TOP MANAGEMENT CHALLENGES

FACING THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT IN FY 2024

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OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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Memorandum

November 13, 2023

To: Marcia L. Fudge
Secretary, S

From: Rae Oliver Davis
Inspector General, G

Subject: Management and Performance Challenges for Fiscal Year 2024

The Reports Consolidation Act of 2000 requires the U.S. Department of Housing and Urban Development (HUD or the Department), 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 2024 and beyond.

HUD has made notable progress over the past year in important areas. We have identified the following nine top management challenges:

- Promoting Health and Safety in HUD-Assisted Housing
- Increasing Access to Affordable Housing
- Mitigating Counterparty Risks
- Grants Management
- Enhancing Oversight of Disaster Recovery
- Managing Fraud Risk and Improper Payments
- Improving IT Modernization and Cybersecurity
- Managing Human Capital
- Increasing Effectiveness in Procurement

We are pleased to report that we have removed financial management as a top management challenge for this cycle. HUD has shown sustained progress in financial management over the last 2 years, obtaining clean opinions on audits of its financial statements and addressing longstanding financial reporting weaknesses.

Introduction

To identify this year's top management challenges, we reviewed our fiscal year (FY) 2023 Top Management Challenges report as well as progress made by the U.S. Department of Housing and Urban Development (HUD) in each area. Like last year, we aligned this report with HUD's Fiscal Year 2022-2026 HUD Strategic Plan and reviewed HUD's FY 2024 Annual Performance Plan/2022 Performance Report to ensure that this report incorporates the priorities, progress, and overarching themes identified by HUD, including increasing equity across all departmental programs and improving the customer experience of those that HUD serves. We considered the HUD, Office of Inspector General's (OIG) recent and longstanding oversight, findings, and recommendations. We also considered reports issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the Pandemic Response Accountability Committee (PRAC), and the U.S. Government Accountability Office (GAO), to include GAO's Priority Open Recommendations: Department of Housing and Urban Development, issued in May 2023.

We conducted significant outreach to HUD's leadership team, program officials, oversight partners, and key external stakeholders to fully leverage their knowledge, experiences, and expertise. Through that outreach, we heard their perspectives on the Department's progress in addressing each of its top management challenges and the obstacles it continues to face. We incorporated additional themes that we identified through these listening sessions and our oversight activity. The identified themes include capacity, collaboration, data, and whistleblower protections.

We considered actions taken by HUD to resolve HUD OIG's FY 2023 Priority Open Recommendations. We issue this report to highlight a small group of open recommendations that, if implemented, would have the greatest impact on helping HUD achieve its mission.

We determined that while HUD has made some significant progress over the past year, nine top management challenges remain. Several of these challenges are common to Federal agencies, as reflected by their inclusion in CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies

HUD's Strategic Goals and Objectives Related To The Top Management Challenges

Goal 1 – **Support Underserved Communities**
- Strategic Objective 1A: Advancing Housing Justice
- Strategic Objective 1B: Reduce Homelessness

Goal 2 – **Ensure Access to and Increase the Production of Affordable Housing**
- Strategic Objective 2B: Improve Rental Assisstance

Goal 3 – **Promote Homeownership**
- Strategic Objective 3B: Create a More Accessible and Inclusive Housing Finance System

Goal 4 – **Advance Sustainable Communities**
- Strategic Objective 4B: Strengthen Environmental Justice

Goal 5 – **Strengthen HUD's Internal Capacity**
- Strategic Objective 5A: Enable the HUD Workforce
- Strategic Objective 5B: Improve Acquisition
- Management
- Strategic Objective 5C: Strengthen Information Technology
Strategic Objective 5D: Enhance Financial and Grants Management

(September 2023). Specifically, the Inspector General (IG) community has identified Information Technology Security, Human Capital Management, Financial Management (Improper Payments), Procurement Management, Grants Management, and Disaster Preparedness as key areas of concern.

In each section of this report, we highlight progress made by HUD over the past year, discuss additional work that needs to be accomplished to address the challenge, and share resources used to develop and inform each section.

Removal of Financial Management as a Top Management Challenge

Financial management has been a longstanding challenge for HUD, and over the last 2 years, we specifically identified "Sustaining Progress in Financial Management" as a stand-alone section of HUD's Top Management Challenges report.

After considering our data, HUD's progress in closing related HUD OIG recommendations, and feedback we have received from internal and external stakeholders, we are removing this as a stand-alone section. According to the U.S. Department of the Treasury's Financial Management Maturity Model, HUD has progressed further in its "capable" maturity rating. For the past 2 years, HUD has maintained a clean audit opinion of its financial statements.

Additionally, although this year's financial statement audits are pending, we determined that a longstanding instance of noncompliance related to the Federal Financial Management Improvement Act has been remediated and is being closed. HUD has also made significant strides in its efforts to become compliant with the Single Audit Act, to include engaging in the data calls necessary to implement related open recommendations, standardizing data to allow for analytics, and developing and demonstrating a tool to show progress.

The Federal Housing Administration (FHA) closed all seven of the recommendations in HUD OIG's Audit of FHA's Fiscal Years 2022 and 2021 Financial Statements, related to weaknesses in internal controls over FHA's borrowing authority that resulted in excess borrowing and late material errors in FY 2022, fully addressing this issue. HUD's Office of the Chief Financial Officer revised its grants accrual policy and developed a procedure that closed three recommendations in HUD OIG's Audit of HUD's Fiscal Years 2022 and 2021 Financial Statements, related to a longstanding weakness in the area of grant accrual.

Although we do not include financial management as a top management challenge, two related conditions exist and are included in other sections of the report as follows:

- Noncompliance with the Payment Integrity Information Act (PIIA) is incorporated into an expanded section called "Managing Fraud Risk and Improper Payments."
- A discussion of HUD's financial management systems is incorporated into the top management challenge related to improving information technology (IT) modernization and cybersecurity, as pertains to IT issues.

We also created an expanded section, entitled "Promoting Health and Safety in HUD-Assisted Housing," to include last year's top management challenge on "Eliminating Hazards in HUD-Assisted Housing" and adding safety challenges related to protecting HUD's beneficiaries from unsafe living conditions and sexual misconduct. In addition, we refocused the grants section to highlight challenges related to oversight and the procurement section to focus on effectiveness.

Whistleblower Protections

Another issue we highlight in this year's top management challenges is ensuring that contractor employees are covered by whistleblower protections afforded by law. Federal employees, as well as employees of Federal contractors, subcontractors, grantees, and subgrantees, are protected by law from retaliation when they disclose information that they reasonably believe to be 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.

Whistleblowers play a critical role in keeping Government programs honest, efficient, and accountable. Ensuring that all potential whistleblowers know they are protected from retaliation is a key step that HUD can take to mitigate fraud risk.

We issued a management alert in May 2023 after learning that HUD determined that thousands of its contractors' employees were not protected against retaliation for blowing the whistle. HUD informed OIG that its contracts with many program participants predated the 2013 statute that expanded whistleblower protections to employees of Federal contractors. In our alert, we asked HUD to take immediate action to protect contractor employees who disclose wrongdoing from retaliation.

We are adding this significant issue to the top management challenge related to fraud risk management and improper payments. More than 10 years have passed since Congress imposed protections for contractor employees, and it is important to the stewardship of Federal funds that HUD take action to ensure that these individuals who come forward to disclose covered concerns are protected from retaliation.

Continued Impact of Capacity Challenges

Stakeholders consistently identified HUD's capacity as a key theme in addressing its top management challenges. They routinely noted that HUD lacks the funding and infrastructure necessary to meet its growing mission and program responsibilities. Of significant concern was the difficulty HUD faces in recruiting and retaining employees with housing finance, data science, and IT skills. Limited staff capacity leads to expertise being consolidated with too few staff members, posing operational risks when those experts leave the agency.

HUD's stakeholders identified legacy IT as a major impediment for HUD in effectively and efficiently administering its programs and delivering an outstanding customer experience. With respect to data, they raised concerns about HUD's ability to securely collect, retain, and share data. We heard from HUD principals and many stakeholders that HUD is unable to best leverage technology to innovate and keep pace with its partners in large part because of its limited authority to reallocate agency funding.

Throughout its strategic and performance plans, HUD builds many of these challenges and considerations into its goals and objectives and establishes strategies and measures to address them. We incorporate HUD's self-identified challenges and considerations into this report to further shed light on what steps HUD must take to address its top management challenges and identify priority open recommendations that would have the greatest impact on helping HUD meet these challenges.

Oversight Resources Highlighted Throughout This Report

FY 2023 Top Management Challenges report (November 15, 2022)

HUD OIG's FY 2023 Priority Open Recommendations report (August 23, 2023)

HUD's FY 2022-2026 Strategic Plan, HUD Issuance (March 28, 2022)

HUD's FY 2024 Annual Performance Plan/2022 Performance Report

CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies (September 2023)

GAO's Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 2023)

Promoting Health and Safety in HUD-Assisted Housing

Related HUD Strategic Goal 1: Support Underserved Communities
Related HUD Strategic Goal 4: Advance Sustainable Communities

HUD is responsible for ensuring that its assisted properties are decent, safe, sanitary, and in good repair and that its programs and projects comply with environmental regulations. All properties proposed for use in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances that could affect the health and safety of occupants. (24 CFR (Code of Federal Regulations) 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)).

HUD has prioritized this goal in its FY 2022-2026 Strategic Plan and strategic objective 4B. HUD commits to continuing to work to reduce exposure to health and environmental hazards and substandard living conditions in housing that receives HUD assistance, especially for underserved communities that are disproportionately impacted by these threats.

HUD OIG and GAO have issued several oversight reports to help HUD enhance its approaches to identifying and mitigating specific hazards, many focusing on lead-based paint as well as improving its process for inspecting physical conditions in HUD-assisted housing. Further, we have each designated several priority recommendations, which if implemented, would help HUD protect its beneficiaries from health and safety hazards.

Several Recent HUD OIG Reports To Assist HUD in Addressing Lead Hazards

It has long been known that exposure to lead is dangerous – especially for children under the age of 6, to whom even low-level exposure can increase the likelihood of behavioral problems, learning disabilities, seizures, and in extreme cases, death. According to the Centers for Disease Control and Prevention (CDC), lead-based paint and lead-contaminated dust are some of the most widespread and hazardous sources of lead exposure for young children in the United States. CDC has reported that there is no safe blood lead level in people, the effects of lead are irreversible, and there is no cure for lead poisoning. These impacts are completely preventable.

HUD and the Environmental Protection Agency (EPA) have issued several primary lead-safety regulations. Among them, the jointly issued Lead Disclosure Rule requires landlords and their agents to provide disclosures concerning lead paint to prospective tenants in "target housing," which includes most houses constructed before 1978, with several exceptions: housing for the elderly or disabled, unless a child under age 6 resides in the unit, and zero-bedroom dwellings.

