrative receiver, depending on the size of the troubled PHA, when a troubled PHA fails to meet statutory requirements for substantial improvement within 2-year recovery period. The HUD OIG report found that PIH had not referred troubled PHAs to the Assistant Secretary as required by law. HUD maintains the position that if HUD determines that a PHA is in substantial default for reasons independent of its continued troubled status, HUD is not limited to referring the troubled PHA to the Assistant Secretary. Receivership is a resource-intensive recovery process and one HUD views as a last resort. However, without this referral mechanism, a PHA could remain troubled for an indefinite period while conditions stagnate or deteriorate.

# Mitigating Counterparty Risks in Mortgage Programs

Related HUD Strategic Goal I: Advance Economic Opportunity

## HUD must continue to take steps to address counterparty risks faced by FHA and Ginnie Mae to protect taxpayer funds

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HUD's mission includes supporting sustainable homeownership and encouraging investment in affordable rental housing. It does so through a two-pronged approach: by insuring mortgage loans lenders provide to traditionally underserved home buyers and to owners of various affordable rental housing and by guaranteeing payments to investors who purchase securities collateralized by government-insured loans, providing liquidity in this market. FHA administers HUD insurance programs while the Government National Mortgage Association (Ginnie Mae) administers the guarantee of government-insured mortgage-backed securities (MBS).

This year, we address the challenges facing each entity as well as progress reported as it relates to counterparty risk in both FHA and Ginnie Mae and with respect to the reverse mortgage or Home-Equity Conversion Mortgage (HECM) program.

### FHA Counterparty Risk

More than 1 million home buyers each year benefit from FHA's single-family mortgage insurance programs,<sup>17</sup> and as of July 2021, there were 11,235 insured multifamily properties.<sup>18</sup> FHA is one of the largest mortgage insurers in the world, with an active insurance portfolio of nearly \$1.2 trillion as of July 2021.<sup>19</sup> FHA's challenges include ensuring that (1) its lenders only approve borrowers who meet statutory, regulatory, and program eligibility requirements; (2) its lenders address defaults appropriately and in a timely manner; and (3) HUD strengthens its policies and controls to curtail the lengthy process of foreclosure and conveyance.

### Lender Approval of Ineligible Loans

HUD-approved lenders who originate FHA-insured loans perform the necessary eligibility screenings and make decisions on HUD's behalf.<sup>20</sup> HUD OIG reviews determined that FHA insured more than 56,000 single-family loans, worth \$13 billion, in FY 2018 to ineligible borrowers because those borrowers had delinquent Federal tax debt,<sup>21</sup> and FHA insured an estimated 9,507 loans, worth \$1.9 billion, during calendar year 2016 to ineligible borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support.<sup>22</sup> The

violations occurred even though FHA provided lenders with the Credit Alert Verification Reporting System (CAIVRS)<sup>23</sup> to screen borrowers for delinquent Federal debt.

To address these issues, in July 2018 FHA implemented standard operation procedures for the CAIVRS computer-matching agreement to ensure the timely renewal of data-sharing agreements to address missing delinquent debt information from the Do Not Pay databases impacting approval decisions. FHA also is coordinating with the Internal Revenue Service (IRS) to establish a method of borrower consent that verifies the existence of delinquent Federal taxes and is modernizing its technology to permit annual screening of FHA's approximately 2 million borrowers for such delinquent debt. As of September 2021, FHA was waiting for the IRS to provide its operational plan. Further, the pilot project in which FHA intended to participate to expand the screening of all delinquent Federal debt had not been implemented as it was waiting for HUD's Office of the Chief Information Officer (OCIO) to establish an interface to its existing systems.

Additionally, OIG issued a report in 2021 finding that FHA insured at least 3,870 loans that closed in 2019, totaling \$940 million, which were not eligible for insurance because they were made for properties in special flood hazard areas without the required National Flood Insurance Program coverage.<sup>24</sup> OIG also found loans with private flood insurance that did not meet HUD requirements.

HUD's own research in 2020 suggested that noncompliance among properties with FHA-insured mortgages may be a substantive issue.<sup>25</sup> HUD found that 65 percent of FHA-insured properties in Florida and 49 percent of FHA-insured properties in North Carolina that were inside a special flood hazard area had a flood insurance policy in 2019. The same study found that HUD did not electronically document borrowers' compliance with HUD flood insurance requirements.

In response to these issues, HUD is developing analytical tools to better understand the risk of flood hazards to FHA homeowners and the collateral securing their home loan and mortgage insurance. FHA is updating its systems to track flood insurance and prevent loan endorsement without required flood insurance. FHA anticipates completing this update by March 31, 2022. Lastly, on November 10, 2020, HUD released a proposed amendment to FHA regulations that would allow lenders to accept private flood insurance policies on FHA-insured properties located in special flood hazard areas. As of September 2021, there was no update on the proposed rule.

## OIG Work and Other Resources

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[FHA Insured \\$940 Million in Loans for Properties in Flood Zones Without the Required Flood Insurance](#), HUD OIG Report No. 2021-KC-0002 (January 5, 2021)

[The HUD Single Family Insurance Operations Division Should Take Additional Action to Inform Homeowners of Changes to Its FHA Refund Process Resulting From the COVID-19 Pandemic](#), HUD OIG Memorandum No. 2021-LA-0802 (December 2, 2020)

[Opportunities Exist To Improve HUD's Communication to Renters About Eviction Protections](#), HUD OIG Memorandum No. 2021-NY-0801 (October 13, 2020)

[HUD Office of Policy Development and Research, Flood Insurance Coverage of Federal Housing Administration Single-Family Homes](#) (March 30, 2020).

[FHA Insured at Least \\$13 Billion in Loans to Ineligible Borrowers With Delinquent Federal Tax Debt](#), HUD OIG Report No. 2019-KC-0003 (September 30, 2019)

[Reverse Mortgages: FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing](#), GAO-19-702 (September 25, 2019)

## Lengthy Foreclosure and Conveyance Processes

Another challenge HUD faces is a lengthy foreclosure and conveyance process, which negatively impacts the Mutual Mortgage Insurance (MMI) Fund. When an FHA-insured loan defaults and the lender submits a claim, HUD is obligated to reimburse the lender for its losses, including the unpaid principal balance, accrued interest, and holding costs of the lender during the foreclosure and conveyance process. HUD regulations require the lender to obtain a good and marketable title and then convey the property to HUD, generally within 30 days of the latter of (1) filing for record of the foreclosure deed, (2) recording date in lieu of foreclosure, (3) acquiring possession of the property, (4) expiration of the redemption period, or (5) such further time as the HUD Secretary may approve in writing.<sup>26</sup> In a 2016 OIG report, based on a statistical sample, OIG found that FHA paid an estimated \$141.9 million on unreasonable and unnecessary interest and an estimated \$2.09 billion for holding costs incurred after the deadline to convey. OIG recommended that HUD amend its regulations to avoid unnecessary costs to its insurance fund by creating a maximum period for filing insurance claims and disallowing expenses incurred beyond established timeframes.<sup>27</sup> As of September 30, 2021, this recommendation remained open, while the Office of Single Family Housing waited on the Office of General Counsel (OGC) to complete the related rulemaking.

GAO found that from July 2010 to December 2017, the process for conveying foreclosed-on properties to FHA took a median of 70 days, with servicers exceeding the required conveyance timeframe 55 percent of the time.<sup>28</sup> Separately, OIG found that HUD paid an estimated \$413 million in unnecessary interest and other costs for preforeclosure claims after lenders failed to complete servicing actions for defaulted loans within established timeframes.<sup>29</sup> OIG made one recommendation to require curtailment of preforeclosure interest and other costs caused by lender servicing delays. As of October 6, 2021, this recommendation remained open, with a final action target action date of October 15, 2021.

In December 2020, HUD implemented the single-family claims module of FHA Catalyst, which streamlines the claims process by eliminating paper forms and decentralizing email submissions used by servicers of FHA-insured mortgages for all single-family mortgage claim types.<sup>30</sup> Further, beginning December 1, 2021, lenders must report in the Single-Family Default Monitoring System module through FHA Catalyst.<sup>31</sup> HUD plans to amend 24 CFR (Code of Federal Regulations) part 203 to require the curtailment of preforeclosure interest and other costs caused by lender servicing delays. HUD continues to use the claims without conveyance option issued in July 2020.

## OIG Work and Other Resources

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[Federal Housing Administration: Improved Procedures and Assessment Could Increase Efficiency of Foreclosed Property Conveyances](#), GAO-19-517 (June 2019)

[Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed](#), GAO-19-191 (April 3, 2019)

[HUD Paid an Estimated \\$413 million for Unnecessary Preforeclosure Claim Interest and Other Costs Due to Lender Servicing Delays](#), HUD OIG Report No. 2018-LA-0007 (September 27, 2018)

[FHA Insured \\$1.9 Billion in Loans to Borrowers Barred by Federal Requirements](#), HUD OIG Report No. 2018-KC-0001 (March 26, 2018)

## HECM Portfolio Risk

Although the HECM portfolio improved in FY 2020, its longstanding negative impact on the MMI Fund continues to be a challenge for HUD. In HUD's 2020 Annual Report to Congress, FHA reported on the financial status of the MMI Fund, listing the net worth of its HECM portfolio at negative \$0.5 billion.<sup>32</sup> While the HECM portfolio showed improvement, it remained negative, which means that the program's paying capacity was insufficient to cover projected losses. The HECM portfolio continued to be subsidized by the positive performance of the forward (single-family programs) portfolio. HECM claims paid by the MMI Fund were \$8.7 billion for FY 2020, which was down from the more than \$12 billion reported in FY 2019. In its 2020 Annual Report, FHA attributed these losses to changes in home prices, interest rates, appraisal bias, and other factors impacting property values and mortgage balances.

FHA recommended that a separate HECM capital ratio be established and that action be taken to reduce the potential for negative impact that sustained losses in the HECM program could have on FHA's forward mortgage mission-driven lending.<sup>33</sup> Additionally, FHA highlighted the increased risk presented by growing HECM loan limits, which were \$726,525, an amount that HUD noted "significantly exceeds the forward loans limits." HUD questioned whether this limit was serving the mission of FHA, given the volatility and historical losses generated by the HECM program.

In 2019, GAO identified internal control weaknesses in FHA's monitoring, performance assessment, and reporting for the HECM program and noted that without better oversight and information sharing, FHA lacks assurance that servicers are following requirements, including those meant to help protect borrowers.<sup>34</sup>

FHA issued a HECM Servicing Review Guide in February 2020, completed the reviews of the three largest HECM servicers in FY 2020, and developed a targeting methodology in September 2020 that includes a risk-rating system for prioritizing and determining the frequency of future reviews. In FY 2021, according to agency officials, FHA began using a HECM dashboard that provides monthly data on insurance claims, tax and insurance defaults, repayment plans, and corporate advances for property taxes and insurance. Also, in January 2021, FHA completed a memorandum of understanding with the Consumer Financial Protection Bureau to share information with respect to HECM servicers.

## Impact of the Pandemic

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The primary risk facing HUD is the impending end of forbearance for FHA borrowers

Ginnie Mae issuers face additional risks due to prolonged mortgage forbearance, although the number of loans in forbearance has been declining.

## Ginnie Mae Counterparty Risk

Ginnie Mae is a Federal Government Corporation<sup>35</sup> wholly owned by HUD. It approves lenders (known to Ginnie Mae as issuers) to issue MBS backed by federally insured loans and guarantees that the investor will not lose principal or acquired interest in the event of default by the issuer to make payments on the MBS.

### Issuers Shift From Banks to Nonbanks

In recent years, Ginnie Mae's program has grown significantly and experienced a substantial compositional shift from traditional depositories (banks) to nonbanks. As of April 2021, nonbanks represented 77.7 percent of Ginnie Mae's issuer base.<sup>36</sup> Additionally, Ginnie Mae securities are highly concentrated in its top six Issuers, five of which are nonbanks. As of April 2021, Ginnie Mae reported that more than half of the Ginnie Mae mortgage servicing rights (MSR) were owned by its top six issuers. MSR means the right and obligation to collect and remit funds from securitized mortgage loans. The top 30 issuers collectively own 82.4 percent of the outstanding unpaid principal balance guaranteed by Ginnie Mae.<sup>37</sup>

In 2019, GAO reported that monitoring costs and risks had increased as more nonbanks became Ginnie Mae issuers.<sup>38</sup> Nonbanks pose an increased risk because many of these institutions involve more complex third-party transactions, rely more on credit lines, and conduct more frequent trading of MSR. In the past, Ginnie Mae relied on extensive regulation and oversight of other government entities, such as the Federal Deposit Insurance Company, Office of the Comptroller of the Currency, and the Federal Reserve Bank, to ensure the financial stability of its bank issuers. Nonbank issuers are not subject to the same regulation or oversight as bank issuers. Accordingly, Ginnie Mae must independently assess the viability of nonbank issuer, including the support of third-party creditors, the financing of which is leveraged using the value of the issuer's MSR. As the Taylor, Bean and Whitaker default in 2009 demonstrated, a nonbank issuer default can have years-long impact on Ginnie Mae finances and operations.

The 2019 GAO report also recommended that Ginnie Mae's Chief Risk Officer periodically conduct actuarial or similar analysis that includes a stress test to evaluate the extent to which the current level of the guaranty fee for single-family MBS provides Ginnie Mae with sufficient reserves to cover potential losses under different economic scenarios.<sup>39</sup> Ginnie Mae agreed to this recommendation and had taken steps to address this recommendation as of April 2021. For example, according to its 2021 budget justification, Ginnie

## Progress Reported

Ginnie Mae has developed a stress test framework and solicited public comment. Ginnie Mae will continue to perform the guaranty fee adequacy analysis annually until 2023, and thereafter will perform the analysis semiannually.

Ginnie Mae made modifications to its MBS guide intended to illuminate areas it saw as potentially leading to excessive risks.

In 2020, Ginnie Mae released a request for information regarding its stress testing framework. In 2021, it requested feedback from the public on potential changes to its single-family issuer eligibility requirements, including calculation of the capital requirement for nonbank issuers.

Mae continues to believe it would be advantageous to have the authority to administratively adjust its guarantee fee and requested that the permissible guarantee fee be established within a range.

Ginnie Mae has been working to evolve its counterparty risk framework over the past several years. In early 2019, Ginnie Mae met with 13 of its top nonbank issuers, representing 75 percent of its nonbank securities outstanding, to gain an understanding of each issuer’s current operational state, key priorities, corporate ownership, and financial structure and how each business would fare in a stressed scenario. While Ginnie Mae noted that there did not seem to be systemic liquidity challenges for nonbanks under the current economic state, it noted a lack of consistency in how nonbanks addressed liquidity issues from firm to firm, which is a natural consequence given that no two nonbank business models are alike.

In 2020, Ginnie Mae released a request for information regarding its stress testing framework. In 2021, it requested feedback from the public on potential changes to its single-family issuer eligibility requirements, including calculation of the capital requirement for nonbank issuers. The proposal would require issuers to carry greater capital against their MSR. The market reaction to this proposal has been mixed, with some commenters lauding Ginnie Mae for tightening requirements, while other commenters suggested that Ginnie Mae’s proposal unfairly devalued MSR and would drive issuers out of the program.

With regard to stress testing recommended by GAO, as of April 2021, Ginnie Mae had included in its 2021 budget justification a request that the permissible guarantee fee be established within a range. This fee is currently set at six basis points by law. According to officials, Ginnie Mae will perform the guaranty fee adequacy analysis annually until 2023. Beginning in 2023, Ginnie Mae will begin to perform the analysis semiannually. GAO stated that it will continue to monitor Ginnie Mae’s progress in fully implementing its recommendation by determining how it will periodically conduct this analysis.

### COVID-19 Pandemic Impact on FHA and Ginnie Mae Counterparty Risk

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided financial relief to homeowners with HUD-insured mortgage loans experiencing COVID-19-related hardships by permitting forbearance of their mortgage payments for up to 360 days. FHA has also extended forbearance under its program authority. The chart below shows the forbearance periods implemented and their potential latest end dates.<sup>40</sup>

Initial forbearance date	Initial forbearance period	Additional forbearance period	Forbearance extensions	Maximum forbearance period	Latest forbearance end date
March 1, 2020 - June 30, 2020	Up to 6 months	Up to 6 months	Up to 6 months (in 3-month increments)	Up to 18 months	December 31, 2021
July 1, 2020 - Sept. 30, 2020	Up to 6 months	Up to 6 months	Up to 3 months	Up to 15 months	December 31, 2021
Oct. 1, 2020 - June 30, 2021	Up to 6 months	Up to 6 months	0	Up to 12 months	June 30, 2022
July 1, 2021 - Sept. 30, 2021	Up to 6 months	0	0	Up to 6 months	March 31, 2022

While OIG has noted instances in which HUD could improve its response to the pandemic and related CARES Act provisions,<sup>41</sup> HUD has taken a number of steps to address the impact of the pandemic on borrowers and on HUD business partners.<sup>42</sup> As of June 30, 2021, 750,628 homeowners with FHA-insured mortgages were 90 or more days delinquent on their mortgage payments. HUD has taken steps to provide options for delinquent borrowers. Through Mortgagee Letter 2021-18, HUD streamlined the existing COVID-19 loss mitigation options and established the COVID-19 recovery modification, which targets a 25 percent principal and interest reduction as the initial option for all borrowers in forbearance who are unable to return to making their existing mortgage payments. For borrowers who can return to making their existing mortgage payments, FHA's COVID-19 recovery stand-alone partial claim will enable them to quickly resolve the delinquency and arrearages through a zero-interest subordinate lien. HUD is also considering a 40-year loan modification option.

Forbearance places a greater financial strain on issuers of Ginnie Mae MBS because they must continue to make investor payments and advance borrower taxes and insurance while foregoing servicing fees, even when the borrower is not making mortgage payments. At the end of April 2021, a total of 401,336 Ginnie Mae loans were in forbearance, which is less than 4 percent of the total share of loans in Ginnie Mae pools.<sup>43</sup>

In response to the COVID-19 pandemic, Ginnie Mae offered a Pass-Through Assistance Program (PTAP), which provides pass-through assistance to issuers who are facing a temporary liquidity shortage due to a major disaster occurrence, foregoing the immediate consequence of termination and extinguishment. PTAP is an option of last resort, and few issuers have participated in PTAP. To provide additional protection to Ginnie Mae investors from significant early prepayments, Ginnie Mae stated that loans placed in forbearance on or after March 1, 2020, and bought out of pools on or after July 1, 2020, could not be repooled until the borrower had made timely payments for 6 months.<sup>44</sup>

In June 2021, Ginnie Mae announced the creation of a new, custom pool type to support the securitization of modified loans with terms up to 40 years.<sup>45</sup> This new pool type would support Federal insurers' provision of a 40-year loan modification, which would decrease any immediate claims to the insurance funds while decreasing borrower payments. As of September 2021, HUD had not announced a 40-year modification option.

# Ensuring Access to and Availability of Affordable Housing

Related HUD Strategic Goal I: Advance Economic Opportunity

**HUD must continue making program improvements to create strong, sustainable, and affordable housing for all**

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One tenet of HUD's mission is to create affordable housing for all. Very low-income renters continually face challenges in finding affordable housing due to "severe rent burden" (paying more than 50 percent of one's income for rent) and increased competition for affordable rental housing.<sup>46</sup> To achieve this mission, HUD provides affordable housing to more than 4.4 million low-income families through public housing, rental assistance, and voucher programs. HUD is challenged operationally to ensure that access to and the supply of affordable housing are adequate to meet the needs of low-income families as well as meeting the longstanding needs of the homeless and at risk of homeless populations while overseeing the program. Further, with the hardships created by the COVID-19 pandemic, HUD is challenged with using emergency funding to help with the looming evictions now that the eviction moratorium has expired.

This year, we focus this top management challenge on issues HUD faces in increasing the number of households that utilize its housing programs, which is complicated by the decreasing supply of affordable housing across the Nation.

## **HUD Remains Challenged To Ensure That the Maximum Number of Eligible Families Benefits From Its Housing Choice Voucher Program**

The Housing Choice Voucher Program is funded by HUD and allows eligible families to lease safe, decent, and affordable privately owned rental housing. The program is implemented through a combination of annual contributions contracts between HUD and each PHA, which authorize a certain number of vouchers to be issued under that contract, and annual appropriations by Congress to fund these contractual agreements. A PHA determines a family's eligibility and issues a voucher to assist with paying the HUD-funded subsidy directly to the landlord on behalf of the family. The family pays the difference between the actual rent and the amount subsidized by the program. HUD has a responsibility to Congress to ensure that the funds authorized for eligible housing assistance are used to assist the maximum number of families. It is estimated that as of November 2020, more than 62 percent of PHAs had leasing potential (that is, unused voucher authority) and that leasing potential could increase in 2021. HUD estimated

leasing potential to be around 80,000 vouchers in November 2020 and approximately 98,000 to the mid-upper 100,000s in 2021. The amount of leasing potential means that there is funding available to serve additional families.<sup>47</sup>

The voucher program is only as successful as the participation of private market landlords and maximum utilization of the voucher funding. Landlord participation determines the number of available units and their geographic distribution, which in turn affects tenant mobility, healthy housing, fair housing choice, and other HUD goals and strategies.<sup>48</sup> There are a number of reasons for underutilization, some of which are outside HUD's control. Landlords are not always willing to participate in this program for a number of reasons, one of which is a hesitancy to rent to voucher participants due to a bias they have with the quality of the participants as well as the perceived and actual administrative burdens of participating in HUD programs.<sup>49</sup> Below we discuss steps that HUD has taken to address these factors as well as recommended next steps.

**Landlord participation:** HUD has a Landlord Task Force, which looks into strategies to attract new landlords at non-Moving to Work PHAs. The Task Force gathers data and holds forums for landlords and PHAs to identify causes and make recommendations for declining landlord participation. As of June 2021, HUD had issued several chapters in its Housing Choice Voucher Landlord Strategy Guidebook for PHAs as part of the Task Force. The purpose of the Guidebook is to share strategies that PHAs can implement to improve landlord participation in the program.<sup>50</sup>

**Increase leasing potential:** HUD recognizes that there is a need to help PHAs increase their leasing potential. HUD routinely provided suggestions to individual agencies on how to increase their leasing, to include reaching out to landlords, increasing the maximum amount of HUD subsidy allowed to support a voucher, purging the waiting list, and monitoring success rates. However, depending on the difficulties that impacted each individual PHA and whether the difficulties were within the agency's control, HUD's suggestions may not have assisted the PHA in increasing its leasing. Frequently, these agencies must navigate a combination of insufficient landlord interest or participation, lack of availability of affordable housing, and housing costs increasing faster than a PHA's budget.

HUD will need to develop a plan, based on identified challenges, to assist PHAs in optimizing leasing potential to maximize the addition of assisted families and prevent additional vouchers from being unfunded. In addition, HUD will need to establish and implement a plan for the unused and unfunded vouchers to mitigate or prevent additional vouchers from becoming unused and unfunded. HUD created internal guidance that restated HUD's reallocation regulation at 24 CFR 982.102(i),<sup>51</sup> which stated that the desired

## OIG Work and Other Resources

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[HUD's Oversight of Voucher Utilization and Reallocation in the Housing Choice Voucher Program, 2021-CH-0001 \(September 15, 2021\)](#)

[Building Back a Better, More Equitable Housing Infrastructure for America: Oversight of the Department of Housing and Urban Development \(July 2021\)](#)

[Use of Landlord Incentives in the Housing Choice Voucher Program, HUD OIG Memorandum, 2021-LA-0803 \(January 25, 2021\)](#)

[Opportunities Exist To Improve HUD's Communication to Renters About Eviction Protections, HUD OIG Memorandum, 2021-NY-0801 \(October 13, 2020\)](#)

[Office of Policy Development and Research Worst Case Housing Needs: 2019 Report to Congress \(June 2020\)](#)

[As More Households Rent, the Poorest Face Affordability and Housing Quality Challenges, GAO Report GAO-20-427 \(May 27, 2020\)](#)

outcome was for a PHA to achieve a program utilization rate at or above 95 percent and addressed a PHA's failure to achieve optimum utilization. However, according to HUD management officials, neither the reallocation regulation nor the internal guidance had been implemented because of its focus on increasing utilization rather than penalizing PHAs for low utilization.

### **Decreasing Supply of Affordable Housing**

There is also a shortage of affordable housing units impacting HUD's ability to meet affordable housing demands. In May 2020, GAO reported that the overall number of renter households increased by almost 7 million between 2010 and 2017.<sup>52</sup> While the report found that renter households with "worst case housing needs"<sup>53</sup> decreased in 2017, these renter households with very low incomes continued to face challenges in finding affordable rental housing units.<sup>54</sup> A January 2020 report by the Joint Center for Housing Studies of Harvard University noted a decline in units with rents in the \$600-\$999 range.<sup>55</sup>

During the July 2021 hearing, entitled "Building Back a Better, More Equitable Housing Infrastructure for America: Oversight of the Department of Housing and Urban Development," HUD Secretary Marcia Fudge acknowledged the longstanding concern regarding the availability of affordable housing as well as the quality of the aging stock of affordable housing. In her testimony, Secretary Fudge indicated that HUD is exploring using manufactured housing as another means to increase its supply of affordable housing.

On September 1, 2021, the White House released a fact sheet announcing immediate steps to increase the affordable housing supply with long-term investments in new housing as part of the Administration's agenda.<sup>56</sup> The fact sheet outlines a plan to create, preserve, and sell to homeowners and nonprofits nearly 100,000 additional affordable homes for homeowners and renters over the next 3 years, with an emphasis on the lower and middle segments of the market. The plan calls for boosting the supply of quality and affordable rental units; boosting the supply of manufactured housing and 2- to 4-unit properties; making more single-family homes available to individuals, families, and nonprofit organizations, rather than large investors; and working with State and local governments to boost housing supply. The agenda is intended to enable the construction and rehabilitation of more than a million affordable housing units, reducing the rent burden on American families. From the expansion of the low-income housing tax credit to major investments in the HOME Investment Partnerships program, the Housing Trust Fund, and the Capital Magnet fund, HUD will have a critical role to play to accomplish these initiatives. This will require HUD to partner with other Federal agencies, update

## **Progress Reported**

HUD has taken several steps to address challenges with providing affordable housing:

- established a Landlord Task Force to look into strategies to attract new landlords and gather data and to hold forums for landlords and PHAs to identify causes and make recommendations for declining landlord participation
- provided suggestions to individual agencies on how to increase leasing, including reaching out to landlords, increasing the maximum amount of HUD subsidy allowed to support a voucher, purging the waiting list, and monitoring success rates
- created internal guidance that stated that the desired outcome was for a PHA to achieve a program utilization rate at or above 95 percent and addressed a public housing agency's failure to achieve optimum utilization

policies to align with the goals of the Building Back Better Agenda, and provide outreach to its partners that assist with this effort.

### **Challenges With Assisting the Homeless or At-Risk Population With Housing**

To assist the homeless, it is critical to have an accurate count of the homeless population. In a 2020 report, GAO examined efforts to measure homelessness in the United States and factors related to recent changes in homelessness.<sup>57</sup> HUD uses three primary resources to estimate the size of the U.S. homeless population: the point in time (PIT) count, the housing inventory count, and the Homeless Management Information System database. HUD's collection efforts are built into its Continuum of Care (CoC) program, a grant program designed to help communities assist individuals and homeless families. A CoC is a regional or local planning body that coordinates homeless response funding and provides homelessness services. Through the PIT count, CoCs have noted limitations in collecting data measuring homelessness, particularly for persons living in unsheltered locations. People experiencing unsheltered homelessness tend to hide in areas not visible to enumerators<sup>58</sup> and may be excluded from the unsheltered PIT count. GAO believes HUD is underestimating the number of homeless, and CoC representatives attribute the lack of affordable housing as a major factor to the increase in homelessness. After steady reductions from 2010 to 2016, homelessness has increased in the last 4 consecutive years. The increase in homelessness was due to the rise in unsheltered individuals (a 7 percent increase from 2019), and this increase impacted the large increase in individuals experiencing chronic homelessness (a 15 percent increase since 2019). The increase in unsheltered homelessness is driven largely by increases in California and coincide with increases in overall homelessness. Slightly more than half of all people experiencing homelessness (52 percent) were in one of the Nation's 50 largest cities. One out of every four people experiencing homelessness in the United States did so in either New York City or Los Angeles. These statistics are also part of HUD's 2020 Annual Homeless Assessment Report to Congress, Part 1.<sup>59</sup>

### **Pandemic-Related Challenges**

HUD recently allocated \$5 billion from the American Rescue Plan (ARP) through the Emergency Housing Voucher program to fund 70,000 vouchers for individuals and families experiencing homelessness or at risk of homelessness.<sup>60</sup> HUD also allocated \$5 billion through the HOME Investment Partnerships program to increase affordable housing to address homelessness, which was

## **Impact of Pandemic Related Funds**

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ARP provided \$5 billion for the Emergency Housing Voucher (EHV) program to fund 70,000 vouchers for individuals and families who are experiencing homelessness or at risk of homelessness and \$5 billion for the HOME Investment Partnerships Program to increase affordable housing to address homelessness, and the CARES Act provided \$4 billion in funding for homelessness

The CARES Act Emergency Solutions Grant funds were nearly 14 times higher than the annual allocations. This funding is in addition to the more than \$3.5 billion allocated to address homelessness in the proposed FY 22 budget, significantly straining HUD systems and staff, as well as the state and local entities tasked with implementing these programs

more than 3.5 times higher than the annual HOME program allocations. In addition, much of the \$4 billion in CARES Act funding for homelessness remains to be used and drawn through 2022.