EPA's Renovation, Repair, and Painting Rule established requirements for renovation and maintenance work in target housing that disturbs lead paint and can expose tenants and workers to toxic lead dust and debris. The rule requires specialized training for maintenance workers who disturb lead-based paint, notices to tenants about lead-safe work practices, specific cleaning requirements, and recordkeeping to demonstrate compliance.

HUD's Lead Safe Housing Rule provides similar requirements but adds more stringent criteria for when maintenance work in target housing can be deemed minimal and exempt from lead-safe work practices, as well as a requirement when the work is more than minimal, to test dust in the work area before tenants can return to a unit where lead-based paint was disturbed.

HUD is responsible for ensuring compliance with these rules through enforcement mechanisms, increasing community awareness of lead and other health and safety

HUD OIG Reports and Other Resources

HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments, HUD OIG Report 2023-CH-0004 (May 30, 2023)

Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner, HUD OIG Report 2023-CH-0003 (May 23, 2023)

The Philadelphia Housing Authority Needs To Improve Oversight of Lead-Based Paint in Its Public Housing, HUD OIG Report 2023-CH-1001 (March 22, 2023)

HUD Did Not Sufficiently Flag Unacceptable Physical Condition Scores To Assess Its Controlling Participants, HUD OIG Report 2023-KC-0002 (February 14, 2023)

HUD Lacked Adequate Oversight of Lead-Based Paint Hazard Remediation in Public Housing, HUD OIG Report, 2023-CH-0001 (October 11, 2022)

Improvements Are Needed to the U.S. Department of Urban Development's Processes for Monitoring Elevated Blood Lead Levels and Lead-Based Paint Hazards in Public Housing, HUD OIG Report 2021-OE-0011b (February 28, 2023)

Management Alert: Action Needed To Ensure That Assisted Property Owners, Including Public Housing Agencies, Comply With the Lead Safe Housing Rule, HUD OIG Report 2023-IG-001 (October 4, 2022) hazards through outreach events, and increasing participation in HUD and stakeholder services.

We outlined HUD's challenges in overseeing lead hazards in public housing in a 2020 report, HUD Lacked Adequate Oversight of Public Housing Agencies' Compliance With the Lead Safe Housing Rule. In HUD OIG Report 2023-CH-0001, HUD's Oversight of Lead-Based Paint Hazard Remediation in Public Housing, we identified a need for HUD to strengthen its oversight of public housing agencies' (PHA) efforts to manage and remediate lead-based paint hazards.

HUD relies on PHAs to implement their own methods to achieve lead-safe housing and generally has not monitored PHAs to ensure that they have implemented lead-based paint hazard reduction at their public housing developments to achieve lead-safe housing. Importantly, HUD lacks key data about the number of housing developments and units that contain lead-based paint hazards. Further, HUD relied on PHAs' annual certifications of compliance without confirming compliance with these critical health and safety requirements.

In response to our report, HUD has closed recommendations to develop a plan to manage lead-based paint and lead-based paint hazards in public housing and implement adequate procedures and controls to ensure that PHAs appropriately identify, control, and eliminate lead-based paint hazards in public housing. HUD has not closed recommendations to identify the number of developments and units that contain lead-based paint hazards, determine the cost to control or eliminate those hazards, and determine whether PHAs have appropriate plans in place to manage their lead-based paint hazards.

HUD OIG Reports and Other Resources

Risk Indicators of Lead-Based Paint Hazards in Public Housing Agencies, HUD OIG Report 2021-OE-0011A (September 28, 2022)

HUD Program Offices' Policies and Approaches to Radon, HUD OIG Report 2020-OE-0003 (April 8, 2021)

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 16, 2023)

Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspectors, GAO-19-254 (March 21, 2019)

Lead Paint in Housing: HUD Should Strengthen Grant Processes, Compliance Monitoring, and Performance Assessment, GAO-18-394 (June 19, 2018)

We have initiated multiple audits of large PHAs to assess their compliance with environmental safety laws and HUD's lead hazard requirements. In our review of the Philadelphia Housing Authority's Oversight of Lead-Based Paint in Its Public Housing, we found that the Authority did not adequately manage lead-based paint hazards in its developments. We found weaknesses in the Authority's disclosure of lead in units to prospective tenants as well as untimely visual assessments of units and delays in completing hazard reduction work. Notably, the Authority identified approximately 5,700 housing units across 28 developments as targeted housing but had no records about lead-based paint before 2019.

In addition to the audits mentioned above, we issued two evaluation reports. In Risk Indicators of Lead-Based Paint Hazards in Public Housing Agencies, we identified nine indicators of potential risk for having lead-based paint hazards in public housing, and after applying those risk indicators to PHAs, we identified New York, Pennsylvania, Georgia, Kentucky, Illinois, and Texas as having the greatest potential risk for having PHAs with lead-based paint hazards.

In Improvements Are Needed to the U.S. Department of Housing and Urban Development's Processes for Monitoring Elevated Blood Lead Levels and Lead-Based Paint Hazards in Public Housing, we identified apparent data challenges in HUD's Elevated Blood Lead Level (EBLL) Tracker, with 94 percent of all reports coming from only two States. We also found that HUD did not align its EBLL value to the CDC's blood lead reference value for children under the age of 6 and identified opportunities for improvements related to HUD's EBLL Tracker and its Lead-Based Paint Response Tracker. We made eight recommendations to address these findings, two of which have been closed and two of which have been included in this year's priority open recommendations. We encourage HUD to continue to address these recommendations to help it better track and monitor responses to cases of EBLL.

Related HUD OIG Ongoing Oversight

Management of Lead-Based Paint in a California Public Housing Agency

Management of Lead-Based Paint in an Ohio Public Housing Agency

Unit Conditions of a Massachusetts Public Housing Agency

Unit Conditions of an Ohio Public Housing Agency

GAO has also produced several oversight products related to this critical issue. In its most recent Priority Open Recommendations Letter: Department of Housing and Urban Development, GAO added "strengthening processes to address lead paint hazards" as a major area, noting that "Exposure to lead paint hazards can cause serious harm to children under 6 years old." GAO designated two recommendations from its June 2018 report Lead Paint in Housing: HUD Should Strengthen Grant Processes, Compliance Monitoring, and Performance Assessment, for HUD to enhance compliance monitoring and enforcement of lead paint regulations, noting that implementing these recommendations would improve HUD's efforts to identify and address lead paint hazards in low-income housing.

HUD's Progress in Resolving Priority Open Recommendations Related to Lead and Other Hazards and Its Need To Continue Prioritizing These Efforts

This year, we are including eight lead-related recommendations in our FY 2024 priority open recommendations to incorporate seven arising from our recent work discussed above. These recommendations include requiring documentation for the use of the de minimis exemption, determining the number of developments that contain lead-based paint and lead-based paint hazards in public housing, developing a nationwide inspection review protocol, addressing the number and frequency of PHAs' self-inspections, considering information from CDC on whether to lower the EBLL threshold, and reviewing variances in HUD's EBLL Tracker. All are tracked and can be reviewed on HUD OIG's Recommendations Dashboard.

We note that over the past year, HUD has resolved two related priority recommendations from last year, as follows:

- On September 5, 2023, HUD's Office of Public and Indian Housing (PIH) resolved recommendation 1A from HUD OIG Audit Report 2020-CH-0003, HUD Lacked Adequate Oversight of Public Housing Agencies' Compliance With the Lead Safe Housing Rule, issued March 18, 2020, by ensuring that its staff appropriately determines exemptions from the Lead Safe Housing Rule and documents support of the determinations.
- Specifically, in June 2023, HUD publicly issued Notice 2023-16, Implementation of National Standards for the Physical Inspection of Real Estate (NSPIRE) Administrative Procedures, providing guidance covering the process and operational requirements for HUD's public housing programs that clarifies for its staff (1) actions that should be taken by the PHA and (2) documentation that must be provided to support that a housing unit is exempt from the Lead Safe Housing Rule.
- The guidance describes the process that a PHA or property owners or agents must take when an NSPIRE inspection identifies deteriorated paint in a property or housing unit. Specifically, the PHA or property owners or agents should first verify that the property or housing unit is considered "target housing" and if so, determine whether it is exempt from the Lead Safe Housing Rule. If an exemption applies, documentation, such as a lease or other residency agreement affirming that the property is designated exclusively for occupancy by the elderly or persons with disabilities, must be provided to HUD. Other residency agreements could include a HUD-approved designated housing plan, a property deed or charter, or occupancy restrictions approved by HUD or the PHA's board of commissioners. The PHA or property owners or agency must also affirm whether children under the age of 6 years reside in the property.
- On September 22, 2023, PIH resolved recommendation 1B from HUD OIG Audit Report 2020-CH-0003, HUD Lacked Adequate Oversight of Public Housing Agencies' Compliance With the Lead Safe Housing Rule, issued March 18, 2020, by ensuring that its staff determines whether a child under 6 years of age resides in an exempted development. If a child is determined to reside in an exempted development, PIH takes appropriate actions in accordance with its internal policies.
- The Office of Field Operations (OFO) updated the Lead-Based Paint Response Tracker's standard protocol and roles and responsibilities to identify the roles and responsibilities of HUD's headquarters and field office-level staff in ensuring PHAs' compliance with the Lead Safe Housing Rule. The protocol provides that the OFO field office staff works directly with PHAs to resolve issues of noncompliance with the Rule and other lead-based paint guidance by responding to or escalating questions or issues to the headquarters team, directing PHAs to available training and resources on HUD.gov or HUD Exchange, and working with PHAs to obtain sufficient documentation to close a lead-based paint case in the Lead-Based Paint Response Tracker promptly. Regarding a child under 6 years of age residing in an exempted development, staff from the field offices must upload supporting documentation determining whether a pregnant woman or child 6 years of age or younger lives in the development, collect missing information if applicable, coordinate with the OFO team to close cases in the Lead-Based Paint

Response Tracker, indicate in the Lead-Based Paint Response Tracker whether the PHA has provided the documents or the property is exempt, and upload supporting documents.

HUD's Progress in Addressing OIG's Recommendation Related to Radon Hazards

Radon is a naturally occurring, colorless, and odorless radioactive substance that is the second leading cause of lung cancer in the United States after smoking. Testing is the only way to determine indoor radon levels. In the HUD OIG Report, HUD Program Offices' Policies and Approaches for Radon, we found that HUD does not have a departmentwide radon policy or uniform approach to test for and mitigate excessive radon levels, which pose health risks to residents. We included seven recommendations, including that HUD develop and issue a departmentwide policy to allow program offices to develop consistent approaches for testing for and mitigating radon in HUD-insured or -funded properties. HUD has taken significant action to resolve this recommendation by developing and placing a proposed final departmental radon policy into its departmental clearance process in July 2023 and identifying minimizing residential radon exposure as a strategy in its strategic plan and its new Climate Action Plan. This recommendation will remain open until the policy is issued, but we have removed it as a priority open recommendation since HUD has taken significant action to address it and further action is largely dependent on the promulgation of related governmentwide policy. Of the remaining six recommendations, two were closed, and four are pending. We urge HUD to continue to address these recommendations.