### **Ensuring Eviction Protections for Renters During the Pandemic and After Moratoriums Expire**

The CARES Act provided financial relief to renters experiencing pandemic-related hardships by placing a 120-day moratorium on eviction filings. The eviction moratorium protected millions of households residing in properties that participate in certain housing programs or have federally backed mortgage loans against tenant displacement due to nonpayment of rent. HUD issued several moratorium extensions, with the most recent extension to September 30, 2021.<sup>61</sup>

Meanwhile, between the ARP and the Consolidated Appropriations Act 2021, Congress appropriated more than \$46 billion to the U.S. Department of Treasury (Treasury) in emergency rental assistance to assist vulnerable renters and landlords. However, according to an August Treasury report, State and local programs have only spent about \$5.1 billion to support the housing stability of vulnerable renters out of the \$25 billion allocated under the first round of emergency rental assistance.<sup>62</sup> There are concerns raised by Congress on the management of these emergency funds due the limited amount of funds that have reached tenants and landlords. HUD's challenge in this area will be ensuring that State and local agencies get the financial assistance to tenants and landlords to avoid as many evictions as possible and providing assistance to these grantees to meet this goal.

For HUD-assisted housing, HUD is also challenged with tracking evictions and preventing improper evictions, or improper fees or penalties related to the nonpayment of rent. To meet this challenge, HUD must maintain up-to-date and readily accessible information for all impacted renters, including information on new renter protections and rights, maintaining housing stability through the pandemic, and avoiding homelessness. HUD OIG will continue to communicate with HUD regarding the eviction protections and plans to perform additional work related to the various protections and assistance available to impacted renters.

On October 7, 2021, HUD published an interim rule, which provides that when there is a national emergency, such as the COVID-19 pandemic, and Federal money is allocated to help tenants facing eviction for nonpayment of rent, the HUD Secretary can (1) expand the notice a covered landlord must give before such a tenant must vacate a unit from 14 days to 30 days; (2) require landlords to provide information to the tenant regarding Federal emergency rental relief, along with the eviction notice; and (3) require landlords to provide notice to all tenants in public housing of the availability of emergency rental assistance. Additionally, HUD is publishing notices that invoke this new rule's authority and require provision of information regarding the Emergency Rental Assistance Program. HUD has also taken a number of other steps to help prevent evictions and take steps to further inform communities of their rights and responsibilities.<sup>63</sup>

# Grants Management

Related HUD Strategic Goal II: Protect Taxpayer Funds

**HUD is responsible for administering tens of billions of dollars in grants effectively and in a timely manner to meet critical housing needs**

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Grant making is an essential component of HUD's business. HUD funds a diverse range of grant programs in support of its mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. In FY 2021 alone, HUD obligated more than \$14.4 billion in grants,<sup>64</sup> or approximately 24 percent of HUD's overall funding. In many cases, these funds are paid to thousands of grantees, who in turn, distribute the funds to thousands more subgrantees, subcontractors, and subrecipients. This system permits flexibility to support local needs but makes effective grant management a challenge when data and relevant personnel are widely distributed across multiple entities, formats, and data systems. These challenges arise throughout the grant process and include HUD's oversight of awards as well as recipients' internal controls and reporting, both at the grantee and subgrantee levels.

Further, grant funds may only be used for the specific purposes outlined in each grant award, and HUD must conduct adequate monitoring and oversight to ensure that grantee expenditures are eligible, supported, and administered in an appropriate and timely manner. Given the breadth and scope of HUD's grant programs – which now include supplemental CARES Act and ARP funding, which permits a number of waivers from standard program requirements – grantees and subrecipients face challenges in ensuring that they are expending, documenting, and reporting in compliance with the rules of each grant program.

Like other grant-making agencies, HUD faces challenges in developing and implementing adequate policies, procedures, and other controls to consistently and effectively monitor grantees' compliance with key program requirements. Recently, CIGIE issued two reports related to grants management and oversight. First, in a report, entitled "Top Management and Performance Challenges Facing Multiple Federal Agencies," CIGIE identified grants management as a common challenge for Federal grant-making agencies, identifying the following issues, which are relevant to HUD grants:

- Ensuring that funds are awarded properly
- Overseeing the use of grant funds
- Ensuring that grant investments achieve intended results
- Obtaining timely and accurate financial and performance information

In addition, CIGIE issued a grant oversight capstone report, entitled “The IG Community’s Joint Efforts to Protect Federal Grants from Fraud, Waste and Abuse,” which included oversight work performed by OIGs at more than 20 grant-making agencies, including HUD. This report compiled recent examples of audit, evaluation, and investigative work aimed at enhancing grants management and oversight.

HUD’s monitoring and oversight of its grant portfolio has long been a focus of OIG work, and continued focus on improving risk assessment and monitoring is required. HUD faces challenges in ensuring not only that grantees have adequate internal controls, but that they are aware of all the applicable program requirements. A particular challenge for HUD is ensuring that grantees are developing and following adequate procurement processes. HUD’s ability to meet this challenge is aggravated by HUD’s staffing challenges discussed in other sections of this report. Another significant challenge facing HUD’s grant programs is timely execution and delivery of assistance.

Several recent HUD OIG audit reports identified these grants management challenges and offered recommendations for improvements. Below we discuss the challenges faced by HUD in ensuring that grantee expenditures are eligible and supported, meeting the need for adequate and complete data and financial information from grantees and subgrantees to effectively manage HUD grant programs, and addressing “slow spender” grantees.

### **Ensuring That Grantee Expenditures Are Eligible and Supported**

Providing adequate guidance and oversight to ensure that grantees follow eligibility and documentation requirements continues to be a challenge for HUD. In 2021, HUD conducted two audits involving the administration and expenditure of HUD’s grant funds under the Community Development Block Grant Disaster Recovery (CDBG-DR) programs, one in the City of Houston and one in Harris County, to look at administration of funding in two areas where the majority of funds had not been administered in a timely manner. Both audits identified concerns about compliance with procurement controls, the maintenance of adequate documentation to support disbursements, and the oversight of subrecipients.

Similarly, in 2020 and 2021, separate HUD OIG audits found that the City of Compton and the Neighborhood Housing Services of Los Angeles County, two grantees of HUD’s Neighborhood Stabilization Program 2, did not administer their awards in accordance with program requirements and identified procurement and documentation challenges that prevented the grantees from

## **OIG Work and Other Resources**

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[City of Houston’s Housing and Community Development Department, Houston, TX, CDBG-DR Program](#), HUD OIG Report No. 2021-FW 1002 (June 21, 2021)

[Harris County Community Services Dept. Was Inefficient and Ineffective in Operating its Hurricane Harvey Program](#), HUD OIG Report No. 2021-FW-1001 (June 2, 2021)

[HUD’s Use of, Accounting for, and Reporting on of CARES Act Funding](#), HUD OIG Report No. 2021-OE-0006 (April 26, 2021)

[HUD and Its CDBG-DR Grantees Have Experienced Challenges Related to the COVID-19 Pandemic](#), HUD OIG Memo. No. 2021-GA-0801 (March 23, 2021)

[Neighborhood Housing Services of Los Angeles County Did Not Always Follow Program Requirements in Administering Its NSP2](#), HUD OIG Audit Report No. 2021-LA-1002 (January 5, 2021)

[The Puerto Rico Dept. of Housing Should Strengthen its Capacity to Administer its Disaster Grants](#), HUD OIG Report No. 2020-AT-1002 (March 16, 2020)

being able to support certain costs charged to the awards. For both audits the recommendations remain open with final action dates for closure in early 2022.

### **The Need for Reliable and Complete Financial and Performance Information**

Without accurate, timely, and complete financial and performance data, HUD cannot determine whether grant funds were spent properly or achieved the intended results. HUD's systems primarily maintain data at the grantee level. However, grantees typically distribute these funds to subgrantees, contractors, and other subrecipients where the funding is used. HUD and HUD OIG need to know who or what entities below the grantee level are receiving the money and how it is being spent to effectively manage the grantee's grant portfolio. Fraud often occurs at the subrecipient level, and the lack of efficient access to these data hinders oversight to prevent and detect fraud. Further, inaccurate, delayed, or incomplete data increases the risk of improper payments and wasted funds.

HUD programs use a number of grant management systems, many of which were developed more than a decade ago. Antiquated systems, as well as nonuniform grantee data systems, present a real challenge to HUD in trying to oversee grant funds.

### **The Need To Address Slow Spenders**

The timely administration and expenditure of funds is also a challenge for HUD's grant programs. HUD is challenged to ensure that funding is being fully utilized and grantees are providing needed services in a timely manner. When HUD funds administered to grantees to alleviate the impact of homelessness, COVID-19, natural disasters, and other emergencies are not administered effectively and in a timely manner, the most vulnerable populations remain at risk. In several instances, HUD OIG and other oversight agencies have identified the inability of grantees to administer grant funds in a timely manner as a key challenge.

This is especially important with respect to disaster assistance programs. HUD must ensure that grantees receiving disaster relief funds have the capacity to administer the funds in a timely manner and that they are using disbursed disaster funds for eligible and supported items. HUD's ability to do so is constrained by the limited availability of data about how the funds are being spent by subgrantees, contractors, and subrecipients. In addition, OIG audits have noted concerns about HUD's process for certifying that grantees have proficient procurement processes that meet or are equivalent to Federal standards.

## **OIG Work and Other Resources**

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[CPD Did Not Enforce the Disaster Appropriations Act, 2013, 24-Month Grantee Expenditure Requirement](#), HUD OIG Report No. 2019-FW-0001 (May 17, 2019)

[Texas General Land Office, Austin, TX, Should Strengthen Its Capacity To Administer Its Hurricane Disaster Grants](#), HUD OIG Report No. 2018-FW-1003 (May 7, 2018)

For example, in 2020, HUD OIG conducted an audit of the \$20 billion CDBG-DR award to Puerto Rico in response to Hurricanes Maria and Irma. HUD OIG recommended that the Puerto Rico Department of Housing take steps to better administer and monitor the use of HUD disaster-relief funds, to include reviewing and updating its policies to prevent duplication of benefits, reviewing and updating its procurement policies, and continuing to fill job vacancies. Of the 16 recommendations in the report, 9 have been closed, and 7 remain open.

Another recent OIG audit report concluded that a subrecipient of CDBG-DR funds was overwhelmed by the number of programs it intended to operate and did not respond effectively to the grantee's guidance and training, resulting in the grantee itself being labeled a slow spender and a delay in assistance reaching those in need. Slow spending has also been identified by OIG in HUD's Emergency Solutions Grants (ESG) CARES Act grant program.

Slow spending in CARES Act and ARP grants threatens the ability of these grant programs to meet their intended purpose in assisting Americans in need of assistance as a result of the COVID-19 pandemic. Delays in issuing funding to address disasters increases the risk of not meeting program objectives and results in victims' waiting for assistance years after the disasters. Following March 2020, HUD no longer published a report defining and designating grantees as "slow spenders," which served as a tracking tool and provided important transparency on spending progress.<sup>65</sup> In August 2020, HUD started publishing Monthly CDBG-DR Grant Expenditure Reports, which removed the "grantee spending status," indicating whether grantees were on pace, slow spenders, first-year awardees, or ready to close. These were useful indicators for all relevant stakeholders attempting to oversee these funds. HUD also failed to publish either report from April to July 2020.

### **Capacity To Oversee Block Grant Programs as Disaster Recovery Grants Increase**

Like other agencies, HUD has faced challenges in effectively monitoring grantees to ensure that expenditures are eligible, supported, and administered in an appropriate and timely manner. These challenges are exacerbated for disaster relief funds by the broad range of activities supported, the need to promptly get the money out to those impacted by emergencies, the high dollar value of typical disaster recovery grants, and the waivers and requirements specified in each successive Federal Register notice.

As disaster funding grows and the program increases in complexity, the staffing levels at HUD's Office of Block Grant Assistance (OBGA) have not kept up with the changes. GAO found that HUD was not sufficiently staffed to meet its oversight objectives and

## **Impact of Pandemic Related Funds**

The CARES Act and ARP made available \$14 billion in additional grant funds to prevent, prepare for, and respond to the coronavirus pandemic (such as CDBG-CV, ESG-CV, and HOME-ARP awards).

HUD is now responsible for overseeing more than 1,200 grantees through CDBG-CV

In a 2021 OIG survey to Community Development Block Grant – Disaster Recovery Grantees, they reported that COVID impacted systems technology and communications, timeliness of construction projects, travel, monitoring and on-site technical assistance and in person meetings with subrecipients, contractors and local government.

HUD grantees reported that HUD program staff were generally supportive and helpful while both grantees and HUD alike navigated the unprecedented challenges brought on by the global pandemic

recommended that HUD hire dedicated staff specifically trained in disaster recovery who did not have competing obligations, such as oversight of regular CDBG activities. HUD's challenge is further complicated due to OBGA's now being responsible for overseeing more than 1,200 grantees with the addition of CARES Act awards in addition to their current CDBG, CDBG-DR, and CDBG Mitigation (CDBG-MIT) portfolios. While many of these grantees have prior experience with other CDBG programs, they are likely to face new pandemic challenges for which they have limited or no experience. OBGA will have to use its limited resources to address the elevated risk that CDBG CARES (CDBG-CV) grantees may not properly administer their funds. Hiring of additional staff has not been commensurate with this increase, even accounting for smaller individual award amounts for some of the newer grantees.

To address monitoring and other concerns in HUD's sizeable CDBG-DR program, HUD has proposed moving the Disaster Recovery and Special Issues Division to a new Office of Disaster Recovery. Even if a new office were created, it would not automatically resolve concerns associated with the challenge of ensuring that grantee expenditures are eligible, supported, and administered in a timely manner. For example, a new office would still face challenges related to hiring sufficient and skilled staff to adequately oversee its award portfolio, and such an office would still face challenges related to accessing accurate, timely, and complete financial and performance data. Additionally, the unique structure of HUD's disaster recovery and mitigation programs and their corresponding requirements are a Top Management Challenge for the Department, which is discussed in this report.

## Progress Reported

During FY 21, HUD reported the following accomplishments:

- Begun staffing additional positions to help support monitoring and oversight
- Adopted and fully implemented a new Accountability, Integrity and Risk (AIR) Program charter to promote fiscal accountability, integrity, and risk management
- Conducted five additional Front-end risk assessment (FERA) reviews on HUD programs that receive ARP funds.
- Requested funds to enhance the capacity of the Disaster Recovery Grant Reporting (DRGR) system to address material control weaknesses identified by OIG.
- Developing a new CARES Act reporting system (CARS) to collect information on CARES Act funded projects
- Taken measures to improve the accuracy and reliability of homelessness data by HUD and its grantees.

# Fraud Risk Management

Related HUD Strategic Goal II: Protect Taxpayer Funds

**HUD is challenged to detect and prevent fraud against HUD programs that results in monetary loss and deprives communities and beneficiaries from meeting critical housing needs**

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Managing fraud risk is a challenge throughout the Federal Government. Beyond the monetary loss of taxpayer funds, fraud against HUD's programs negatively impacts the most vulnerable populations with critical housing needs, including children, the economically disadvantaged, and the elderly. Dollars lost to fraud are dollars that cannot assist those in need, and ineligible participants take spots away from others who need access.

This is an area recently highlighted across the oversight community, especially in the face of historic public spending on emergency pandemic relief programs. In January 2021, CIGIE issued a capstone report, entitled "The IG Community's Joint Efforts to Protect Federal Grants from Fraud, Waste and Abuse," which identified key fraud risks at each stage of the grant life cycle, with mitigation strategies that include mandatory certifications and antifraud training. In addition, in February 2021, the PRAC released a report, entitled "Top Challenges in Pandemic Relief and Response," which included two challenges related to fraud risk: (1) preventing and detecting fraud against government programs and (2) informing and protecting the public from pandemic-related fraud.

HUD is challenged to use all available tools, such as training, outreach, monitoring, and enterprise risk management (ERM), to safeguard its program funds from fraud, especially in light of the billions of dollars to provide housing to those impacted by the pandemic. HUD OIG stands ready to assist HUD with this significant challenge, through outreach and its oversight activities

HUD faces challenges in protecting its programs and limited funds and resources from fraud through risk assessments and improper payment reviews. For example, OIG has found that HUD can do more to use federally mandated and readily available tools to help manage fraud risk and more quickly identify and recover program funds that have not been spent as intended. Additionally, the below examples of fraud convictions demonstrate the effects that embezzlement and other financial crimes have on their victims, to include program recipients and those who are eligible for housing assistance but lose out to fraudsters. Also, recent HUD OIG audits and evaluations, as well as GAO reviews, highlight the negative impact of fraud on HUD programs and provide recommendations to help HUD meet this critical challenge.

## **Fraud Negatively Impacts the Administration, Reputation, and Success of HUD Programs in Providing Housing Support**

As demonstrated through OIG investigations, fraud by HUD program participants has negative impacts on those in need of HUD's program assistance, and there are community victims beyond the taxpayer. Below are examples of recent convictions and settlements involving those entrusted with HUD funds to meet critical housing needs.

### **Embezzlement by State Officials and Administrators of Public Housing Agencies and HUD-Supported Housing**

In October 2021, a former Cleveland city councilman was sentenced to 6 years in prison after a trial conviction of Federal program theft, tax violations, witness tampering, and falsifying records.<sup>66</sup> In addition, his executive assistant was sentenced to 5 years in prison after trial convictions for the same offenses, and, together, they were ordered to pay \$746,839 to the IRS and HUD. Among their criminal activities, they conspired to induce the City of Cleveland to issue reimbursement checks to the councilman totaling \$127,000 for services that were never performed; diverted \$50,000 from Federal community development funds distributed by the City of Cleveland; submitted false and fraudulent individual income tax returns to the IRS; and attempted to persuade and influence the testimony of a grand jury witness by providing that person with false and fraudulent information and records purporting to document charitable donations and falsifying a donation receipt with the intent to impede, obstruct, and influence an investigation.

In August 2021, the former executive director of the Borger Housing Authority (BHA) pleaded guilty to conspiracy for embezzling \$562,138 of the BHA's collected cash receipts from tenant rental payments. She was sentenced to 46 months incarceration and ordered to pay \$562,138 in restitution.<sup>67</sup>

In July 2021, a landlord of a building administering HUD's Housing Choice Voucher Program agreed to pay \$90,000 in a Civil False Claims Act settlement, resolving allegations that he had illegally claimed subsidies to HUD by renting a subsidized apartment to his father-in-law for 10 years, in violation of HUD's program requirements. Specifically, it was alleged that the landlord had submitted documents to the Bucks County Housing Authority, falsely certifying that the assisted tenant in his rental property was not an immediate relative of the property's owner, when the sole tenant was the landlord's father-in-law. The Housing Choice Voucher Program, commonly referred to as "Section 8," provides rental subsidies for eligible low-income tenants who locate acceptable

## **OIG Work and Other Resources**

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[Fraud Risk Inventory for the CDBG and ESG CARES Act Funds](#), HUD OIG Memorandum No. 2022-FO-0801 (October 12, 2021)

[Disaster Recovery: HUD Should Take Additional Action to Assess Community Development Block Grants Fraud Risks](#), GAO-21-177 (May 5, 2021)

[HUD's Use of, Accounting For, and Reporting on CARES Act Funding](#), HUD OIG Memorandum No. 2021-OE-0006 (April 26, 2021)

[PRAC Update: Top Challenges in Pandemic Relief and Response](#) (February 3, 2021)

[CIGIE Grant Oversight Capstone Report](#), (January 2021)

[HUD Did Not have Adequate Oversight to Ensure that its Payments to Subsidized Property Owners Were Accurate and Supported when it Suspended Contractor Administrator Reviews](#), HUD OIG Report No. 2020-FW-0001 (February 26, 2020)

units on the private market and prohibits landlords from putting relatives into apartments for which they are receiving program funds.<sup>68</sup>

In June 2021, a former manager of three housing complexes, principally catering to elderly and disabled citizens receiving Federal rental subsidies from HUD or the U.S. Department of Agriculture, pleaded guilty to embezzlement for diverting more than \$400,000 from rental payments and other tenant fees to pay for personal expenses.<sup>69</sup>

In January 2021, a former finance officer for the Pierce County Housing Authority (PCHA) pleaded guilty to wire fraud for embezzling \$6.9 million in PCHA funds. She was sentenced to 51 months incarceration and 3 years supervised release and ordered to pay over \$5.2 million in restitution. In addition, she had previously paid \$1 million in restitution, and multiple real estate properties and assets were seized.<sup>70</sup>

In June 2020, a former administrator and owner of an Alzheimer's assisted living facility in Texas was sentenced to almost 4 years in Federal prison and was ordered to pay \$2 million in restitution to HUD for equity skimming – the practice of taking money from a company rather than using the funds to repay a HUD-insured loan, as mandated. The administrator had secured a HUD-insured loan at a favorable interest rate and without personal responsibility in the event of a default. Importantly, owners of the companies with HUD-insured loans are generally prohibited from receiving money from the company unless they are repaying the loan and the company has surplus cash.

Instead of repaying the HUD-insured loan, as mandated, the administrator skimmed money from the company for personal expenses, including \$3,952 for camera equipment, a \$3,247 watch, \$2,520 in landscaping costs for his personal residence, a \$27,408 personal mortgage payment, a \$12,750 downpayment on a personal vehicle, and \$1,540 for tickets to a Dallas Cowboys football game. Additionally, he took money from the assisted living facility and gave it to other individuals, including \$13,000 for cosmetic surgery, \$5,500 for a loan repayment, and \$30,000 in equity distributions. In total, he took personal responsibility for causing a loss to the United States in the amount of \$2 million. Further, the administrator's father, who served as a doctor at the HUD-insured Alzheimer's facility and was the majority owner of the facility, pleaded guilty for failing to report his son or remove him from his position when he knew that his son had been stealing money from the facility, allowing additional theft to occur.<sup>71</sup>

## OIG Work and Other Resources

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[HUD Paid Rental Subsidies to Benefit Public Housing and Voucher Tenants Reported as Excluded from Federal Programs or Deceased](#), HUD  
OIG Report No. 2019-KC-0002  
(June 25, 2019)

[Disaster Recovery: Better Monitoring of Block Grant Funds Is Needed](#), GAO-19-232  
(March 25, 2019)

## Mitigating Fraud Risks Associated With Disaster Recovery

The CDBG-DR program is especially vulnerable to fraud. Like other Federal programs aimed at providing emergency funding and relief, the billions of dollars authorized to address emergencies, the call for HUD and its grantees to promptly issue these funds to those with critical needs, and the limited resources and bandwidth that HUD and its grantees have to oversee and monitor these funds make preventing fraud, waste, and abuse in disaster assistance programs a major challenge for HUD. A dollar lost to fraud is a dollar that will not reach the intended beneficiaries of this important program.

GAO conducted a review of disaster recovery issues following the 2017 disaster season to address (1) the fraud risks and risk environment of CDBG-DR and their impacts and (2) the steps HUD has taken to assess fraud risk agencywide. In its May 2021 report, GAO determined that while HUD has taken some steps to assess fraud risks agencywide, it has not conducted a comprehensive fraud risk assessment in its CDBG-DR program and that HUD's current approach to evaluating fraud risk has not involved stakeholders, such as grantees, who are responsible for designing and implementing the program's controls. GAO also found that CDBG-DR operates in a decentralized risk environment that may make it vulnerable to fraud since program funds flow through multiple entities before reaching their intended beneficiaries. GAO further noted that "[f]raud can have nonfinancial impacts as well, such as fraudulent contractors obtaining a competitive advantage and preventing other businesses from obtaining contracts." GAO made two recommendations, including that HUD comprehensively assess fraud risks specific to its CDBG-DR program and involve relevant stakeholders who design and implement fraud controls in the assessment. Both recommendations remain open.

## Addressing Duplication of Benefits

HUD OIG and GAO have both looked at duplication of benefits as an issue resulting in misuse of emergency funds and potential fraud. A duplication of benefits occurs when a person, household, business, government, or other entity receives financial assistance from multiple Federal or other sources for the same purpose and the total assistance exceeds the total need for assistance.

In 2021, HUD OIG conducted an evaluation of HUD's use of, accounting for, and reporting on CARES Act funding. The CARES Act provided \$5 billion for the CDBG program and required HUD's Secretary to "ensure there are adequate procedures in place to prevent any duplication of benefits" but did not specify how HUD should meet this requirement. The evaluation found that HUD had passed on the responsibility to prevent the duplication of benefits to CDBG-CV grantees, requiring them to implement related policies

## Progress Reported

In its Annual Financial Report, HUD recognized that fraud within HUD programs remains consistent and reported the following efforts to prevent, detect, and respond to fraud.

- Stood up the Accountability, Integrity, and Risk (AIR) team and the HUD CARES Compliance and Response Team (HCCRT)
- Conducted training and developed SOPs for program managers on how to report fraud risks and expanded the fraud risk compendium to help educate program managers about fraud schemes that could affect HUD programs
- Continued to use its Risk Management Council as a focal point for risk management decision making
- Used travel and payroll data analytics tools and grant data analytics pilots while making progress on data analytics work (e.g., intelligent automation) related to contracts and purchase cards

and procedures. However, HUD OIG concluded that HUD had not yet developed or implemented a monitoring tool that includes a review of grantees' policies and procedures to prevent the duplication of benefits.

HUD OIG has also investigated allegations of false claims within HUD programs involving duplicate billing schemes. For example, the Berks County Coalition to End Homelessness paid more than \$120,000 to resolve a Civil False Claims Act case alleging that the entity had engaged in a double billing scheme by which it obtained reimbursement for renovation costs from HUD's CoC program that the entity had also charged to the City of Reading's HOME program. Duplicate billing schemes divert HUD funds from addressing critical housing needs.<sup>72</sup>

### **Fraud Prevention and Accountability Through Warnings, Certifications, and Training**

OIG has long recommended and worked with HUD to implement additional controls to protect disaster relief funds from fraud, to include warnings and mandatory certifications. Standard warning and certification language in any document provided to a grantee, subgrantee, or recipient greatly facilitates HUD's and its partners' abilities to hold fraudsters accountable. However, at the current time, such language is not universally required by HUD or included in some key documents executed by grantees, including contracts.

In recent years, OIG has successfully partnered with HUD's Disaster Recovery Special Issues Division, the National Center for Disaster Fraud, and the U.S. Department of Justice to provide disaster and fraud training to grantees, subrecipients, and contractors.<sup>73</sup> This training teaches grantees about the potential for fraud in this program and provides resources and best practices for preventing and detecting fraud. HUD should continue to support this training as well as other ongoing training that it offers to grantees to help them learn and navigate the rules and requirements of the program. This is particularly important for disaster recovery grants, to which different waivers and requirements apply from the many and varied Federal Register notices implementing the program over the years. As HUD continues to confront this challenge, it is imperative that HUD and its grantees notify OIG when they believe fraud may have occurred.

### **Mitigating Fraud Risks Through Governmentwide Mandates**

Beyond our investigations, HUD OIG and GAO have identified systemic challenges that HUD faces in managing and mitigating fraud risks, to include identifying improper payments, and has offered related recommendations to enhance HUD's efforts.

## **Progress Reported**

- Communicated ethical guidelines around fraud, waste, abuse, and mismanagement, to include declaring November as anti-fraud month and launching a public information campaign to increase awareness of fraud activity as part of employee reporting responsibilities

In addition, HUD developed training on how to comply with duplication of benefit requirements. In November 2020, HUD revised its CDBG-DR monitoring exhibits and included its most recent duplication of benefits guidance.

HUD also made sample data sharing agreements available to grantees through its Disaster Recovery Tools and Template website.

For example, in a 2020 report looking at HUD payments to subsidize housing payments under its Project-Based Rental Assistance program, HUD OIG found that due to HUD's suspending reviews of assisted properties, property owners billed HUD for nonexistent tenants and tenants who had moved out of their subsidized units, based on falsified, inaccurate, and unverified information. They also billed HUD for tenants whose eligibility they could not support and for uninspected units. Property owners did not implement adequate controls to assist in detecting and preventing potential fraud or to ensure that managers correctly calculated and processed rent subsidies. These conditions left property management staff unable to support that the subsidies HUD paid benefited eligible tenant families or that the subsidized units were in decent, safe, and sanitary condition.

Further, in a 2019 report, OIG found that because HUD had not provided PHAs with access to information contained in the Do Not Pay system, HUD had paid an estimated \$19.8 million in annual rental subsidies to PHAs to benefit 2,278 tenants who were reported in Do Not Pay as excluded from Federal programs or deceased.

In accordance with the Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget (OMB) guidance, HUD is required to establish internal controls to manage the risk of fraud, using an evaluation of fraud risks and using a risk-based approach to mitigate identified material fraud risks. GAO identified leading practices for managing fraud risks and organized them into a Fraud Risk Management Framework. In 2021, as part of its annual PIIA audit, HUD OIG determined that HUD did not have improper payment estimates for three of four reported programs, including approximately \$30 billion in rental assistance and \$34 billion for its disaster relief programs covering Hurricanes Harvey and Irma. Due to the impacts of the COVID-19 pandemic, HUD did not test the complete payment cycle, to include payments issued by State, local, or other agencies. As a result, HUD OIG concluded that HUD's programs were vulnerable to the adverse effects of improper payments and HUD would likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments. While not all improper payments are fraudulent, HUD increased its risk of fraudulent payments by not using PIIA-related internal controls and testing the complete payment life cycle.