HUD has reported additional efforts related to radon. For example, the Office of Environment and Energy informed us that it has begun hosting a series of three technical assistance webinars about addressing radon, culminating in a final webinar that will educate grantees about the departmentwide radon policy once it is published.

In addition, PIH informed us that while waiting for the publication of the departmentwide policy, PIH had improved its stakeholders' understanding of radon testing and mitigation by holding multiple webinars on radon testing and mitigation and assembling a radon resource webpage for PHAs and multifamily landlords. PIH further helped prepare and fund two notices of funding opportunities (NOFO) for radon testing and mitigation demonstration for public housing.

Physical Conditions of Housing and the Role of Inspections in Identifying and Remedying Poor Living Conditions

The physical conditions of HUD-assisted properties are an ongoing concern of Congress and the American public. Recent media attention has heightened awareness of the need for extensive capital repairs of HUD's public housing portfolio and the inferior conditions of some multifamily projects that participate in HUD's programs.

In our prior Top Management Challenges reports, we discussed HUD's efforts to modernize its physical housing inspection process by launching a 2-year NSPIRE demonstration program. The goal of the NSPIRE demonstration program was to assess all aspects of HUD's physical inspection process, including the evaluation of physical inspection data and a new scoring model, to ensure that housing is decent, safe, and sanitary. HUD published the final rule on May 11, 2023. The new inspection standards prioritize the detection and elimination of in-unit health and safety hazards and were instituted to address stakeholders' concerns that inspections had not been measuring the right things to ensure that scores reflected unit conditions.

GAO highlighted inspection-related recommendations in its most recent priority recommendations for HUD, noting that "HUD's inspections continue to find properties in poor physical condition and with life-threatening health and safety issues." GAO also referenced congressional and media attention on concerns about properties that may have received inspection scores that are inconsistent with their physical condition. GAO identified a priority open recommendation from its report, Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspectors, which recommends a comprehensive review of the Real Estate Assessment Center's (REAC) physical inspection process, noting that implementing this recommendation would improve the identification of physical deficiencies at HUD multifamily properties, including public housing.

In a May 2023 report, we highlighted that REAC lacked adequate policies, procedures, and controls to ensure that public housing units were inspected in the required timeframes and that HUD was delayed in inspecting properties it designated as high priority. We recommended that HUD prioritize those inspections and develop controls to prevent future inspections from being delayed. Both recommendations remain open.

We also reported in May 2023 that HUD's regional field offices were inconsistent in their reviews of inspections of public housing units and followup actions with PHAs to ensure that life-threatening deficiencies were addressed adequately and in a timely manner. Three recommendations from that report, relating to the development and implementation of a nationwide inspection review protocol and tracking system, as well as training for field office staff about followup on health and safety deficiencies, remain open.

It is also critical for HUD to enhance its oversight of private landlords with histories of failing to make repairs to protect tenants from unsafe living conditions. We conducted an audit of HUD's Office of Multifamily Housing Program's Section 8 controlling participants to determine whether HUD accurately identified risks and properly flagged properties that received poor physical inspection scores. We found 13 of 21 properties reviewed with consecutive REAC scores below 60 that were missing the required flags in HUD's Active Partners Performance System for unacceptable physical condition. Additionally, in 6 of the 13 instances, the property had more than 1 missing flag for the below-60 REAC score infraction. This condition resulted in HUD's relying on incomplete previous participation information to make decisions about future participation, which could potentially impact the health and safety of residents.

And, in an investigation coordinated with HUD's Office of General Counsel, a multifamily housing landlord receiving rental assistance subsidies from HUD and its affiliated management agent were ordered to pay more than $1.2 million in civil money penalties for breaching their housing assistance payments contract by knowingly failing to maintain housing units in a decent, safe, and sanitary manner.

Increasing Access to Affordable Housing

Related HUD Strategic Goal 1: Support Underserved Communities
Related HUD Strategic Goal 2: Ensure Access to and Increase the Production of Affordable Housing

Providing access to affordable housing is a nationwide challenge, and HUD continues to prioritize this critical issue. HUD's Fiscal Year 2022-2026 Strategic Plan outlines two objectives for ensuring access to and increasing the production of affordable housing: increasing the supply of housing and improving rental assistance. Further, HUD's strategic objective 1C describes its commitment to promote equitable community development that generates wealth building for underserved communities.

A shortage in housing limits availability and increases the cost of housing to renters and buyers. In its Out of Reach 2023 report, the National Low Income Housing Coalition estimates that the United States has a shortage of 7.3 million affordable and available rental homes to extremely low-income renters, which is a 300,000-unit increase over last year. As rental housing ages, maintenance costs can exceed what low-income renters can afford. Much of the newly constructed housing is not affordable to many Americans. Further, the gap between what renters earn and pay for rent gets wider year after year.

HUD needs to continue its efforts to promote equity in housing opportunities, increase the use of housing choice vouchers, and boost the production of affordable housing. Although HUD has made progress in these areas, both internal and external stakeholders agree that this continues to be a top management challenge for HUD.

Maximizing the Number of Eligible Families Who Benefit From the Housing Choice Voucher Program

HUD's Housing Choice Voucher (HCV) Program subsidizes housing for approximately 2.3 million families, including the elderly and persons with disabilities, allowing them to lease safe, decent, and affordable privately owned rental housing. HUD contracts with PHAs to administer voucher programs locally and then monitors PHA performance and provides support through technical assistance with the ultimate goal of maximizing the use of vouchers across the Nation. PHAs determine family eligibility and subsidy amount, manage properties or landlord relations, and issue vouchers. Once a family has found an acceptable unit, the PHA pays the HUD-funded housing subsidy directly to the landlord on behalf of the family, with the family paying the difference.

The success of HUD's voucher program is contingent on multiple factors and is largely dependent on private landlord participation and the availability of affordable housing in a given community or region. HUD is developing and implementing new ways to increase landlord participation and leasing potential.

HUD Needs To Enhance Oversight of PHA Voucher Programs

PHAs are tasked with assisting the maximum number of eligible families in obtaining affordable and decent rental units at the correct subsidy cost. PHAs report data to HUD about their performance through the Section Eight Management Assessment Program system (SEMAP), which evaluates the data to identify struggling voucher programs that need enhanced oversight and technical assistance.

A March 2023 HUD OIG report found that information reported in SEMAP may not accurately represent the performance of PHAs' voucher programs. To better equip HUD to monitor the program, we recommended that HUD enhance or develop a new performance measurement process that would help it identify PHAs with underperforming programs and provide additional training and guidance to help its field staff evaluate and validate the information in SEMAP.

In response, HUD reported that it was working to improve SEMAP and included its plans to redesign SEMAP as part of its fiscal year 2022 Congressional Budget Justification. Further, in 2022, HUD created a working group to revamp SEMAP with a focus on (1) creating new indicators and enhancing existing indicators to better assess PHA performance and (2) increasing the emphasis on utilization. HUD further reported that it held listening sessions with PHAs and other stakeholders to discuss its new proposed framework and gather feedback and planned to issue a proposed rule regarding SEMAP changes by the end of 2023.

HUD OIG Reports and Other Resources

Opportunities Exist To Enhance Oversight of the Foster Youth to Independence Initiative To Improve Program Effectiveness, HUD OIG Report 2023-LA-0004 (March 29, 2023)

HUD Could Improve Its Process for Evaluating the Performance of Public Housing Agencies' Housing Choice Voucher Programs, HUD OIG Report 2023-KC-0002 (February 14, 2023)

Fair Housing and Equal Opportunity's Oversight of State and Local Fair Housing Enforcement Agencies, HUD OIG Report 2021-OE-0008 (November 15, 2022)

HUD Remains Challenged To Serve the Maximum Number of Eligible Families Due to Decreasing Utilization in the Housing Choice Voucher Program, HUD OIG Report 2021-CH-0001 (September 15, 2021)

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

Voucher Utilization and Funding Limitations

HUD has sought funding to address the challenge of enticing landlords to participate in the voucher program, providing vouchers at a marketable rate, and providing sufficient vouchers to assist families paying more than 40 percent of their income.

In HUD's 2024 Annual Performance Plan/2022 Annual Performance Report, HUD stated that it issued a notice to allow higher voucher payment standards in tight markets and allowed housing agencies to use their administrative fees to provide landlord incentive payments and security deposit assistance and for other expenses that can help get voucher holders into homes. In addition, HUD created a cohort in its Moving to Work Demonstration program to evaluate landlord incentives and their impact on landlord participation in the HCV Program to improve residents' ability to use vouchers in their community.

To try to address the challenges of vouchers that do not cover the market costs of rental housing in certain areas, in August 2023, HUD released its fair market rents for FY 2024 (88 Fed. Reg. 60223), increasing them by an average of approximately 12 percent nationwide to enable voucher holders to secure leases in more units amid rapid rent spikes.

To further expand utilization, HUD continues to request that Congress pass legislation to provide new authority for HUD to offset PHAs' contract renewal allocations for PHAs with excess reserves and allocate the resulting budget authority to other PHAs with the capacity to serve additional families. HUD also requested authority to reallocate authorized units from PHAs that have a demonstrated history of under-leasing. See HUD FY 2023 Congressional Justifications and HUD FY 2024 Congressional Justifications. Congress has not yet granted this requested authority, which would allow HUD to recapture and reallocate funding and units for the HCV program to PHAs better able to utilize them.

HUD also administers a Foster Youth to Independence Initiative aimed at assisting young adults as they age out of foster care, offering a voucher for housing and supportive services to help individuals become

Closure of Priority Recommendation

This year, HUD took action to resolve a priority open recommendation from a prior audit report by establishing and implementing a plan for the unused and unfunded vouchers to mitigate or prevent additional vouchers from becoming unused and unfunded. Among other actions, PIH's plan included the following:

- determining the scope of HUD's statutory and regulatory authority to offset and reallocate vouchers;
- issuing Notice PIH 2020-29, Guidance for Running an Optimized Housing Choice Voucher Program;
- continuing the work of HUD's landlord task force, engaging in listening sessions with the major PHA industry groups, and conducting outreach to increase landlord participation in the HCV Program; and
- developing research by HUD's Office of Policy Development and Research on the best methods for adjusting fair market rents and to address specific challenges in local communities to increase utilization in the HCV Program.

independent. We conducted an audit of this program in 2023 and found that HUD lacked assurance that the $46.7 million allocated for vouchers under this program would be fully utilized to reach the vulnerable population it is intended to serve. The audit found that the program could be more effective by ensuring that participants had knowledge of supportive services, establishing objectives for the program, and collecting data to measure outcomes.

We recognize that HUD has taken positive steps towards increasing voucher utilization, such as increasing technical assistance, offering additional flexibilities to PHAs such as allowing PHAs to utilize administrative fees for both landlord incentive and housing search and bonus fees, and creating public facing dashboards and financial analysis tools (e.g., Two Year Funding Tool, HCV Dashboards, Payment Standard Tool) for PHAs to estimate various funding and leasing scenarios. HUD has reported that those steps have already resulted in positive outcomes, such as reaching 100% of its annual budget authority for PHAs with HCV programs, meeting the goal set forth in its strategic plan, and providing housing for an additional 30,000 families, despite attrition in the HCV program.