### **Mitigating Fraud Risks Associated With Pandemic Relief Funds**

The CARES Act ESG funds were nearly 14 times higher than the annual allocations. This funding is in addition to the \$3.5 billion in homeless assistance grants in the proposed FY 2022 budget. This influx of funding may significantly strain HUD systems and staff, as well as the State and local entities tasked with implementing

## **Impact of Pandemic Related Funds**

In March 2020, HUD received \$12.4 billion as part of the CARES Act. As of March 31, 2021, HUD had disbursed \$3.4 Billion and obligated \$7.4 Billion in CARES Act Funds. Emergency funding is especially vulnerable to fraud due to:

- A push to quickly get the money to those in need
- The waiver of certain internal controls to meet this expedited time frame
- Reduced monitoring and oversight due to covid-related health restraints causing most oversight work to be remote

Due to the pandemic, CPD has been unable to perform regular site visits to CDBG and ESG grantees, exposing the agency to potential fraud regarding the CARES Act funds

CPD does not collect subrecipient data to conduct data analyses and identify potential instances of fraud across grantees or programs

HUD's lack of subrecipient data also created challenges for PRAC reporting because the quarterly reporting required subrecipient data and HUD did not have processes in place to collect it

these programs. Moreover, since the bulk of homelessness funding will be administered by the Office of Community Planning and Development (CPD), prior OIG audit findings concerning CPD's monitoring weaknesses are implicated.

HUD will continue to face challenges in overseeing the substantial amount of grant funding that the CARES Act provided as well as addressing homelessness in the aftermath of COVID. ARP authorized HUD to waive statutory and regulatory provisions to facilitate the administration of these funds. While waivers are meant to provide flexibilities to HUD to get the funds out, the waiving of requirements also creates a higher risk of fraud, waste, and abuse in HUD programs. More specifically, waivers cause challenges in monitoring and addressing fraud, waste, and abuse that occurred with the influx of the large amount of funds from the CARES Act. In a September 2021 report, GAO, in assessing HUD's oversight of CARES Act funding, found that additional risk assessment actions could improve HUD oversight of CARES Act funds. Specifically, GAO found that while HUD tracks CARES Act spending, HUD has not fully assessed risks, including fraud risks.

### **HUD OIG Fraud Risk Inventory for the CDBG and ESG CARES Act Funds**

In coordination with the PRAC, HUD OIG developed a fraud risk inventory for the CDBG and ESG programs. The goal was to gain an understanding of HUD's fraud risk management practices and develop an inventory of fraud risks that HUD had not already identified for the funds appropriated by the CARES Act's funding to these two programs. HUD OIG identified 5 overall fraud risk factors and 31 fraud schemes for the CDBG and ESG CARES Act funds that had not been previously identified by HUD.

In addition, OIG identified opportunities to improve HUD's fraud risk management practices in the CDBG and ESG CARES Act programs. Specifically, OIG found that CPD did not complete its own program fraud risk assessment specific to CDBG and ESG CARES Act programs and neither CPD nor the Office of the Chief Financial Officer (OCFO), as part of its ERM process, maintained an inventory of fraud risks specifically for the CDBG or ESG CARES Act programs. Additionally, while OIG identified that most fraud schemes occur external to HUD, CPD does not collect subrecipient data to conduct data analyses to identify potential instances of fraud that occur across grantees or programs. HUD should consider whether similar weaknesses in the assessment of programmatic fraud risks and maintenance of a fraud risk inventory are occurring in other programs within the Department.

### **The Negative Impact of Misconduct by Government Officials**

When HUD's Federal employees violate government ethics rules and engage in conflicts of interest, to include using their official positions for personal gain, it harms the public's confidence in HUD programs and damages HUD's reputation.

The owner and president of a company that provided IT services to Federal agencies and educational services to public school children pleaded guilty to multiple conspiracy charges for, among other charges, bribing two former HUD employees who in turn provided him with nonpublic information about contracts. He was sentenced to 14 months incarceration and 24 months supervised release and ordered to pay \$179,999 in restitution.<sup>74</sup>

An investigation conducted by OIG substantiated misconduct by a former HUD director, identifying the following Federal ethics violations: (1) failing to recuse from and inappropriately intervening in a HUD matter involving a lender with which the former director was negotiating postgovernment employment, (2) removing a number of HUD documents and reports about financial institutions that contained confidential, nonpublic proprietary information and bringing the information to a new private-sector

employer, and (3) having a number of communications with and appearances before HUD on behalf of private-sector clients regarding matters on which the former director worked or supervised while employed at HUD. As a result of the investigation, the former director agreed to pay \$25,000, as part of a civil settlement to resolve allegations that the former director had an improper conflict of interest while serving at HUD, and entered a settlement with HUD to resolve potential administrative allegations.<sup>75</sup>

### **The Role of Whistleblowers**

It is well known that whistleblowers play a critical role in helping oversight communities tackle fraud, waste, and abuse involving Federal programs. To better protect Federal funds, Congress enacted the Whistleblower Protection Enhancement Act, (41 U.S.C. section 4712), which prohibits reprisal against employees of contractors, subcontractors, grantees, subgrantees, and personnel services contractors for disclosing information that the whistleblower reasonably believes is evidence of gross waste; gross mismanagement; abuse of authority; or a violation of a law, rule, or regulation related to a Federal grant or contract. The statute also requires each agency to ensure that its contractors, subcontractors, grantees, and subgrantees inform their employees in writing of the rights and remedies provided.

With billions in pandemic relief funds issued through HUD grant programs, it is more important than ever that HUD ensure that its grantees and subgrantees notify their employees of their whistleblower protections and that such employees understand that they can report fraud, waste, and abuse associated with HUD programs without fear of reprisal. To the extent that HUD can widely share these protections and mandates, this outreach could assist in mitigating fraud risk.

# Administering Disaster Recovery

Related HUD Strategic Goal I: Advancing Economic Opportunity

Related HUD Strategic Goal II: Protecting Taxpayer Funds

**HUD must continue to address challenges in the CDBG program to ensure that disaster grant funds reach those communities in need in a timely manner**

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HUD plays a vital role in the long-term recovery efforts following a disaster by addressing unmet needs in communities after initial emergency disaster relief efforts have ended. Although HUD may reprogram existing CDBG and HOME funds to disaster recovery efforts and access existing funds to aid impacted areas, the primary method by which HUD provides disaster recovery assistance is through the CDBG-DR program. After the President declares a disaster, Congress may appropriate supplemental funds to HUD for these grants, which can be used for a broad range of initiatives and activities. HUD can award appropriated funds as grants to States, territories, tribes, and units of local government for disaster recovery efforts. These primary grantees work with other entities to implement recovery programs.

From 2001 to 2021, Congress appropriated \$92.8 billion to HUD to provide for disaster recovery. However, HUD's programs continue to evolve. In February 2018, Congress appropriated \$28 billion, of which \$12 billion was to mitigate disaster risks and reduce future losses through CDBG-MIT.<sup>76</sup> In March 2020, the CARES Act made available \$5 billion in supplemental CDBG funding for grants to current formula grantees to prevent, prepare for, and respond to the coronavirus pandemic.<sup>77</sup>

Over the years, HUD has made progress in assisting communities in recovering from disasters, but it continues to face challenges in administering and overseeing these evolving grants. Below we discuss the need to codify the CDBG disaster programs and address concerns of those who seek to obtain disaster recovery assistance from HUD programs.

## **Codifying the CDBG-DR and CDBG-MIT Programs**

CDBG-DR and CDBG-MIT grant funds are not provided under a codified program in the Code of Federal Regulations. Although the CDBG program requirements (24 CFR part 570) provide a framework, HUD issues additional program requirements and waivers in multiple Federal notices for each supplemental appropriation. More than 80 Federal Register notices have been issued since funding 9/11 disaster recovery efforts in 2001. With each newly issued Federal Register notice, grantees are forced to study the various notices; decide how to proceed, given their

communities' unmet needs; and then develop a program outlined by an action plan. These steps are expected to be completed during a time of great uncertainty, given that personnel, operations, and infrastructure may have been impacted following a disaster, and can create delays up to 9 to 12 months. Additionally, oversight of this program is complicated by different rules applying to different categories of grantees (for example, State grantees versus entitlement grantees). Both HUD OIG<sup>78</sup> and GAO<sup>79</sup> have recommended for years that Congress and HUD codify the CDBG-DR program to simplify and standardize the process.

In January 2021, Secretary Fudge supported permanent authorization of the CDBG-DR program and said HUD would work with Congress on codification proposals.<sup>80</sup> Further, bipartisan, bicameral congressional support for codification has resulted in proposed legislation, such as the House and Senate versions of The Reforming Disaster Recovery Act,<sup>81</sup> which are responsive to HUD OIG's and GAO's recommendations. Legislation codifying the CDBG-DR program would streamline, reform, and inject greater fiscal responsibility into the program, while also attempting to eliminate funding lags and duplicative requirements.

Although the legislation may improve HUD's ability to distribute funding in a timely manner, additional steps would be needed. HUD should also consider explicitly setting forth invariable program requirements. For example, universally clarifying and defining key program terms would facilitate HUD oversight and help grantees better administer and oversee important aspects of their programs.

To demonstrate this point, a recent HUD OIG audit found that a CDBG-DR grantee arbitrarily chose an affordability period that was not consistent with other parts of the program and that the same grantee did not have a process in place for enforcing the affordability period requirements.<sup>82</sup> HUD's defining "the affordability period," or the length of time a project is required to be affordable to low- and moderate-income households, would negate grantees' arbitrarily choosing an affordability period

## OIG Work and Other Resources

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[Disaster Block Grants Factors to Consider in Authorizing a Permanent Program](#), issued GAO-21-569T (May 19, 2021)

[Review of HUD's Disbursement of Grant Funds Appropriated for Disaster Recovery and Mitigation Activities in Puerto Rico](#), HUD OIG Report 2019SU008945I (April 20, 2021)

[The Puerto Rico Department of Housing, San Juan, PR, Should Strengthen Its Capacity to Administer Its Disaster Grants](#), HUD OIG Report 2020-AT-1002 (March 16, 2021)

[Texas General Land Office, Deep East Texas Council of Governments, CPD, CDBG-DR Program](#), HUD OIG Audit Report 2019-FW-1007 (September 30, 2019)

[Disaster Recovery: Better Monitoring of Block Grant Funds Is Needed](#), GAO Report 19-232 (March 25, 2019)

[HUD's Office of Block Grant Assistance had not Codified CDBG-DR Program](#), HUD OIG Report No. 2018-FW-0002 (July 23, 2018)

[The Texas General Land Office, Austin, TX, Should Strengthen Its Capacity to Administer Its Hurricane Harvey Disaster Grants](#), Audit Report 2018-FW-1003 (May 7, 2018)

[HUD Did Not Provide Sufficient Guidance and Oversight to Ensure That State Disaster Grantees Followed Proficient Procurement Processes](#), HUD OIG Audit Report 2017-PH-0002 (September 22, 2017)

that is not consistent with other parts of the program and would better enable grantees to set up processes for enforcing the affordability period requirements.

### **Addressing Concerns That Individuals Encounter When Seeking Disaster Recovery Assistance**

HUD and grantees must also address the challenge of assisting individuals in applying for disaster recovery assistance. Individuals encounter a convoluted process and face substantial difficulties, depending on how, when, and where they submit a request for Federal assistance, often while dealing with the aftermath of the disaster. While not unique to HUD, people may experience lengthy delays between the initial application process and the closing of their cases due to inconsistent communication, coordination, and collaboration between HUD and the grantees. In addition, slow program progression and grantee and subrecipient inefficiencies can contribute to individuals not receiving assistance in a timely manner. Individuals may also experience delays in funding, duplication of benefits, and other challenges after the process is completed. These challenges were identified in a 2018 memorandum,<sup>83</sup> in which HUD OIG conducted a study to identify the path and process homeowners and businesses navigate to obtain disaster recovery assistance and the challenges and barriers they may encounter. HUD OIG found that the disaster assistance process is not orderly and systematic. HUD OIG suggested that HUD improve communication, coordination, and collaboration among nonprofits and volunteers, as well as Federal and State agencies with disaster-related roles, before the next disaster occurs. HUD OIG also suggested that HUD document challenges reported by applicants and recipients to prepare for future disasters.

Helping potential applicants better navigate the complex Federal landscape of disaster assistance remains an ongoing challenge for HUD. Moving forward, it is important that HUD ensure that the most vulnerable populations receive assistance. According to research conducted by the Substance Abuse and Mental Health Services Administration, people of lower socioeconomic status are less prepared and are more vulnerable to the impact of disasters.<sup>84</sup>

## **Progress Reported**

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In January 2021, Secretary Fudge supported permanent authorization of the CDBG-DR program and said HUD would work with Congress on codification proposals

Bipartisan, bicameral Congressional support for codification has resulted in proposed legislation, such as The Reforming Disaster Recovery Act, which are responsive to respond to OIG's and GAO's recommendations

# Sustaining Progress in Financial Management

Related HUD Strategic Goal II: Protect Taxpayer Funds

**HUD must continue its progress in improving HUD's Financial Management to ensure HUD is maintaining a sound financial environment**

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We are pleased to report that HUD sustained progress during FY 2021 in addressing its remaining financial management weaknesses. Several weaknesses in HUD's internal control framework and its financial management systems remain, which are keeping HUD from achieving a substantially "capable" level of financial maturity, based on the U.S. Treasury's Financial Management Maturity Model.

HUD needs to be able to continue sustaining the improvements it has made in financial management so that HUD and its components can operate at a level that will consistently produce reliable and timely financial reports and ensure continuity during challenging times, such as those brought on by the COVID-19 pandemic.

## **Improvements to HUD's Internal Control Framework**

As part of its Accountability, Integrity, and Risk program, in FY 2021, HUD performed an assessment of the effectiveness of its internal controls over financial reporting, including reviews of its complementary user entity controls and internal controls over its major programs. While HUD is making progress in this area, ensuring that all of HUD's controls are designed and operating effectively is important to achieving a capable level of financial maturity.

While many of HUD's controls are operating effectively, HUD needs to streamline or reform its existing internal controls to overcome timing challenges or address longstanding weaknesses. For example, HUD OIG has reported on weaknesses in HUD's processes for estimating and validating its grant accruals since FY 2013, which is a major contributor to why HUD continues to have reportable findings in financial reporting. Further, HUD's internal control framework allowed for potential Antideficiency Act (ADA) violations to occur. As of September 30, 2021, there were 21 open potential ADA cases, 12 of which had been reviewed by OCFO's appropriations law staff and sent to OMB for review and comment. Finally, HUD has been noncompliant with improper payment requirements for the last 8 years, and the most recent audit found significant issues with HUD's reported estimate.

## HUD's Financial Management Systems Weaknesses

Some significant financial business processes continue to be manual, resulting in unreliable and untimely financial reporting, or not recognizing events at the transaction level, which creates weaknesses in financial management oversight. For example, PIH uses manual processes and Excel spreadsheets to comply with cash management requirements, resulting in untimely reports on accounts payable and accounts receivable. Further, OCFO is unable to recognize PIH prepayments and PHA expenses as they occur at the transaction level. Therefore, PIH must estimate its prepayments and perform manual adjustments quarterly. PIH also lacks a system capable of fully accounting for its loan guarantee programs. HUD is in the process of implementing a system to address PIH's cash management needs, but the system is not expected to be fully operational by the time its FY 2021 financial reporting is due.

HUD is also making progress in its efforts to bring its financial management systems into compliance with the Federal Financial Management Improvement Act (FFMIA). However, HUD still has two systems that are noncompliant with FFMIA, and the challenges in maintaining and ensuring that HUD's legacy systems can support the proper financial management of HUD's programs and operations will persist until they are modernized.<sup>85</sup>

## HUD's Financial Management Maturity

Although HUD has made significant progress in the past 2 years in resolving material weaknesses and significant deficiencies, HUD is still moving from a "basic" level of financial maturity to a "capable" level, based on the U.S. Treasury's Financial Management Maturity Model. The issues described above are keeping HUD from fully achieving a "fully capable" rating. HUD also has unresolved Federal Information Security Management Act (FISMA) financial findings.

## Progress Reported

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During FY 21, HUD had the following accomplishments:

- Received unmodified opinion on consolidated financial statements
- Utilizing Accountability, Integrity and Risk (AIR) Program, HUD performed assessment of its internal controls over financial reporting
- HUD sustained progress during Fiscal Year 2021 in addressing its remaining financial management weaknesses

# Managing Human Capital

Related HUD Strategic Goal III: Streamline Operations

**It is critical that HUD is able to hire, develop, and retain a diverse, skilled, and accountable workforce that effectively meets HUD's business needs**

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Over the past 10 years, HUD's staffing levels have generally declined, while its programs and responsibilities have increased. The effects of HUD's difficulties in managing human capital affect many of HUD's mission-related challenges. According to HUD's FY 2022 Budget in Brief, HUD experienced a decline in staff of approximately 30 percent during the period 2012 through 2019. This decline significantly eroded HUD's ability to monitor compliance regarding properties, loans, grants, PHAs, and other areas of responsibility, as well as greatly limiting its ability to address systemic issues inside the Department.

Recruitment, retention, and hiring qualified employees has been a growing concern for the Federal Government. HUD is challenged by some of the same problems that other Federal agencies face. In February 2021, CIGIE included human capital management as a frequently reported challenge facing multiple agencies, affecting "the ability of Federal agencies to meet their performance goals and execute their missions efficiently." CIGIE identified three key areas of concern as part of the human capital management challenge: (1) recruiting and retaining highly skilled staff, (2) providing adequate training, and (3) leadership continuity.

Below we highlight progress made by HUD in all three areas and discuss remaining challenges, especially considering HUD's significantly expanded responsibilities and funding to provide pandemic relief. HUD's new leadership team recognized this challenge most recently in its FY 2022 Budget Brief, which stated that its ERM program identified staffing as one of the top risks to the Department. Moreover, it noted that in the 2021 Risk Profile, "all program offices identified risk related to the quality of their business functions resulting from a need for an immediate infusion of expert staff in procurement, information technology, and human resources areas." Further, in recent testimony, Secretary Fudge recognized that HUD employees must have the right skills and capacity to fulfill the current and future business needs and that leadership gaps resulting from extended vacancies and constant turnover have contributed to an inability to sustain positive changes.

## Recruitment and Retention

In her June 2021 testimony before the Senate, Secretary Fudge noted how attrition has exacerbated the problem of not hiring people or not hiring them quickly enough. According to HUD's Human Capital Succession Plan for 2018-2022, approximately 51 percent of the entire workforce has attained retirement eligibility status. HUD predicts that by FY 2022, 63 percent of HUD employees will be retirement eligible and nearly 50 percent of HUD supervisors and managers will be retirement eligible. The Office of Personnel Management (OPM) further predicted that the government's ability to replace these skills and experience losses with new talent will depend on the Department's capability in efficiently and effectively recruiting, hiring, and retaining high-performing employees.

HUD is also challenged in efficiently recruiting candidates. OPM developed an 80-day average time-to-hire model as a guide for agencies in its End-to-End Hiring Initiative in March 2017. HUD's own data have shown that, although it strives to achieve that goal, HUD has consistently been unable to meet OPM's goal as well as its own internal goal.

As of August 26, 2021, HUD had 7,361 employees, which is nearly 30 percent lower than its staffing levels nearly 10 years ago. According to HUD's OCFO, receiving 2-year funding instead of annual funding has had a significantly positive impact on the hiring process because HUD can continue processing hiring actions without having to pause to account for budget continuing resolutions. As a result, HUD reported that in 2020 it hired just over 1,000 external employees within a fiscal year, the first time this had been accomplished in nearly a decade. Through August 29, 2021, the Department had a net gain of 302 employees and will continue to add to this total through the end of the year.

According to its 2020-2021 Human Capital Operating Plan, HUD plans to slow attrition and increase hiring by using a set of human capital strategies to address quality of candidates, staffing resource levels, and classification of new positions and to achieve streamlined hiring processes in FY 2022. Major goals of these efforts will be to "improve the hiring and human capital functions, to reduce the average time-to-hire and improve managers' satisfaction with the quality of hires." One planned action to reduce the average time-to-hire is to identify bottlenecks and needed resources.

While we are encouraged by HUD's commitment and efforts, successful completion of these actions will be challenging due to the limited resources within its Office of the Chief Human Capital Officer (OCHCO) and HUD's shared service provider, the Bureau

## OIG Work and Other Resources

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[Opportunities Exist to Improve the U.S. Department of Housing and Urban Development's Hiring Process](#), HUD OIG Report No. 2020-OE-0002 (August 2, 2021)

[Secretary Marcia Fudge's Testimony before Senate Appropriations Subcommittee on Transportation, Housing, and Urban Development, FY22 Budget Request, Justification for HUD](#), (June 10, 2021)

[HUD 2022 Budget in Brief FINAL](#), (May 28, 2021)

[Top Management and Performance Challenges Facing Multiple Federal Agencies](#), CIGIE Report (February 2021)

[HUD Strategic Workforce Plan](#), (June 28, 2018)

of the Fiscal Service (BFS), to handle current hiring workload and effectively communicate with and train HUD program office hiring managers.

### **Improving Time-To-Hire Through Hiring Efficiencies**

This year, given the critical nature of these challenges, OIG conducted an evaluation of HUD's hiring process and found that it was not efficient. Specifically, OIG found that HUD struggled with completing key steps in the hiring process in a timely manner and that hiring officials received inconsistent training and lacked clarity on hiring roles and responsibilities. The review found that this issue was due in part to turnover within OCHCO and BFS. HUD was also limited by inconsistent and unreliable hiring data, which in turn limited HUD's ability to properly identify when to take actions for improvement.

HUD OIG's evaluation concluded that as a result of unreliable data, OCHCO may not fully understand how well HUD's hiring process is operating, where its shortcomings exist, or when to take actions for improvement.

OIG's evaluation report did highlight a best practice, in which the Office of Field Policy Management effectively used a variety of special hiring authorities that reduced its time to hire. While HUD OIG believes that these are steps in the right direction, a sustained effort to improve the hiring process is needed for HUD to overcome the challenges it faces in recruiting and retaining employees with the skills and capacity to achieve HUD's mission in 2022 and beyond.

In response to the 2021 evaluation report, OCHCO accepted all 11 recommendations and offered a number of promising initiatives and updates. Further, on September 1, 2021, OCHCO shared two of its current process improvement plans. OCHCO is in the final stages of developing and implementing a multiyear staffing forecast that will help OCHCO in many ways, including asset, space, and facility planning. OCHCO is also planning a triannual position management process, which is intended to be a detailed review of HUD's program offices, such as new legislation, regulations, technology changes, and program needs. OCHCO plans to start the triannual position management process in FY 2022.

### **Staffing Capacity**

Vacancies and turnovers in OCHCO also pose a challenge for HUD because OCHCO is responsible for developing and implementing policies and procedures associated with human capital management for all of HUD. For example, OCHCO turnover resulted in a loss of knowledge of a hiring process improvement project with Toyota Production System Support Center, Inc., from approximately

## **Progress Reported**

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In response to OIG's Hiring Report, HUD concurred with and committed to address all 11 recommendations and reported the following progress:

- HUD filled several Human Capital leadership vacancies in 2020-21, to include the Chief Human Capital Officer (CHCO), Deputy CHCO, and Director of Strategic and Workforce Planning
- HUD is leveraging standardized assessment template packages to expedite hiring
- OCHCO reported that the hiring timelines in FY 21 are down 16% from FY 2020
- OCHCO reports that it is developing an automated position management and personnel security system, develop business intelligence tools to improve data analytics capabilities and increase transparency

2015 to 2016. The contractor trained OCHCO leadership on its process improvement methodology. OCHCO leadership, with Toyota's coaching and guidance, used that methodology to improve HUD's hiring process and reduce time-to-hire. However, due to OCHCO leadership and staff turnover, OCHCO lost critical knowledge of Toyota's process improvement methodology, as well as awareness of changes made as a result of this process, the rationale behind those improvements, and plans made to further reduce time-to-hire.

Additionally, HUD relies on BFS, its shared service provider, to deliver human resources support. However, high turnover at BFS required HUD to educate BFS's human resource specialists about HUD's programmatic and hiring needs so that the BFS specialist could identify applicants with appropriate skills and qualifications. This additional effort essentially created another step in the hiring process, further delaying time-to-hire. HUD has increasingly relied on contractors to fill its staffing gaps. However, HUD faces challenges with properly directing and monitoring these contractors.

In its FY 2019 Performance Report, HUD stated that it had completed a strategic workforce plan for 75 percent of its mission-critical occupations. However, HUD's strategic milestone to "develop a market-informed pay and compensation strategy for cybersecurity and other mission critical IT positions to improve recruitment and retention" has been delayed until September 30, 2021.

Other HUD program offices also face high turnover and vacancy rates, which further strains HUD's resources and capacity. In our outreach to HUD personnel in preparation for the development of this report, several officials identified the ability to hire efficiently and in a timely manner as a key issue impacting their ability to achieve HUD's mission. We appreciate that the new leadership team in OCHCO is working to enhance the hiring process, and we encourage that team to continue to implement HUD OIG recommendations and other reforms that they have identified.

## Impact of Pandemic Related Funds

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Additional funding and hiring needs created by the CARES Act and ARP have placed a burden on HUD's already overtaxed human resources staff to oversee the use of funds and hire people more quickly

HUD's OCHCO has stated that it has worked with HUD leadership to streamline and expedite hiring for CARES Act personnel, identifying the following challenges:

- term employees were difficult to use efficiently as terms expired Sept. 2021
- time limit placed strain on OCHCO to quickly hire and effectively manage new temporary workforce

OCHCO reported the following progress:

- provided hiring guidance to HUD managers onboarded in March to support program offices' hiring related to the CARES Act
- distinguished CARES Act and ARP hires from other hires through a unique personnel ID system

# Managing and Oversight of Information Technology

Related HUD Strategic Goal III: Streamline Operations

## HUD must maintain continued improvement in its management and oversight of Information Technology

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While HUD has made progress in managing and overseeing its IT program through modernization efforts and addressing recommendations, several longstanding issues that harm IT program effectiveness persist. HUD's IT developments have been hindered for several reasons, including poor management of HUD's IT resources and difficulty in completing its initiatives. Historically, not all IT resources have been under the CIO's authority. HUD continues to rely heavily on contract support for its operational and modernization efforts. HUD's information security program, while showing improvements, remains at a "consistently implemented" maturity level, below what is considered to be effective.

In response, the CIO centralized key IT functions and positions and realigned them under OCIO management during FY 2019-2021 and improved collaboration between OCIO and program offices, hired key personnel to execute its strategy, and advanced privacy program governance. While HUD has made progress with its IT program, it continues to face challenges in the following areas.

### IT Project Management and Modernization

HUD's IT project management issues have a significant impact on HUD's ability to ensure that IT projects align with the enterprise-level modernization roadmap and Federal guidance. HUD and OIG assessments have shown persistent challenges with HUD's IT project management and modernization efforts. Improving IT project management at HUD should result in cost savings, higher efficiencies, and more secure systems.

Historically, HUD failed to fully execute on multiple modernization plans and implement projects. As a result, hundreds of millions of dollars in potential savings from modernization were not realized, and security risks have remained. Within HUD's 200 IT investments, a significant number of HUD's mission-essential applications have not been modernized, which presents multiple sources of risk. These applications are hosted on legacy information systems and mainframe platforms, which are operationally inefficient, increasingly difficult to secure, and costly to maintain. HUD needs to continue prioritizing and implementing oversight and performance checks for modernization projects.

The FY 2020 FISMA evaluation reported on project management issues with five of eight sample systems experiencing contract lapses and multiple expired authorizations to operate. HUD OIG has found that program office staff has varying levels of expertise and involvement, resulting in disparate project results across program offices. Further, IT program managers have lacked authority over the process, even though they bear significant responsibility for managing their projects. HUD faces challenges in holding IT project managers accountable for managing the different types of IT projects. IT project managers often have insufficient expertise or resources for managing the technical aspects, schedules, coordination, and funding for HUD's IT investments.<sup>86</sup>

HUD developed an enterprise-level modernization roadmap, which established IT projects for modernizing HUD's program office systems and improving enterprise capabilities. Enterprise initiatives included the development of an enterprise analytics platform (EAP), maturing its cybersecurity program, and implementing robotics process automation.<sup>87</sup> The roadmap established timelines based on an agile approach, which HUD stated allows it to deliver new functionality incrementally, maximize flexibility, and adjust to potential risks, such as leadership's shifting priorities and insufficient funding for development, modernization, and enhancement.

An example of a recent modernization effort is HUD's partial deployment of the FHA Catalyst platform from 2019 to 2021 as part of its effort to transform program participants' interactions with FHA using a single technology platform. By deploying an agile modernization approach, OCIO and FHA have quickly released FHA Catalyst modules, such as the electronic document delivery module being deployed in 9 business days to allow for the submission of FHA single-family case binders. Before deployment, the mission-essential function was suspended because of pandemic-related office closures. Although HUD had success during the first several years of FHA Catalyst development, HUD recently experienced delays to the FHA Catalyst initiative.