While we are encouraged by HUD's actions, it will take time to realize the sustained progress and impact of its efforts. Further, HUD is still in the process of implementing its plan for unused vouchers and there are additional unresolved OIG recommendations that, once implemented, would assist HUD in maximizing the number of families and individuals served by the HCV program. For these reasons, we believe that sustaining progress in voucher utilization rates and serving the maximum number of families remains a top management challenge. We look forward to reporting on HUD's continued progress and related outcomes in future reports.

HUD OIG Reports and Other Resources

Affordable Housing: Improvements Needed in HUD's Oversight of the Housing Trust Fund Program, GAO-23-105370 (August 8, 2023)

Affordable Housing: HUD Could Improve Use of Data for the Self-Help Homeownership Opportunity Program, GAO-23-106628 (July 24, 2023)

HUD Rental Assistance: Enhanced Data and Strategy Could Improve Oversight of Accessibility Requirements, GAO-23-105083 (July 20, 2023)

Homelessness: Better HUD Oversight of Data Collection Could Improve Estimates of Homeless Population, GAO-20-433 (August 13, 2020) (Includes two GAO priority open recommendations for HUD)

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 16, 2023)

Reducing Homelessness

In HUD's Fiscal Year 2022-2026 Strategic Plan, HUD has set an agency priority goal to make homelessness rare, brief, and nonrecurring by September 30, 2023. Achievement of the goal was to be measured by reducing the number of people experiencing homelessness by 15 percent from 2020 levels.

Homelessness steadily decreased from 2007, when annual counts began, but it has been steadily increasing since 2016. HUD's Continuum of Care Program (CoC) awards grants to community entities to assist individuals and families experiencing homelessness. In coordination with these entities, HUD collects and reports data about people experiencing homelessness in the United States. Data are essential for understanding the impact CoC grantees have on homelessness and allow HUD to measure its success in more than dollars spent.

GAO has identified HUD's data collection on homelessness as a longstanding challenge and listed as a priority its recommendations that HUD enhance its oversight of the methodologies that CoCs use to collect data as well as to enhance the assistance it provides on data collection. HUD agreed with both and is in the process of implementing them. As of March 2023, HUD had updated its guidance to CoC grantees on the point-in-time count methodology, developed an outreach strategy, and addressed outstanding questions. Further steps need to be taken to fully implement the recommendations. In May 2023, we initiated an audit to determine how HUD and CoC grantees collect and use data to assess performance in identifying and reducing homelessness.

Related HUD OIG Ongoing Oversight

Assessing the Occupancy of Public Housing Units

HUD's and CoCs' Collection and Use of Homelessness Data To Assess Performance

Assessment of Fair Housing Complaint Intake Process at a Fair Housing Assistance Program Agency

Assessing Equity in the Fair Housing Initiatives Program Education and Outreach Initiative

To address homelessness, CoCs must be able to effectively use the funding that they receive from multiple sources to assist the intended recipients. In HUD's 2024 Annual Performance Plan/FY 2022 Annual Performance Report, HUD stated that it made $322 million available to CoC grantees to address unsheltered homelessness in June 2022. In a HUD OIG Report, HUD Could Improve Its Tracking and Monitoring of Continuum of Care Grantee Spending Levels, we looked at CoCs that were slow to spend their funding. Between 2017 and 2020, HUD recaptured nearly $257 million from CoCs because the grantees were not able to spend their funds before the end of their respective grant terms. The spending challenges that grantees face are sometimes out of HUD's control; however, if left unaddressed, they will continue to adversely affect HUD's ability to address homelessness. The report identifies actions that could help ensure that CoCs receive the training, oversight, and assistance they need to address issues that impact timely spending and prevent further recaptures.

Mitigating Counterparty Risks

Related HUD Strategic Goal 3: Promote Home Ownership

The National Housing Act of 1934 and many other statutes were passed to address the devastation of the market collapse of the Great Depression and prevent future economic harm by creating institutions, laws, and safeguards to prevent future depressions. For the housing market, this meant the creation of the Federal Housing Administration (FHA) to provide mortgage insurance and the authorization of national mortgage associations to buy and sell mortgages to support the mortgage lending and construction industries, provide incentives for greater access to credit and increased lending, increase liquidity, stop the wave of bank mortgage foreclosures, get construction workers back to work building single-family and rental housing, make housing more affordable, and increase home ownership.

FHA's primary role is to provide insurance against losses suffered by a participating mortgage lender if a borrower fails to make principal and interest payments. This role reduces the financial risk for the lender and provides an incentive for the lender to provide more mortgages extending access to credit to greater numbers of people. FHA collects insurance premiums in exchange for providing mortgage insurance. The premiums are retained in an insurance fund to pay lender insurance claims when a mortgage loan defaults.

FHA operates in the primary mortgage market, and the Government National Mortgage Association (Ginnie Mae) operates in the secondary mortgage market, along with the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), and private mortgage insurance companies. The secondary market provides liquidity to the primary market by purchasing and bundling mortgage loans and using them as collateral for mortgage-backed securities (MBS). Ginnie Mae approves entities that originate and service FHA-insured mortgage loans to participate in its program as "issuers." Ginnie Mae issuers pool federally insured mortgages into MBS, which are sold to investors on Ginnie Mae's platform.

The originating lender recoups advances to fund the loan from the MBS issuer, which sells the security to investors at a premium. The investors receive a planned stream of income from the underlying mortgages. Ginnie Mae guarantees investors that they will receive payment of full principal and accrued interest for MBS issued by approved issuers and collateralized by pooled or mortgage loans that are insured or guaranteed by HUD, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture.

Progress Reported

HUD achieved its FY 2022-2023 agency priority goal to maintain a first-time home-buyer rate of at least 80 percent for newly endorsed FHA-insured purchase mortgages by September 30, 2023. HUD reported a rate of 82.1 percent as of February 2023 and a rate of 83.52 percent for FY 2022. (HUD FY 2024 Annual Performance Plan/2022 Annual Performance Report)

To ensure that investors receive such payments, Ginnie Mae has the authority to remove issuers who fail to meet program requirements from the MBS program and to take full possession of the Ginnie Mae portfolio. In such a circumstance, Ginnie Mae extinguishes the issuer from its program and becomes the servicer of the portfolio. The public benefits derived from FHA and Ginnie Mae are delivered to the American people through the participation of developers; property owners; management agents; State and local government lending agencies or private mortgage lenders; and other real estate professionals, also referred to as counterparties, that promote the purchase of single-family homes and rental properties.

Risks Posed by Ginnie Mae's Nonbank Counterparties

In the last decade, nonbank lenders have become the dominant lender counterparty participating in FHA-insured loans and issuing Ginnie Mae MBS, replacing depository banks that left the government-backed mortgage lending business. In prior Top Management Challenge reports, our office has highlighted that Ginnie Mae securities and mortgage servicing rights are concentrated with a small number of nonbank issuers.

Nonbanks are riskier counterparties than depositories because they are not subject to the same safety and soundness regulations and because depositories have greater access to capital. Nonbank lenders generally must seek financing through third parties and thus have greater liquidity challenges in the face of economic or market disruptions. Because servicers advance funds for buyouts and foreclosures, nonbanks struggle to a greater extent as servicers and are also at greater risk of default in the payment of investors than are depository bank lenders when mortgage loans go into default and continued payments are required.

The liquidity risks presented by nonbanks to Ginnie Mae have been documented for several years and reported widely in the media. Ginnie Mae has been able to work with nonbank issuers to navigate challenging economic cycles in which interest rates rose quickly and originations and refinances slowed. During the

HUD OIG Reports and Other Resources

Servicers Generally Did Not Meet HUD Requirements When Providing Loss Mitigation Assistance to Borrowers With Delinquent FHA-Insured Loans, HUD OIG Report 2023-KC-0005 (June 13, 2023)

Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation to Borrowers of Delinquent FHA-Insured Loans, HUD OIG Report 2023-KC-1001 (June 13, 2023)

HUD Can Improve Oversight of Its Temporary Endorsement Policy for Loans in COVID-19 Forbearance, HUD OIG Report 2023-NY-0002 (May 15, 2023)

Ginnie Mae Mostly Implemented a Crisis Readiness Program That Followed Federal Guidance, HUD OIG Report 2023-KC-0004 (March 28, 2023)

Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers, HUD OIG Report 2023-KC-0003 (March 28, 2023)

HUD's Communication to Homeowners About COVID-19 Policies, HUD OIG Report 2023-NY-0001 (January 30, 2023)

FHA Borrowers Did Not Always Properly Receive COVID-19 Forbearances From Their Loan Servicers, HUD OIG Report 2022-KC-0001 (December 15, 2021) coronavirus of 2019 (COVID-19) pandemic, many issuers were able to survive the economic challenges because of the sharp increase in refinance transactions that accompanied lowered interest rates.

In response to these risks, Ginnie Mae announced in 2022 that it was increasing the required minimum levels for issuer net worth and liquidity and that it would require nonbank issuers to maintain a risk-based capital ratio. The implementation of the risk-based capital rule has been targeted for December 2024. The proposed changes were met with significant pushback from industry stakeholders, who likened the new Ginnie Mae requirements to the framework imposed on depositories and, therefore, found them inappropriate because the risks that nonbanks face are different from those that depositories encounter.

We remain concerned that the current economic environment is one that Ginnie Mae has not faced, with a significant concentration of nonbank issuers in its program. In response to soaring inflation, interest rates have rapidly increased since early 2022 and have sustained higher levels than expected. This condition places significant pressure on nonbanks and heightens the risk that they may not be able to maintain the liquidity required to operate in Ginnie Mae's program.

Unique Risks Presented by Reverse Mortgages

A unique risk for Ginnie Mae involves issuers who service reverse mortgage or home equity conversion mortgage (HECM) loans. HECM loans for seniors over the age of 62 enable them to use the untapped equity in their primary residence. For seniors on a fixed or limited income, the ability to access this source of wealth in retirement can significantly improve their quality of life.

FHA's HECM insurance program relies on Ginnie Mae's secondary market HECM MBS (HMBS) program to provide liquidity for lenders to continue offering HECM products.

The HMBS portfolio poses a significant risk to HUD in the current high-interest-rate environment. HECM originations are much more affected by higher interest rates because higher interest rates decrease the funds available to the borrower through a HECM loan.[1] In addition, issuers must buy HECM loans out of their HMBS pools when the borrower has exhausted the amount of funding available under the loan, regardless of whether the borrower is paying off the loan. Buyouts require issuers to advance the full balance of the loan before the loan is assigned to HUD. In a market with increasing or sustained high-level interest rates, the cost of financing to fund these advances becomes increasingly expensive. At the same time, increasing rates may result in decreased new originations and refinances, which are significant sources of lender income.