Additionally, a recent GAO review<sup>88</sup> found that, while the Department had substantially implemented what GAO considers to be leading practices for managing IT requirements and risk management, HUD needed to improve how it ensures that the modules under development are performing as intended and meet applicable requirements. Additionally, GAO found significant weaknesses in HUD's practices for cost and schedule estimation. Ultimately, the continued success of FHA Catalyst will depend on prioritization of modernization efforts and proper project management.

HUD is leveraging the technology and processes for the FHA Catalyst platform technology and processes for PIH's Native Advantage

## OIG Work and Other Resources

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[IT Modernization: HUD Needs to Improve Its Estimation and Oversight Practices for Single-Family Housing](#), GAO-21-459 (September 29, 2021)

[HUD Information Technology Modernization Roadmap Evaluation](#), HUD OIG Report 2021-OE-0003 (June 30, 2021)

[HUD Privacy Program Report](#), 2018-OE-0001 (September 13, 2018)

Topic Brief – 2021 Persistent IT Challenges and Issues Facing HUD (nonpublic)

HUD Fiscal Years 2016 - 2021 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Reports (nonpublic)

modernization, which will replace the Office of Native American Programs' Loan Origination System. That system had been under development but was discontinued in February 2021 after project delays and technical challenges in onboarding lenders, causing HUD to spend \$4 million on a failed project that did not satisfy management and oversight objectives.<sup>89</sup>

Additionally, HUD struggles to ensure proper coordination between OCIO and program offices. For example, HUD attempted to update the Public and Indian Housing Information Center Inventory Management System, which processes more than 50 percent of HUD's budget through implementing the PIH Information Center-Next Generation (PIC-NG). OCIO terminated this effort in January 2021 because it did not align with OCIO's long-term system architecture strategy, and it did not have an approved authority to operate due to security deficiencies. Since 2016, HUD has spent more than \$8 million on the development of PIC-NG, and a third-party assessment of the PIC-NG development effort had estimated the cost to finish the project at \$15-20 million.<sup>90</sup> Similarly, some program offices within HUD have not complied with controls to minimize waste resulting from failures to follow enterprisewide IT acquisition requirements, which hinders project management effectiveness, modernization, and cybersecurity efforts.<sup>91</sup> Further, OCIO indicated that it would issue guidance accepting the risk of not requiring IT purchases and acquisitions less than \$250,000 to receive direct OCIO approval. Small IT projects like web applications can be completed for less than \$250,000, which means that HUD may continue to face challenges in managing such IT projects without proper OCIO involvement.

## Cybersecurity

HUD continues to struggle in its efforts to achieve an effective cybersecurity program by overcoming years of program weaknesses and unresolved recommendations. Through the annual FISMA evaluation, OIG assessed the effectiveness of HUD's information security program and reported on HUD's cybersecurity challenges. According to OMB and the communitywide FISMA OIG metric guidance, a "managed and measurable" maturity level, or level 4, represents an effective level of security. Notably HUD had improved in the areas of risk management, security training, and incident response, and in the FY 2020 FISMA report, OIG assigned an overall increase to a "consistently implemented" maturity level, or level 3, the level below what is considered an effective level of security.

HUD is taking action that will contribute to improvements in its overall IT security posture. OCIO has filled key leadership positions and begun modernizing IT systems using more secure platforms, securing resources needed for an effective program, and enhancing

## Progress Reported

By deploying an agile modernization approach, OCIO and FHA have quickly released FHA Catalyst modules, such as the electronic document delivery module being deployed in 9 business days to allow for the submission of FHA single-family case binders

Additionally, HUD is leveraging the technology and processes for the FHA Catalyst platform technology and processes for PIH's Native Advantage modernization

In FY 2019 HUD established a "tiger team" to complete remediation activities on open OIG recommendations

A collaboration between the Privacy Office, Records Management Office, and OCIO resulted in several critical improvements in data protection and privacy

the implementation of IT security controls in accordance with Federal guidance. The annual FISMA evaluation shows that HUD continues to prioritize and work to resolve cybersecurity shortcomings, while addressing emerging threats. In FY 2019, HUD established a “tiger team” to complete remediation activities on open OIG recommendations. At the start of FY 2021, 105 recommendations issued in FISMA reports since FY 2013 remained open. During FY 2021, HUD submitted 57 recommendation closure requests, showing considerable progress toward closing years of recommendations. HUD must continue to focus its efforts on addressing known cybersecurity issues to make progress in addressing this management challenge.

HUD also recently made progress in aligning resources to address its cybersecurity challenges. Before FY 2020, HUD’s IT budget allocation toward cybersecurity was one of the lowest of Chief Financial Officer (CFO) Act Federal agencies.<sup>92</sup> In FY 2021, HUD significantly increased its cybersecurity spending to roughly \$81 million, which is closely aligned with CFO Act agency averages. The Chief Information Security Officer planned to use some of the additional funds to strengthen staffing to support a planned reorganization of HUD’s cybersecurity program. For example, OCIO established a Governance, Risk, and Compliance office to increase the emphasis on continuous monitoring and compliance oversight, a resource that has increased clarity in continuous monitoring policies and procedures and ongoing system authorizations. However, HUD still has challenges in holding system owners and authorizing officials (AO) accountable to HUD-defined policies and procedures.

HUD also formed the Security Operation Center (SOC) in August 2019 in part to strengthen its cybersecurity capabilities and incident response capabilities. While HUD OIG found that the SOC did not consistently monitor HUD’s entire network and, although OCIO initially expected to reach full operational capability in FY 2021, funding issues delayed this effort. Additionally, HUD has not fully implemented a data loss prevention tool but has established a goal to implement it in FY 2022, which is intended to assist HUD in addressing its data management challenges. HUD will need to finalize a plan for monitoring all HUD devices and ensure that the current cybersecurity capabilities are not diminished due to funding and contract delays.

HUD has continued to struggle with inconsistent implementation of configuration management policies and processes, defining key roles and responsibilities, and enforcing guidance at the program office level. For example, HUD had defined roles and responsibilities for many configuration management activities<sup>93</sup> but failed to define roles for key stakeholders, such as the AOs, system owners, and information system security officers. Additionally, some guidance needs to be updated to ensure that the AO is properly involved in risk decisions

Also, although HUD had defined policies and processes for conducting system inventories, it did not consistently maintain inventories for six of eight sample systems evaluated. Inventory procedure definitions were found to have improved in the FY 2021 FISMA analysis; however, execution at the program office and system level is still inconsistent.

HUD also continues to be challenged with establishing an effective enterprise identity, credential, and access management program. OCIO had undertaken several initiatives to update the program, starting with a 2017 strategy for implementing an enterprisewide access management solution but then updated in 2020 and again in 2021. OCIO recognizes that a modernized solution would address HUD system access and security challenges, enabling HUD to retire multiple vulnerable access management solutions implemented within program offices. However, the initiative remains incomplete, and HUD remains challenged with improving beyond the “defined” level, or level 2.

The concerns and risks associated with HUD’s supply chain have not been incorporated into its contingency planning program. Many IT systems that are critical to HUD’s mission are operating on

outdated technology, which adds to HUD's challenges and intensifies its urgency to modernize and secure its systems. Within the current infrastructure, there are risks associated with various aspects of HUD's supply chain, and OCIO needs to define the supply chain's risks in the contingency planning program.

Finally, capturing lessons learned is an integral part of mature cybersecurity program improvement and self-awareness of where to make improvements to policies, processes, and procedures. HUD recently released an Enterprise Lessons Learned Directive; however, there was no evidence of implementation as of August 2021. OIG consistently observed that HUD did not capture and report any form of lessons learned in its cybersecurity program, which is an important step it must take to address this challenge.

## **Data Protection and Privacy**

HUD is responsible for managing and safeguarding the personally identifiable information (PII) of individuals that it collects, uses, stores, and disseminates. HUD has significant challenges in protecting the confidentiality of at least one billion PII records and the integrity of financial data for HUD programs processing hundreds of billions of dollars.<sup>94</sup> HUD continues to face longstanding privacy and data protection issues associated with policy implementation, program governance, and technical capabilities. Additionally, HUD faces technical capability challenges in a number of critical areas, including having the capability to manage its extensive holdings of PII, having tools to limit access to and dissemination of PII, and fully implementing records management practices and retention schedules.

The lack of an efficient agency directives process continues to restrict HUD's ability to issue timely program requirements and establish accountability. Further, some policies remain outdated or have not been fully developed. For instance, HUD appointed a Senior Agency Official for Records Management (SAORM) to assess resource needs in the records and privacy offices.<sup>95</sup> HUD issued a Controlled Unclassified Information policy, but program offices were unsure how to follow or implement the policy. HUD also updated its PII minimization plan, but efforts have been limited to date. HUD has not yet identified which systems or data should be prioritized and has not committed resources to address specific areas of privacy concern.

HUD has made some progress and improved collaboration among the Privacy Office, Records Management Office, and OCIO, which resulted in several critical improvements. Progress includes developing processes to ensure that privacy protection requirements are built into system development life cycles, designing modernization projects to transition from manual to electronic processes, prohibiting the removal of paper PII records from agency offices for telework purposes, improved training for agency records specialists and privacy liaison officers, and revamping its records inventory processes.

HUD continues to experience privacy and records program governance challenges and has self-determined that additional staff is needed to meet critical data protection and privacy requirements and address management turnover. HUD has taken steps to address some of the governance issues, such as appointing a SAORM and establishing an Office of the Chief Data Officer (OCDO) within the Office of Policy Development and Research (PD&R). Additionally, HUD named multiple acting Chief Data Officers (CDO) during the last few years and has not yet appointed a full-time CDO. In accordance with HUD's request, the CDO will "have agency-wide responsibility for ensuring lifecycle data management of critical information and data systems; standardizing data formats and minimizing duplication of data across internal systems; and coordinating the use, protection, and dissemination of agency data."<sup>96</sup> The OCDO is in the process of supporting the design of data integration solutions across HUD and with external

parties with a requested staff of 13 full-time employees. Support for these positions and functions will be critical if HUD is to improve its governance of these programs.

HUD OIG has found that HUD was unable to locate and inventory all collections and uses of PII data or to properly track and secure its PII inventories, impeding its ability to secure sensitive data. In FY 2021, HUD initiated a zero-based review to identify sensitive data maintained within information systems, using structured storage such as databases. However, it has not implemented a capability to discover sensitive data located within “unstructured” locations, such as SharePoint libraries, common share locations, or local hard drives. HUD also lacks the capability to prevent the use of untrusted media or to prevent the transfer of data to removable media. HUD has procured solutions, which are in the proof-of-concept phase, and expects to deploy these solutions to improve its data discovery and PII inventory capabilities in FY 2022. As a part of HUD’s modernization strategy, efforts are underway to create a single, unified HUD data warehouse, EAP, to better manage and secure HUD data.

Related to protecting PII, the exfiltration of data remains a significant area of concern, as HUD’s data loss prevention solution is currently limited to the O365 platform and will only detect data exfiltration by email. To address this limitation, HUD completed a pilot program and anticipates deploying the capability to monitor data exfiltration through the network and the HUD cloud environment in FY 2022.

# Increasing Efficiency in Procurement

Related HUD Strategic Goal III: Streamline Operations

**It is critical that HUD is able to meet the procurement needs of its program offices in a timely manner so that it can efficiently carry out its mission**

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HUD's Office of the Chief Procurement Officer (OCPO) is responsible for obtaining all contracted goods and services required to successfully maintain HUD operations. We include "Increasing Efficiency in Procurement" as a Top Management Challenge again in this year's report. HUD is challenged in this area like many other Federal agencies and departments. In February 2021, CIGIE identified procurement management as one of the top challenges most frequently reported by Federal inspectors general, which included the entire procurement process. CIGIE stated that "because many federal agencies rely strongly on contractors to perform their missions, the failure of an agency to properly manage its procurement functions could also impede the agency's ability to execute its mission."

HUD has recognized this challenge for several years. According to its 2018-2022 Strategic Plan, a major HUD initiative is to streamline acquisition management by analyzing its end-to-end acquisition processes, developing a communication strategy that would engage and inform key acquisition process personnel of any underlying challenges, and establishing transformation plans. To achieve this objective, the plan envisioned that HUD would develop and implement scorecards to track the timeliness of acquisition services and incorporate a customer survey process to obtain feedback on acquisition accomplishments and issues.

More recently, HUD's 2020 top 10 risk list includes its ability to execute timely procurement actions. In its 2019 risk list, HUD identified risks in untimely procurement, improper training and workload of contracting officer representatives, and inadequate oversight of vendors and third-party service providers. An internal HUD assessment completed in September 2019 also concluded that significant weaknesses persisted within several areas of HUD's acquisition process.

This is especially important given HUD's current reliance on contractors to meet its business needs. In HUD's FY 2021 Forecast of Contracting Opportunities, HUD identified the following functions as areas in which it relies heavily on contract support: policy development, communications, document destruction, and program management, including Section 232 mortgage insurance for long-term care facilities and Section 242 mortgage insurance for hospitals. The Office of Housing, the Office of Administration, Ginnie Mae, and PD&R are the largest contract users. During

OIG's outreach to HUD stakeholders for this report, several offices identified procurement delays as a top concern.

### **IT Acquisitions and Procurement**

HUD's reliance on IT acquisition and procurement is a significant potential risk within HUD's IT environment. HUD's programs and related administrative operations depend heavily on IT systems to function, and many of these systems are developed, maintained, and operated by contractors. In addition, HUD's IT projects for development, modernization, and enhancement depend heavily on successful contract procurement actions. These challenges, if not effectively addressed, could impede HUD's IT modernization progress and significantly disrupt IT services that support HUD programs nationwide.

Although HUD is focused on addressing risks to the acquisition process, operational weaknesses in key areas of HUD's IT acquisition and procurement environment remain a challenge for HUD. During a HUD OIG review of contracts for the period July 2018 through June 2020, 43 IT contracts expired before HUD was able to complete the acquisition process for a replacement award. Further, the associated IT services were discontinued for 18 of these expired contracts, creating a strain on HUD operations and in some cases, significantly disrupting or impeding important mission functions. The number of lapsed and bridge contracts (43) during this period exceeded the total number of successfully awarded new contracts (36), including many that were primarily processed by other agencies or awarded as task orders through existing government contracts. Although necessary in some cases, bridge contracts are provisional measures that can increase overall costs, reduce value achieved through competition, and increase HUD's already significant procurement staff workload, which further strains its ability to process other planned acquisitions. These acquisition process weaknesses increase HUD's risk for compliance violations associated with bridge contracts.