According to the information provided by Ginnie Mae, its active issuer HMBS portfolio is concentrated among a small group of nondepository financial institutions, with the top four Issuers comprising approximately 86 percent of the total HMBS program portfolio's unpaid principal balance. In recent years, the total number of participants in the HMBS program has steadily declined. In 2019, the two remaining depository institutions exited the industry, resulting in Ginnie Mae's HMBS program being comprised solely of nondepository institutions.

On December 20, 2022, Ginnie Mae defaulted and extinguished Reverse Mortgage Funding (RMF) from its HMBS program. RMF filed for bankruptcy in November 2022 and was unable to sell its portfolio to

[1] In HECMs, the accrued interest is accumulated as part of the outstanding balance on the mortgage, decreasing the amount of mortgage proceeds available to the borrower.

another issuer, which required Ginnie Mae to terminate RMF's issuer status, extinguish RMF's interests in the portfolio, and become the servicer of the portfolio, representing approximately 36 percent of existing HECM loans. This was the first time in Ginnie Mae's history that it extinguished an issuer with an HMBS portfolio. According to Ginnie Mae, it subcontracted with a master subservicer, which RMF had also used, to administer the portfolio. Having the existing vendor relationship supported minimal disruption to the borrower and ensured Ginnie Mae's ability to service HECM loans.

After assuming ownership of the largest HMBS portfolio and its HMBS-related expenditures, Ginnie Mae began handling scheduled and unscheduled borrower draw requests, mortgage insurance premium payments, mandatory 98 percent of maximum claim amount repurchases, and investor pass-through payments, which as of September 2023 equated to more than $1.6 billion.

Although the HMBS portfolio at approximately $59 billion is only a small portion of Ginnie Mae's portfolio ($2.5 trillion), servicing an HMBS portfolio is staff intensive even with a contract subservicer. Periods of rising interest rates have challenged HMBS issuers. This condition is especially concerning since the four largest issuers have approximately 86 percent of the remaining HMBS market. Assumption of another defaulted HMBS portfolio could significantly challenge Ginnie Mae's capacity.

In response to the pressure HMBS issuers are facing, Ginnie Mae implemented several policy changes designed to help issuers navigate liquidity challenges. In February 2023, Ginnie Mae announced that it had reduced the minimum HMBS pool size to minimize the amount of time issuers must carry balances between disbursement and securitization. In September 2023, Ginnie Mae announced that it would allow multiple securitizations of HECM participations each month to help HMBS issuers fund disbursements on those loans more quickly.

HUD OIG Reports and Other Resources

Ginnie Mae Did Not Ensure That All Pooled Loans Had Agency Insurance, HUD OIG Report 2023-KC-0001 (December 5, 2022)

Approximately 31,500 FHA-Insured Loans Did Not Maintain the Required Flood Insurance Coverage in 2020, HUD OIG Report 2022-KC-0002 (March 22, 2022)

HUD Did Not Have Adequate Controls in Place To Track, Monitor, and Issue FHA Refunds Owed to Homeowners, HUD OIG Report 2022-LA-0001 (January 7, 2022)

HUD Did Not Always Implement Corrective Actions To Further Ensure That HECM Borrowers Complied With Principal Residency Requirements, HUD OIG Memorandum 2022-PH-0801 (December 10, 2021)

GAO Priority Open Recommendations: HUD, GAO-22-105539 (June 8, 2022)

Department of Housing and Urban Development: Increased Forty-Year Term for Loan Modifications, GAO-B-335112 (March 27, 2023)

CIGFO Guidance in Preparing for and Managing Crises (Redacted) (treasury.gov), CIGFO-2022-01 (June 2022)

Troubled Issuer Management

An important consideration for Ginnie Mae in managing issuers that become troubled financially or operationally is whether it is possible to relocate a troubled portfolio to another issuer. A successful transfer avoids Ginnie Mae's taking on servicing of the portfolio and presents an opportunity for troubled issuers to receive value for the portfolio. Recent OIG oversight work highlights challenges Ginnie Mae faces in dealing with troubled issuers. We conducted an audit of Ginnie Mae's guidance and process for managing troubled users to assess its policy and procedures for rapid relocation extinguishments and its implementation of a previous HUD OIG recommendation to develop and implement controls to identify the total impact of a large or multiple-issuer default and individual issuers' ability to adapt to changing market conditions. We determined that Ginnie Mae's guidance and process for troubled issuers contained gaps.

The report made six recommendations, four of which remain open. These recommendations include a recommendation that Ginnie Mae update its policy and procedures to define its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation. Other open recommendations are that Ginnie Mae address (1) how and what type of information it may disclose before extinguishment, (2) how it will determine the portfolio value and price before sale, and (3) how it intends to evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing a purchase and sale agreement. Given the severity of this issue, we have designated all four as priority open recommendations.

Ginnie Mae's Limited Capacity

Ginnie Mae is a relatively small entity with approximately 200 employees that is reliant on outside contractors to perform many functions. Although it operates a secondary market program similar in size to Fannie Mae and Freddie Mac government-sponsored enterprises (GSE), Ginnie Mae's staffing levels are extremely small in comparison to the GSEs, which have approximately 8,000 employees each.

Both HUD OIG and GAO have reported on Ginnie Mae's staffing challenges and its heavy reliance on contractors. Early in 2023, HUD reported to GAO that it had completed an assessment of the optimal mix of contractors and in-house staff and that Ginnie Mae had determined it would begin shifting staff from contractor to in-house in FY 2023. Ginnie Mae requested additional appropriations to support hiring more in-house staff in its 2024

Ginnie Mae's Assessment of Its Procurement and Hiring Needs Following the RMF Extinguishment

According to Ginnie Mae, in response to the RMF default, Ginnie Mae quickly assessed resources, including both the contractor and Federal workforce.

Procurement-Contractor:

Ginnie Mae assessed existing procurements to identify resources to support the unique challenges presented by managing an HMBS portfolio. This process resulted in the need to increase contracts by approximately $23 million (non-master-subservicer) and a cost to service the portfolio of more than $190 million.

Hiring (Federal Workforce):

Ginnie Mae continues to elevate concerns around human capital, which are made worse by the current budget constraints. Ginnie Mae is also encountering an increase in Federal employee departures.

Annual separations from 2020 to 2023

Program office	2020	2021	2022	2023	Total
Ginnie Mae	8	13	14	25	60

Congressional Budget Justification, with a particular focus on staff that could perform work related to issuer extinguishments. Ginnie Mae noted specifically that it needed additional staffing to support the continued servicing of the RMF and HECM portfolios.

Ginnie Mae believes that it has robust issuer monitoring protocols in place but that the organization needs more flexibility to be agile enough to respond to significant, rapidly evolving market events that strain Ginnie Mae's resources.

In the event of future significant extinguishment scenarios, Ginnie Mae opined that it would be best equipped if it had flexibility to surge resources and staff support to match the scale of the portfolios that Ginnie Mae may need to onboard and service, similar to the model used by the Federal Deposit Insurance Corporation (FDIC). Ginnie Mae believes that having FDIC-like authorities would support more efficient extinguishments and servicing operations at Ginnie Mae.

Ginnie Mae informed OIG that it continues to evaluate administrative tools that can better equip it both generally and in the event that market conditions require the extinguishment of multiple issuers.

FHA's Mortgage Insurance Programs' Continued Lack of Sufficient Safeguards To Monitor Lenders and Servicers as Well as Prevent Ineligible Loans and Claims

FHA is one of the largest mortgage insurers in the world.[2] More than 1 million individuals and families benefit from FHA's single-family mortgage insurance programs each year. Since 2009, FHA has insured 9.1 million mortgages to first-time home buyers for a total loan amount of $1.7 trillion.[3] HUD-approved lenders who originate FHA-insured single-family loans perform the necessary eligibility screenings and make decisions on HUD's behalf. This year's challenges include FHA's management of counterparty risk related to protecting the Mortgage Insurance Fund.

We continue to highlight recommendations from three HUD OIG reports related to borrower eligibility as priority open recommendations:

- Recommendation 1A from FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements
- Recommendation 1A from FHA Insured at Least $13 Billion in Loans to Ineligible Borrowers With Delinquent Federal Tax Debt
- Recommendation 1B from The Data in CAIVRS [Credit Alert Verification Reporting System] Did Not Agree With the Data in FHA's Default and Claims System

The three priority open recommendations involve HUD's use of several data sources to help determine borrower eligibility and include the development of a method for using the Do Not Pay portal, which is a service run by the U.S. Department of the Treasury's Bureau of the Fiscal Service, allowing agencies to check many data sources to verify a recipient's eligibility for a Federal payment. Specifically, HUD could (1) use the Do Not Pay portal during the underwriting process to identify delinquent child support and delinquent Federal debt, (2) require lenders to obtain borrowers' consent to verify the existence of delinquent Federal taxes with the Internal Revenue Service during loan origination, and (3) update

[2] Housing | HUD.gov / U.S. Department of Housing and Urban Development (HUD)
[3] 2022FHAAnnualRptMMIFund.pdf (hud.gov)

selection rules for CAIVRS to provide for complete reporting of all ineligible borrowers. HUD has agreed with these recommendations. If implemented, HUD will reduce the approval of loans to ineligible borrowers.

In addition, HUD has faced challenges when overseeing loan servicers that are providing critical loss mitigation services to keep FHA-assisted homeowners in their homes. HUD loss mitigation is designed to assist borrowers in default or imminent default in retaining their homes and reduce losses to the FHA insurance fund that result from mortgage foreclosures. Servicers use several loss mitigation options that lead to home retention, including a partial claim or a loan modification. The pandemic caused a lengthy period of instability that deeply impacted FHA homeowners. HUD intended these options to provide borrowers impacted by the pandemic a path to significant and sustained recovery and, whenever possible, the ability to remain in their homes.

In a 2023 audit, we found that servicers did not provide proper loss mitigation assistance to approximately two-thirds of delinquent borrowers after their COVID-19 forbearance ended. Based on a statistical sample drawn from 231,362 FHA-insured loans totaling $41 billion, servicers did not meet HUD requirements for providing loss mitigation assistance to borrowers of 155,297 loans. Nearly half of the borrowers did not receive the loss mitigation option for which they were eligible, had their loss mitigation option not calculated properly, or received a loss mitigation option that did not reinstate arrearages, which refers to any amount needed to bring the borrower current.

FHA can take several actions to improve its oversight of servicers who provide loss mitigation, the most important of which are to engage with servicers to determine the reasons for noncompliance and address common loss mitigation issues and to design and implement a data-driven methodology to determine the appropriate mix of oversight it provides over origination and servicing to account for market changes like those that occurred during the pandemic.

Closure of Priority Recommendation

In June 2023, HUD closed priority open recommendation 1B of HUD OIG Report 2022-KC-0002 by developing the following controls to detect loans that did not maintain the required flood insurance to put $1.5 billion to better use and avoid potential future costs to the FHA insurance fund from inadequately insured properties.

In November 2022, FHA published the Acceptance of Private Flood Insurance for FHA-Insured Mortgages final rule (Docket No. FR-6084-F-02) in the Federal Register and issued Mortgagee Letter 2022-18, Acceptance of Private Flood Insurance for FHA-Insured Mortgages (ML 2022-18). These policy changes not only strengthened the Office of Single Family Housing's lender requirements regarding flood insurance, but they also introduced the ability for borrowers and lenders to purchase private flood insurance.

In January 2023, HUD issued the FHA Single Family Housing Policy Handbook (Handbook 4000.1), adding a requirement that the lender review all FHA-insured properties annually to determine whether the property is located within a special flood hazard area (SFHA). For properties located within an SFHA, the lender must ensure that flood insurance is in force for the life of the mortgage and that the property has sufficient flood insurance coverage. To ensure compliance with the policy requirements, the lender must include updated flood insurance information for properties where flood insurance is required in the servicing and claims file. In addition, the Handbook includes flood insurance servicing policy updates.

The expansion of flood insurance to include private insurance and the addition of the requirement for lenders to review all FHA-insured properties annually to determine the flood zone and ensure adequate coverage will help ensure that properties have adequate flood insurance.

Lengthy Foreclosure and Conveyance Process

Another challenge highlighted again this year is that HUD faces a lengthy foreclosure and conveyance process, which negatively impacts the Mutual Mortgage Insurance 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 a record of the foreclosure deed, (2) recording the date of deed 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.

Last year, we identified two related priority open recommendations from prior OIG reports. In the first report, we found that HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time. HUD paid an estimated $141.9 million for servicers' claims for unreasonable and unnecessary debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated $2.09 billion for servicers' claims for unreasonable and unnecessary holding costs that were incurred after the deadline to convey. In the second report, we found that HUD paid an estimated $413 million in unnecessary interest and other costs for preforeclosure sale claims after lenders failed to complete servicing actions for defaulted loans within established timeframes. Both priority open recommendations requested that HUD make changes to 24 CFR part 203 to avoid unnecessary costs to the FHA insurance funds, which if implemented, will improve HUD's ability to manage and oversee its single-family portfolio, help protect the FHA insurance fund, and clarify requirements for lenders. HUD has agreed with both recommendations.

HUD plans to amend 24 CFR part 203 to require the curtailment of preforeclosure interest and other costs caused by lender servicing delays. According to HUD, the Maximum Claim Rule has been included in the Office of General Counsel's Regulatory Agenda for upcoming rulemaking. In addition, in March 2022, FHA issued Mortgagee Letter 2022-06, related to this topic, improving upon existing regulations by clarifying for each curtailment timeframe that the timeframe begins on the earlier of the date the action should have been taken in accordance with HUD requirements or the actual date on which the action was taken. However, it did not fully address the report's recommendations because it still excluded taxes and insurance from the list of items disallowed.

Grants Management

Related HUD Strategic Goal 5: Strengthen HUD's Internal Capacity

Grant making is an essential component of HUD's business. HUD's grant portfolio includes a diverse range of programs that contribute to HUD's strategic goals, including programs designed to advance housing justice, reduce homelessness, invest in the success of communities, increase the supply of affordable housing, strengthen environmental justice, and provide emergency funding for communities devastated by natural disasters and impacted by the pandemic. HUD is responsible for administering billions of grant dollars each year in an effective and timely manner. These funds are distributed to a wide variety of public and private grantees that often distribute funds to subrecipients and contractors to carry out work that advances HUD's mission. Under this structure, funds—as well as documentation and data—are distributed across a diverse range of organizations, geographic locations, and systems, making effective oversight a challenge.

Grants management is a governmentwide challenge. Like other grant-making agencies, HUD continues to face challenges in developing and implementing adequate policies, procedures, and other controls to oversee grantees' compliance, performance, and effectiveness consistently and effectively. These challenges span the entire grant-making life cycle and include HUD's oversight of grantees as well as grantees' and subrecipients' internal controls and reporting. It is critical that HUD and its grantee partners ensure that HUD grant funds are used to provide timely and effective assistance to Americans, particularly since the beneficiaries of these programs are often from vulnerable and historically underserved populations.

Need for Reliable and Complete Financial and Performance Information and Systems

Accurate, timely, and complete financial and performance data are necessary to determine whether HUD grants achieved their intended results. It is important that grant funds be properly managed, spent, and documented. To do this, HUD must have accurate data and systems.

HUD OIG Reports and Other Resources

Lessons Learned in Oversight of Pandemic Relief Funds Report, Updated, Pandemic Response Accountability Committee (June 8, 2022)

Los Angeles Homeless Services Authority, Los Angeles, CA, Continuum of Care Program, HUD OIG Report 2022-LA-1001 (January 20, 2022)

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 16, 2023)

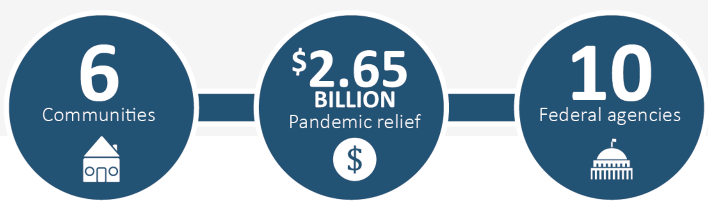
With respect to grantee performance data, we have reported that a lack of transparency creates a challenge in determining whether the grant funds are achieving their desired results, such as addressing homelessness or providing housing services to vulnerable populations. In its 2023 Priority Open Recommendations Letter for HUD, GAO identified recommendation 2 of Disaster Recovery: Better Information Is Needed on the Progress of Block Grant Funds, which required recipients of disaster funding to collect and analyze data on critical milestones needed to monitor the timeliness of their housing activities and inform corrective actions. GAO found that grantees do not collect data on application processing and construction milestones for housing programs, which are needed to gauge timeliness. HUD neither agreed nor disagreed but stated that it believed grantees already collect and analyze data on critical milestones. This HUD challenge aligns with those of other Federal agencies as noted in CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies. Congress looks to agencies to ensure that funds are achieving their intended results.

Subrecipient Monitoring

Federal grantees often distribute funds to subrecipients to carry out activities and deliver program assistance to beneficiaries, and like many other Federal agencies, HUD's systems primarily maintain data only at the grantee level.

Impact Project

In phase 1 of an impact project led by the PRAC, a team of auditors from multiple OIGs, including HUD OIG, identified and evaluated pandemic-related funding to six selected communities, which included two small to medium-size cities, two rural counties, and two Native American reservations, to determine how much pandemic relief they received. The team determined that $2.65 billion in pandemic relief funding was received by the 6 communities from 10 Federal agencies, including HUD, and the analysis was complicated and time consuming. Tracking the funding to the community level required access to several data systems, and complete data were either unavailable or insufficient. These challenges highlighted the limits on the degree of transparency in the use of the pandemic relief funds. Upcoming phases of this project, which include field visits to the communities identified, will provide more insight into how the funding was used and whether the funding helped the communities as intended.



As set forth in The IG Community's Joint Efforts To Protect Grants From Fraud, Waste, and Abuse, many grant programs involve a decentralized structure, in which Federal funds are issued through prime grantees, which are required to administer Federal awards to subgrantees and monitor those subgrantees. While prime grantees are generally required to file Federal financial reports, those reports are high-level summaries of total award funds spent for the program during that award period, and prime grantees roll all of their subrecipients' financial expenditures into that general report, with no details on how the funds were spent. Given this limited visibility and control over the expenditure of grant funds at the prime and subgrantee levels, there is an increased risk of fraud, waste, and mismanagement, to include conflicts of interest, false claims, and inadequate financial management systems.

Similarly, the PRAC found that Federal governmentwide requirements do not require grantees to report subawards beyond the first-tier transactions. It is at this lower tier where the work is being carried out and where the funds are being spent.

In August 2022, we issued a report finding that 87 percent of Coronavirus Aid, Relief, and Economic Security (CARES) Act, Emergency Solutions Grant (ESG-CV) program grantees that responded to our survey provided funds to subrecipients to administer. Of these grantees, 84 percent indicated that the pandemic impacted their ability to effectively monitor their subrecipients. To further this work, we initiated an audit of ESG-CV grantees' subrecipient and contractor monitoring. The program received nearly $4 billion to prevent, prepare for, and respond to coronavirus among individuals and families who are homeless or receiving homeless assistance and to support additional homeless assistance and prevention activities to mitigate the impacts created by coronavirus. The audit will assess HUD's monitoring of the selected ESG-CV grantees' oversight of their subrecipients and contractors.

Since grantees typically carry out their activities using subrecipients and contractors, oversight of these entities is vital to ensuring that the purpose of the grant funds awarded is achieved and funds are spent on only eligible applicants and activities. While grantees are responsible for overseeing their subrecipients and contractors, HUD is challenged with ensuring that its grantees are performing this oversight.

HUD OIG Reports and Other Resources

The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses, HUD OIG Report 2023-FW-1002, (June 12, 2023)

Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities, HUD OIG Report 2023-FW-1003 (June 12, 2023)

The Stark Metropolitan Housing Authority, Canton, OH, Did Not Always Comply With Federal and Its Own Procurement Requirements, HUD OIG Report 2023-CH-1002, (May 24, 2023)

The Puerto Rico Department of Housing's Contracting Method for Program Management Services for the R3 program, HUD OIG Report 2023-AT-1002 (March 31, 2023)

The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients, HUD OIG Report 2023-AT-1001 (March 28, 2023)

The Office of Community Planning and Development's Use of Remote Monitoring, HUD OIG Report 2021-OE-0010 (March 10, 2023)

CDBG-DR Program Generally Met Low- and Moderate-Income Requirements, HUD OIG Report 2023-FW-0001 (March 3, 2023)

Timeliness in Spending Grant Funds and Executing Grant Programs

Another challenge that HUD and its grantees face is timely spending and execution of grant-funded programs. Many of HUD's grant programs are designed to address urgent needs, such as homelessness, disaster recovery, and pandemic-related challenges. HUD, its grantees, and their subrecipients are challenged to plan and implement programs in a timely way so that these urgent needs can be met and beneficiaries receive the maximum possible impact from HUD funds.

To improve its timeliness efforts, in the HUD FY 2024 Annual Performance Plan/2022 Annual Performance Report, HUD established an internal milestone dashboard for its NOFOs. NOFOs are used to distribute some forms of grant funding. In FY 2022, HUD issued 48 percent of its NOFOs within its 120-day requirement and developed a collaboration group to identify gaps and potential strategies to issue NOFOs more quickly. This is a new measure with a target for FY 2023 of 75 percent.

We recently issued two audit reports related to timeliness in the administration of critical grant funding. In the first report, we determined that, as of October 4, 2022, approximately $367 million (35.5 percent) of $1.035 billion in appropriated funds from the CARES Act and the American Rescue Plan (ARP) Act for the Office of Native American Programs had been drawn down by grantees in approximately 2.5 years after the passage of the CARES Act and 19 months after the passage of the APR Act. The second audit found that most grantees reported that they were satisfied with the resources and assistance HUD provided but faced challenges that were outside HUD's control. Some of these challenges included a lack of supplies, contractors, and capacity, which limited the grantees' ability to spend their grant funding. To further our understanding of the extent of the slow spending issues, we have initiated an audit to determine whether the Office of Community Planning and Development (CPD) has been tracking and improving the timing of its delivery of the Community Development Block Grant Disaster Recovery (CDBG-DR) program funds over the last 20 years and whether CPD has met congressional allocation timing requirements.