Several factors contributed to HUD's IT contract service lapses and the need for bridge contracts, such as budget uncertainty, contract award protests, or evolving IT strategies. However, a key challenge resulting in HUD's IT contract services lapses and bridge contracts is inefficient internal processing to complete IT requisition documents in a timely manner. For a 1-year period ending in October 2020, 79 percent of IT requisitions from OCIO were not completed on time, based on established target dates. This was an increase from the prior year, indicating that this is a persistent weakness. In some cases, HUD's IT operations staff was required to assume discontinued IT functions after contracts lapsed. HUD staff was able to perform limited system maintenance during contract service gaps; however,

## **OIG Work and Other Resources**

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[HUD Fiscal Year 2021 Forecast of Contracting Opportunities, Products and Services](#), (June 29, 2021)

[Top Management Challenges Facing Multiple Federal Agencies](#), CIGIE Report, (February 2021)

[HUD FY20 Annual Performance Report](#), (January 15, 2021)

staff was not able to perform system patching or upgrades or address system failures. The need for OCIO staff to temporarily assume contractor functions can also strain staffing resources and take focus away from ongoing program operations.

In addition, contractor oversight has been a longstanding issue and is a significant risk to HUD, as HUD has not been able to ensure that its contractors have met their obligations and achieved expected outcomes. Often, contractors understand HUD's IT environment better than HUD government employees due to the breadth of HUD systems that contractors maintain and a lack of government employee expertise or involvement in operations and maintenance. This skill gap between HUD employees and contractors presents an additional risk to HUD's acquisition process as it can limit HUD's ability to implement effective contract oversight.

HUD OIG also observed that many program offices continue to have difficulty in awarding contracts due to HUD's acquisition staffing capacity. HUD OCIO and OCPO concluded that additional contract office capacity will be needed to maintain existing service levels and mitigate breaks in service for HUD's mission-critical applications. Due to these shortfalls, multiple key IT contracts to maintain some IT systems and to implement modernization in FY 2021 were awarded outside the HUD OCPO acquisition processes. These were supported through other Federal agencies to avoid the current HUD procurement delays.

HUD officials acknowledged a need for IT acquisition process improvements and have taken steps toward addressing weaknesses. For example, HUD reported conducting targeted acquisition training, implementing strategies to consolidate contracts, and prioritizing more efficient governmentwide and enterprisewide contracting methods. Although these changes have the potential to improve HUD's acquisition efforts, additional actions are needed to fully address the fundamental weaknesses related to acquisition workforce capacity, process coordination, and management oversight.

### **Challenges in Using Shared Services for Contracting Needs**

According to OCPO, HUD's use of outside acquisitions in FY 2019, as opposed to in-house procurement services, cost HUD \$17.2 million. Specifically, in FY 2019, the Office of Housing and PD&R used the U.S. Department of Health and Human Services for their contracting needs, while Ginnie Mae and OCIO used the U.S. General Services Administration (GSA) for their contracting needs.

Ginnie Mae's staffing model is based on a modest level of permanent staff and a majority of contractors. Ginnie Mae originally transitioned its contracting services to GSA in 2014 after concluding

## **Progress Reported**

HUD's OCPO reported a number of steps to improve procurement services, to include:

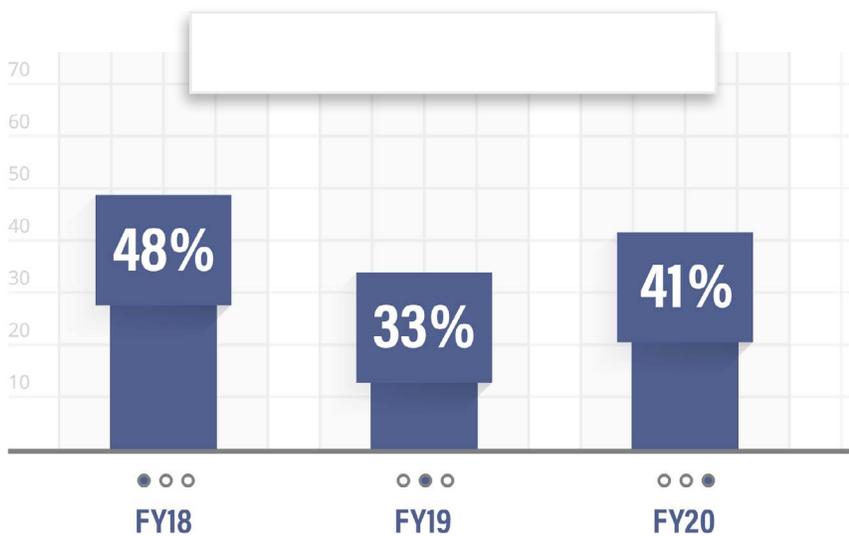
- Conducting targeted acquisition training;
- Setting goals for early process engagement;
- Adding contractor support to address staffing gaps;
- implementing strategies to consolidate contracts for similar requirements; and
- prioritizing more efficient governmentwide and enterprise-wide contracting methods.

In addition, OCPO reported that in FY 21, it was awarding 80% of acquisitions within the prescribed Procurement Administrative Lead Time.

that HUD could not meet its contractual needs in a timely manner. However, in FY 2020, Ginnie Mae's contractor expenses added up to \$245.4 million, which was 77.2 percent of its total expenses. According to OCPO, Ginnie Mae and OCIO have expressed dissatisfaction with the support received from GSA and want to return to using HUD OCPO.

### OCPO Challenges in Receiving Timely Acquisition Packages and Human Resource Needs

HUD OCPO has identified the untimely submission of acquisition packages as a challenge in awarding contracts. In its Annual Performance Report, HUD reports on the timeliness of its acquisition packages submissions as follows:



We note that according to OCPO the 2019 government shutdown impacted the percentage of on time submissions.

Further, OCPO reported that as of July 31, 2021, it had received 32 percent of the acquisition packages on time during the current fiscal year. Of those packages that were submitted on time, OCPO reported that it was able to make an award on time 88 percent of the time. OCPO further reported that regardless of when the requisition was submitted or whether it was planned or unplanned, OCPO was awarding 80 percent of acquisitions within the prescribed procurement administrative lead time.

Finally, as set forth in the Human Capital section of this report, OCPO has identified staffing shortages as a challenge to meeting HUD's procurement needs. The Chief Procurement Officer reported that staffing has increased in FY 2021, which brings optimism that OCPO will be adequately staffed moving forward.

## Impact of Pandemic Related Funds

Under the CARES Act, HUD was given flexibility in its procurement and contract administration activities.

In March 2020, OMB issued a memorandum allowing HUD to rescope some of its existing contracts for pandemic response and leverage the special emergency procurement authorities in connection with the President's emergency declaration. As of September 2020, HUD had 66 executed contract transactions related to COVID-19.

HUD OIG conducted a limited review of five of these procurement activities and found that all five had reasonable, pandemic-related justifications that either ensured the safety of contractor staff, allowed HUD to meet its business objectives, or both.

Based on the limited review, we concluded that HUD reduced disruptions to its procurement processes during the pandemic and allowed business to continue with contractor accommodations.

# ▶ Appendix I - Endnotes

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- 3 Audit Report [2020-CH-0003](#), HUD Lacked Adequate Oversight of Public Housing Agencies' Compliance With the Lead Safe Housing Rule, (March 18, 2020)
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- 10 [HUD Press Release No. 21-007](#), HUD Awards \$4.4 Million for Carbon Monoxide Detectors in Public Housing (January 19, 2021)
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- 12 See U.S. EPA webpage, "[What is Superfund](#)" last accessed October 26, 2021
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  - 18 [FHA Commercial Mortgage Portfolio](#), July 2021
  - 19 [FHA Single Family Production Report](#), July 2021
  - 20 12 U.S.C. 1709; 24 CFR part 203
  - 21 Audit Report [2019-KC-0003](#), FHA Insured at Least \$13 Billion in Loans to Ineligible Borrowers With Delinquent Federal Tax Debt, issued September 30, 2019
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  - 23 CAIVRS is a shared database of defaulted Federal debtors developed by HUD to provide information to processors of applications seeking Federal credit benefits.
  - 24 Audit Report [2021-KC-0002](#), FHA Insured \$940 Million in Loans for Properties in Flood Zones Without the Required Flood Insurance, (January 5, 2021)
  - 25 HUD, PD&R: [Flood Insurance Coverage of Federal Housing Administration Single-Family Homes](#) (Washington, D.C., Mar. 30, 2020)
  - 26 24 C.F.R. Part 203.359(b)
  - 27 Audit Report [2017-KC-0001](#), FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time, (October 14, 2016)
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  - 30 [HUD Press Release No. 20-210](#), "FHA Achieves Full FHA Catalyst Digital Claim Submission Capabilities for Single Family Forward Mortgages" (December 16, 2020)
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- 36 [Ginnie Mae Global Market Analysis Report](#), (June 2021), p. 44
- 37 [Ginnie Mae Global Market Analysis Report](#), (June 2021), p. 43
- 38 [GAO-19-191](#), Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, (April 3, 2019)
- 39 [GAO-19-191](#), Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, (April 3, 2019)
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- 89 Evaluation Report [2021-OE-0003](#), HUD Information Technology Modernization Roadmap Evaluation, (June 30, 2021)
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# ▶ Appendix II - Department Response



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
THE SECRETARY  
WASHINGTON, DC 20410-3000

MEMORANDUM TO: Rae Oliver Davis, OIG Inspector General, G  
FROM: Marcia L. Fudge *Marcia L. Fudge*  
SUBJECT: Response to OIG Fiscal Year 2022 Top Management Challenges

As we work together to create equitable, inclusive, and sustainable communities and to ensure affordable homes for our most vulnerable populations, HUD's Office of Inspector General (OIG) plays an important role as the Department seeks to continuously improve its performance.

We appreciate OIG's recognition of HUD's continued progress in a variety of areas, including Financial Management, and acknowledge OIG's recommendations for focused areas of improvement during this challenging time in our Nation's history. Even with the multitude of operational and programmatic challenges brought on by the pandemic, HUD staff has operated effectively in executing their expanding responsibilities.

We agree that only the highest performance and focused delivery is appropriate when it comes to program priorities and supporting administrative functions.

I should note, though, that without a reasonable level of resources, the Department will be unable to make significant progress in addressing several of the challenges facing it. We have put forth budget requests to the Congress and are hopeful that they will be approved.

Here are some other actions HUD has undertaken:

- Ensuring program properties are free from hazardous materials, including lead paint is a core responsibility of the HUD mission. We recognize as part of this requirement, there are challenges with processes for inspecting physical conditions and mitigating risks.
  - HUD has developed draft procedures for staff to enforce lead paint regulations.
  - HUD is developing a risk-based monitoring plan and structure to mitigate and address risks with respect to lead paint compliance monitoring.
  - HUD has developed a risk-based inspection plan to address the backlog of inspections.
- Actions are necessary to address counterparty risks faced by FHA and Ginnie Mae to protect taxpayer funds.
  - HUD is developing analytical tools to better understand the risk of flood hazard to FHA homeowners.
  - HUD has taken numerous steps to address the impact of the pandemic on borrowers and on HUD business partners.

- There is a national shortage of affordable housing and as noted in [HUD's Worst Case Housing Needs: 2021 Report to Congress](#), in 2019 only 62 affordable units were available for every 100 very low-income renter households, and only 40 affordable units were available for every 100 extremely low-income renter households. Resources available to HUD have not kept pace with this need. Nonetheless, HUD is working with its local partners to ensure access to available resources.
  - HUD established a Landlord Task Force to look into strategies to attract new landlords and to hold forums for landlords and PHAs to address declining landlord participation.
  - HUD recommended to individual agencies ways to increase leasing, including increasing the maximum amount of HUD subsidy allowed to support a voucher, and monitoring success rates.
- Concerns have been identified by those who seek to obtain disaster recovery assistance from HUD programs.
  - In January 2021, Secretary Fudge supported permanent authorization of the CDBG-DR program and said HUD would work with Congress on codification proposals.
- Like other grant-making agencies, HUD faces challenges in developing and implementing adequate policies, procedures, and controls to consistently and effectively monitor grantees' compliance with key program requirements.
  - HUD began staffing additional positions to help support monitoring and oversight, adopted and fully implemented a new Accountability, Integrity and Risk (AIR) Program charter to promote fiscal accountability, integrity, and risk management
  - HUD conducted five additional Front-end risk assessment (FERA) reviews on its programs that receive American Rescue Plan (ARP) funds.
  - HUD and its grantees have taken measures to improve the accuracy and reliability of homelessness data.
- HUD is challenged to detect and prevent fraud against programs and is encouraged to use available tools including training, outreach, monitoring, and enterprise risk management to safeguard its program funds.
  - HUD conducted training and developed SOPs for program managers on how to report fraud risks and expanded the fraud risk compendium to help educate program managers about fraud schemes that could affect HUD programs.
  - HUD communicated ethical guidelines around fraud, waste, abuse, and mismanagement, to include declaring November as anti-fraud month.
- While HUD has sustained progress during Fiscal Year 2021 in addressing its remaining financial management weaknesses, it needs to sustain its progress, including a focus on its internal control framework and its financial management systems to achieve a capable level of financial maturity.
  - During FY21, HUD received unmodified opinion on consolidated financial statements.

- HUD sustained progress during Fiscal Year 2021 in addressing its remaining financial management weaknesses.
- Recruitment, retention, and hiring qualified employees have been a growing concern for the Federal Government. HUD is challenged by these issues and specifically, time to hire and staff turnover.
  - HUD filled several Human Capital leadership vacancies in 2020-21, to include the Chief Human Capital Officer (CHCO), Deputy CHCO, and Director of Strategic and Workforce Planning.
  - Hiring timelines in FY 2021 are down 16% from FY 2020.
  - HUD is developing an automated position management and personnel security system and develop business intelligence tools to improve data analytics capabilities.
- While progress was noted, several long-standing issues persist including management of HUD's IT resources, security programs, data protection and privacy, and IT project management/modernization, which could impact the programs' ability to carry out the mission.
  - By deploying an agile modernization approach, OCIO and FHA have quickly released FHA Catalyst modules.
  - HUD is leveraging the technology and processes for the FHA Catalyst platform technology and processes for PIH's Native Advantage modernization.
- The procurement process faces issues including contractor oversight, acquisition staffing capacity, and operational weaknesses in key areas of HUD's IT acquisition and use of Shared Services.
  - HUD's OCPO is conducting targeted acquisition training, setting goals for early process engagement, and adding contractor support to address staffing gaps.
  - OCPO reported that in FY21, it awarded 80% of acquisitions within the prescribed Procurement Administrative Lead Time.

We thank the OIG for its commitment to performance excellence. We are committed to addressing each of the challenges identified by OIG as we strive to fulfill our mission and continually improve our processes and will continue to seek the additional resources needed to make significant improvements in several of these long-standing issues.

**Report fraud, waste, and mismanagement  
in HUD programs and operations by**

**Calling the HUD OIG hotline:**  
1-800-347-3735

**Visiting online at**  
<https://www.hudoig.gov/hotline>



Scan to Report Fraud

**Top Management Challenges  
Facing the U.S. Department of Housing  
and Urban Development in 2022**

[www.hudoig.gov](http://www.hudoig.gov)