We have identified slow spending as a challenge. HUD has opportunities to work with grantees to identify and address roadblocks that can impact the flow of funding to beneficiaries. For example, in a recent report, we found that HUD recaptured $257 million from grantees between 2017 and 2020. HUD generally tracked and monitored CoCs; however, the report outlines that it did not prioritize grantees that encountered challenges in spending their grant funds before the grants expired. Again, it was noted that some challenges were outside the control of HUD or the grantees; however, HUD could initiate consistent proactive measures, including training, with struggling CoCs, to ensure that funds are spent to meet intended purposes before expiring.

Slow spending impacts direct beneficiaries in the short term when they need assistance the most. In our FY 2023 priority open recommendations report, we recommended that HUD update its policies and procedures for tracking expenditures related to slow-spending grantees, including steps for assisting the grantees to expedite spending, identifying the reasons for the delays with the grant, and documenting the outcomes of its efforts.

Navigating Efficient and Effective Solutions

HUD awards grants to address complex societal challenges, such as preventing and addressing homelessness, promoting economic and community development in tribal and historically disadvantaged communities, and recovering from disasters. Many other Federal, State, and local agencies, along with nonpublic organizations, also offer funding to address these challenges. HUD faces the challenge of effectively collaborating with other agencies and service providers to ensure that grantees and subrecipients understand all available funding options as well as the restrictions and rules that govern each funding source. Coordination is essential to avoid potential inefficiencies created by duplicate funding and overlapping services.

One benefit of overlapping programs is that they can facilitate access to services through several entry points. When multiple programs and funding sources overlap, however, there is also the risk that program administrators may make inefficient use of available resources if they do not adequately coordinate their efforts, as well as increased fraud, waste, and abuse. For disaster recovery, more than 30 Federal entities are involved in supporting disaster relief according to a recent GAO report. A duplication of benefits occurs when a beneficiary receives disaster assistance from multiple sources for the same recovery purpose and the total assistance received for that purpose is greater than the total need. HUD created a technological solution, called the Disaster Recovery Portal, that would facilitate the rapid and secure transmission of data from the Federal Emergency Management Agency (FEMA) to HUD's disaster recovery grantees to replace its current manual data delivery process. HUD OIG Report, Disaster Data Recovery Data Portal, shows that HUD prioritized the project but had not yet developed all of the required project management documents. Additionally, the portal,

Closure of Priority Recommendation

In September 2023, HUD resolved recommendation 1B from HUD OIG Report 2022-AT-1001, Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees, that HUD update its policies and procedures for tracking expenditures related to slow-spending grantees, including steps for assisting the grantees to expedite spending (including the grantee's steps or actions to address slow spending), identifying the reasons for the delays with the grant, and documenting the outcome of its efforts.

Specifically, CPD updated guidance addressing grantee slow spending through technical assistance, including actions grant managers can take when grantee expenditures do not appear to be "on pace" to meet the expenditure deadlines, and demonstrated that it was providing technical assistance to grantees during monitoring. CPD also issued an additional Standard Monitoring Findings and Corrective Actions Guide for its staff to promote a consistent framework for crafting monitoring findings and the corrective actions needed to resolve identified deficiencies and prevent future occurrences. This new resource provides general guidance and examples for presenting finding components in monitoring reports for 14 topics, including "Failure To Meet Timeliness of Expenditures Requirements."

once deployed, will have data from only one FEMA program and could be more useful if it had additional data sources.

Capacity To Oversee Grant Programs

In its Top Management and Performance Challenges Facing Multiple Federal Agencies, CIGIE noted that other agencies also struggle with ensuring that funds are awarded and spent properly and adequate oversight, integrity, and accountability on the use of grant funds. It is important that grant funds be properly managed, spent, and documented. Since grantees typically carry out their activities using subrecipients and contractors, oversight of these entities is vital to ensuring that the purpose of the grant funds awarded is met and funds are spent on only eligible applicants and activities. While grantees are responsible for overseeing their subrecipients and contractors, HUD is challenged with ensuring that its grantees perform this oversight.

Related Ongoing Oversight

ESG CARES Act Subrecipient and Contractor Monitoring

HUD's and CoCs' Collection and Use of Homelessness Data To Assess Performance

Housing Trust Fund grantees added more than 2,000 units for families with extremely low incomes between the start of the program in 2016 through March 1, 2022. Funds have been committed to another 6,600 units. To ensure that the funds are used efficiently and effectively, GAO issued a report recommending that HUD address weaknesses that exist in its oversight and monitoring. GAO found that HUD has not monitored grantee compliance for reporting project completion in its information systems or obtaining cost certifications for completed projects. HUD has also not conducted or scheduled a comprehensive fraud risk assessment or disclosed limitations on its external program reports to avoid misinterpretation of project cost and funding data. Following the GAO report, CPD issued an updated risk analysis protocol for CPD programs, specifically adding the Housing Trust Fund, for use by CPD Field Offices when prioritizing grantees to be monitored. With such a large impact on the production of housing units, oversight of this program is vital to ensuring that more units are made available to extremely low-income households.

In HUD OIG Report 2023-CH-1001, [The Philadelphia Housing Authority's Oversight of Lead-Based Paint in Its Public Housing](), we found that the Authority began implementing the Lead Safe Housing Rule in 2018, which required PHAs to perform specific actions or procedures to reduce hazards in targeted housing, which included inspections to identify lead-based paint, risk assessments, abatement, and implementation of interim controls. The Authority was unable to locate the majority of its historical inspection reports and risk assessment documentation. As a result, we were unable to assess whether the Authority complied with the Lead Safe Housing Rule.

Resolution of HUD OIG Recommendations

HUD OIG continues to provide oversight on grant management challenges and offer recommendations for improvement to further HUD's efforts. HUD and HUD OIG have combined efforts to reduce HUD's open recommendations, of which a significant portion are related to grants. In the HUD FY 2024 Annual Performance Plan/2022 Annual Performance Report, HUD's target for FY 22 was to close 30 percent of its open recommendations across all program areas, and HUD reported that it surpassed its goal by closing 39 percent. HUD also closed out 25 percent of GAO's audit recommendations, which is 15 percent above the 10 percent target. The closure of open recommendations maximizes efficiencies in HUD operations and protects HUD programs from fraud, waste, and abuse.

Over the past year, HUD OIG has collaborated with HUD to identify opportunities to resolve and close, "like-kind" recommendations. One significant accomplishment is consensus on closing recommendations that involve repayment agreements HUD has with auditees. Many of these agreements have terms that extend for several years or even decades. Historically, these recommendations remained open until the auditee satisfied repayment or otherwise resolved the debt. HUD and HUD OIG agreed to close recommendations if auditees complied with the terms of the repayment agreement. As part of the agreement, HUD will continue to track repayments, while HUD and HUD OIG monitor auditees' repayment progress. As of September 19, 2023, HUD had closed 65 such recommendations and continues to evaluate an additional 114 open recommendations that may also meet the closure criteria.

In our prior reports, we reported a financial management challenge on the risk of HUD's materially misstating its grant liabilities. As of September 30, 2023, four of the recommendations directed at the Chief Financial Officer were closed. These recommendations related to developing or updating the grant accrual validation policy, developing internal control procedures for the new or updated policy, developing and implementing procedures with sufficient time to validate accruals, and revising HUD's validation review instructions. The remaining recommendation requires CPD to develop internal procedures related to the new or updated policy. The closures of four recommendations in this area were positive strides in addressing this issue.

Enhancing Oversight of Disaster Recovery

Related HUD Strategic Goal 4: Advance Sustainable Communities

HUD is responsible for administering billions in disaster recovery and mitigation grants each year and ensuring that the funding is used effectively and in a timely manner. These funds are distributed to a wide variety of public grantees, which often redistribute funds to subgrantees, subcontractors, and other subrecipients to help communities recover from or mitigate disaster damage. Under this structure, funds—as well as documentation and data—are distributed across a diverse range of organizations, geographic locations, and systems and can be used for a wide variety of activities chosen by the grantees and subrecipients. The flexible delegation of authority to execute HUD's disaster recovery and mitigation programs, coupled with the large influx of funding that States and localities often receive, results in HUD's, its grantees', and subrecipients' facing unique challenges. Among the challenges for HUD is managing a complex and diffused implementation structure with a lack of insight into or control of the subrecipients that implement the work on behalf of grantees.

Recognizing the impact that national disasters have on our populations across the Nation and the billions of dollars in taxpayer funds to support community recovery, HUD will be better able to support communities and individuals impacted by disasters by addressing the outstanding recommendations from the work of HUD OIG and GAO. Common themes identified throughout such work include the need to permanently authorize HUD's CDBG-DR program, the benefits of additional data, and needed improvements to HUD's oversight of the grantees implementing HUD's programs and, in turn, grantee oversight of the subrecipients who collectively undertake the disaster recovery and mitigation work on HUD's behalf.

Permanently Authorizing HUD Disaster Recovery Programs

Unique for programs of similar size and scope, CDBG-DR grant programs are not enacted through consistent requirements in the Code of Federal Regulations. Because Congress provides disaster relief funds in supplemental appropriations, HUD uses the existing CDBG program as an initial program framework. However, for each appropriation, HUD must issue one or more Federal Register notices with additional requirements, waivers, and allocations for its CDBG-DR grantees. As HUD allocates and amends requirements for each disaster through Federal Register notices, grantees historically have had to develop multiple action plans or amendments, often through synthesizing many notices to implement plans for disaster recovery. 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. These issues can create delays lasting months and even years. Additionally, oversight of this program is complicated by different rules applying to different grantees.

For years, HUD OIG and GAO have reported that HUD's disaster recovery programs would benefit from permanent authorization by Congress and codification by HUD in the Code of Federal Regulations to simplify and standardize the process. HUD has taken consistent, meaningful steps to address our recommendations to pursue permanent authorization through legislative action. Secretary Fudge and former Secretary Carson have expressed public support for this action in testimony before committees of Congress. Importantly, HUD's FY 2024 Congressional Budget Justification expressly supports the congressional authorization of the disaster recovery program, noting:

> Permanent authorization of CDBG-DR would improve the transparency and predictability of CDBG-DR funds made available to impacted communities. Permanent authorization would also require HUD to establish consistent regulatory requirements for CDBG-DR across all future disasters, eliminating the current practice of establishing new requirements in response to each supplemental appropriation of CDBG-DR funds.

Progress Reported

In January 2021, Secretary Fudge supported the permanent authorization of the CDBG-DR program and said that HUD would work with Congress on a legislative proposal. In August 2023, Principal Deputy Assistant Secretary McFadden testified about the benefits of a reliable framework that can follow permanent authorization of the CDBG-DR program, improving the speed and outcomes of the program.

Permanent authorization was included in the Administration's requests in its most recent Congressional Budget Justification. Bipartisan, bicameral congressional support for permanent reauthorization has resulted in proposed legislation, such as the Senate and House versions of The Reforming Disaster Recovery Act, which are responsive to OIG's recommendations.

Legislation permanently authorizing HUD's disaster recovery programs would streamline, reform, and inject greater fiscal responsibility into the program, while also mitigating funding lags and duplicative requirements.

HUD has made meaningful progress toward providing more consistent guidance to its disaster grantees within the limitations HUD believes it has the authority to take. For example, HUD issued Federal Register notices, which contained an appendix collectively referred to as the "Consolidated Notice." HUD incorporated the Consolidated Notice into subsequent Federal Register notices, along with changes or waivers applicable to CDBG-DR grants. HUD also created an interactive guidebook to help those grantees, including preaward grantee submissions and action plan development, which was a recommendation made by grantees according to a study produced by the Office of Policy Development and Research, Housing Recovery and CDBG-DR: A Review of the Timing and Factors Associated With Housing Activities in HUD's Community Development Block Grant for Disaster Recovery Program.

HUD also states that the Consolidated Notice and interactive guidebook will help future grantees, but that is true only to the extent that the rules do not change. To refine the programs, HUD has issued two requests for information to get public feedback on the Consolidated Notice and HUD's allocation process and to inform a potential "stand-alone document" that could apply to future disaster grantees. Additionally, HUD has created a Public Action Plan module in its Disaster Recovery Grant Reporting system that grantees subject to the Consolidated Notice will use for action plan development and submissions. While short of permanent authorization, efforts like these provide additional clarity to HUD grantees and communities, allow HUD to provide assistance more quickly, and help impacted communities better plan for how to best use HUD disaster recovery and mitigation funding.

Monitoring Block Grants To Ensure Efficient and Effective Disaster Recovery Programs

As disaster funding grows and the program increases in complexity, HUD's capacity to monitor and oversee the funding must keep up. That includes having the systems and staff in place to guide and oversee grantee programs. In turn, HUD is responsible for grantees' performing their delegated responsibilities to ensure the eligibility of activities and beneficiaries, that low- and moderate-income requirements are met, and that programs are both timely and effective and otherwise meet Federal procurement and reporting requirements.

Like other agencies, HUD has faced challenges in effectively monitoring block grant recipients to ensure that their expenditures are eligible, supported, and administered in an effective and timely manner. By design, CDBG-DR allows grantees to undertake a broad range of activities to address unmet needs following a disaster and allows HUD to waive statutory and regulatory requirements for good cause.

While this flexibility allows for a broader range of activities, it also creates challenges for HUD in overseeing the program, as its monitoring systems and processes must account for the wide variety of activities that a grantee must undertake and the data and documentation that would be needed to show that the grantee executed its responsibilities in a timely and appropriate fashion. HUD has taken important steps to address these challenges, including those noted above under "Permanently Authorizing HUD Disaster Recovery Programs." However, the inherent flexibility in CDBG-DR shapes how HUD oversees its disaster recovery grantees and subrecipients.

Further complicating matters, grantees often experience difficulties in monitoring their own programs and the programs of their subgrantees, which greatly impacts HUD's ability to rely on that monitoring to help ensure proper administration of disaster recovery grants. Grantees' monitoring activities look at their own activities and those of their subrecipients for critical issues, such as the

Data Limitations

A key aspect of HUD's oversight of its grantees is its use of the grantee quarterly performance reports. HUD uses the performance reports to monitor grantees' fund expenditures and whether performance metrics were achieved as compared to their HUD-approved action plans. In its December 2022 audit, Disaster Recovery: Better Information Is Needed on the Progress of Block Grant Funds, GAO found that while the performance reports presented clear information on the totals of expenditures, they presented "cluttered and confusing" information about grantees' performance that makes it difficult to combine performance information to obtain an overall picture of performance. While HUD committed to adapting its reporting requirements in the future, HUD said that it would be unable to do so in a way that retroactively applies to prior disaster grantees that cumulatively have tens of billions in disaster funding left unspent. Additionally, GAO noted that HUD's grantees were not collecting or analyzing data on critical milestones needed to monitor their housing activities for timeliness and progress and issued a priority open recommendation that HUD require future recipients to collect and analyze such data.

status of projects, problems encountered and proposed solutions, that expenditures are eligible and supported, and to track whether previously identified problems have been addressed. HUD OIG frequently finds gaps in the frequency and effectiveness of CDBG-DR grantees' monitoring of their activities and those of their subrecipients.

In a recent HUD OIG report, we found that the State of Georgia, (1) lacked an understanding of the differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State had effective controls for responding to devastating disasters. In addition, there was a risk that the planned activities would neither serve the State's beneficiaries in a timely manner nor meet its projected goals for the number of beneficiaries it planned to serve. In another HUD OIG report, we found that the U.S. Virgin Islands Housing Finance Authority did not effectively or consistently monitor its own disaster-funded activities or those of its five subrecipients. As a result, HUD could not be assured that activities were progressing, identified deficiencies were corrected, and funds were used for authorized purposes. Of significance, the Authority's $1.14 billion disaster grant was not only the largest grant it had ever received, but also its first allocation of disaster grant funds.

When disaster recovery grantees are responsible for implementing new programs with a large influx of funding, they often face challenges in standing up the systems, policies, and practices to ensure that their programs and those of their subrecipients are effective, reliable, and properly implemented. Further, with the large influx of disaster recovery funding, often far in excess of what the grantee or subrecipients typically receive, disaster recovery programs are at a heightened risk of fraud. With the responsibility to oversee billions in disaster funding, HUD and its grantees have a responsibility that includes detecting and preventing fraud, waste, and abuse. As discussed later in this report, having a robust fraud risk management framework is an

HUD OIG Reports and Other Resources

Disaster Recovery Data Portal, HUD OIG Report 2023-FW-0003 (July 21, 2023)

State of California, 2018 Disasters Owner-Occupied Rehabilitation and Reconstruction Program, HUD OIG Report 2023-FW-1004 (July 13, 2023)

The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses, HUD OIG Report 2023-FW-1002 (June 12, 2023)

Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities, HUD OIG Report 2023-FW-1003 (June 12, 2023)

HUD's Oversight of CDBG-DR Grantees' Use of Program Income, HUD OIG Report 2023-FW-0002 (May 17, 2023)

Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees, HUD OIG Report 2022-AT-0001 (January 5, 2022)

The City of Houston, Houston, TX, Faced Challenges in Administering Its Hurricane Harvey Program and Risked Losing Its Funding, HUD OIG Report 2022-FW-1001 (January 4, 2022)

Lessons Learned and Key Considerations from Prior Audits and Evaluations of the CDBG Disaster Recovery Program, HUD OIG Memorandum 2022-FW-0801 (November 2, 2021) essential control to guard against the financial, reputational, and programmatic harm caused by fraud.

HUD OIG has dedicated significant resources to identifying and addressing weaknesses in grantee programs. Overall, CDBG-DR grantees' highest risk problem area was not following program and administrative requirements. A total of 68 of 118 HUD OIG reports covering 29 CDBG-DR grantees contained 104 instances of program and administrative issues, including issues with general program and administrative requirements, procurement requirements, duplication of benefits requirements, and Federal cost principles. Of the 72 CDBG-DR grantees, 32 (44 percent) had 124 findings in the 118 reports, which contained more than $1.7 billion in questioned costs and more than $751 million in funds to be put to better use. Most CDBG-DR grantees that incurred questioned costs were unfamiliar with the program requirements and did not implement adequate policies and internal controls. HUD's Office of Disaster Recovery should continue to provide grantees with training and other technical assistance to ensure that they are familiar with Federal procurement requirements, cost principles, and other administrative requirements. This assistance is especially important for grantees without experience in administering CDBG-DR funding.

Related HUD OIG Ongoing Oversight

Assessment of Puerto Rico 2017 CDBG-DR Program Fraud Risk Management

City of New Orleans Community Development Block Grant National Disaster Resilience (CDBG-NDR) Grant

HUD NDR Project Activity Status

HUD OIG Reports and Other Resources

HUD's Major Program Offices Can Improve Their Preparedness To Respond to Upcoming Natural Disasters, HUD OIG Report 2021-KC-0003 (July 26, 2021)

Disaster Recovery: Better Information Is Needed on the Progress of Block Grant Funds, GAO-23-105295 (December 15, 2022)

Disaster Recovery: Actions Needed To Improve the Federal Approach, GAO-23-104956 (November 15, 2022)

Management Challenges of Federal Agencies in Preparing for and Responding to Natural Disasters, CIGIE Report, HUD OIG Report 2023-FW-1001 (October 18, 2022)

Disaster Recovery: Additional Actions Needed To Identify and Address Potential Recovery Barriers, GAO-22-104039 (December 15, 2021)

Disaster Assistance: Action Needed To Improve Resilience, Response, and Recovery, GAO-23-106544 (March 15, 2023)

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 16, 2023)

Managing Fraud Risk and Improper Payments

Related HUD Strategic Goal 5: Strengthen HUD's Internal Capacity

Fraud risk management is a challenge throughout the Federal Government. Beyond the monetary loss to taxpayers, fraud against HUD programs reduces HUD's ability to meet the needs of vulnerable communities with critical housing needs.

HUD is challenged to develop more robust fraud risk assessments and fraud risk frameworks in its programs. It is also challenged to integrate accountability measures into its programs, such as strong certifications throughout a program's life cycle, and to adopt leading practices in preventing fraud, such as antifraud training for program participants and verifying self-reported information. Although HUD made significant progress in establishing a fraud risk management program during the past year, OIG found that the program is still in its infancy and lacks sufficient resources to effectively meet its objectives.

Public officials who violate the public's trust by engaging in fraud and corruption create distrust in the government overall. Each year, HUD programs distribute tens of billions of dollars to PHAs, States, local governments, and other entities. These officials are entrusted to ensure that HUD program funds reach beneficiaries in furtherance of HUD's mission. As detailed later in this section, examples of public official fraud convictions demonstrate how embezzlement, bribery, and other forms of corruption impact critical HUD programs and beneficiaries, who are eligible for HUD assistance but lose out to corrupt officials.

Additionally, HUD OIG oversight work has identified systemic challenges that HUD faces in completing its testing requirements for programs susceptible to significant improper payments. HUD is missing opportunities to mitigate fraud risks and detect improper and unknown payments when it is unable to test the full payment cycle of certain programs, as has been reported in HUD OIG reports for the past 10 years.

HUD OIG Reports and Other Resources

HUD Did Not Comply With the Payment Integrity Information Act of 2019, HUD OIG Report 2023-FO-0009 (May 22, 2023)

Improvements Are Needed in HUD's Fraud Risk Management Program, HUD OIG Report 2023-FO-0001 (October 26, 2022)

FY 2021 Audit: HUD's Compliance With the Payment Integrity Information Act of 2019, HUD OIG Report 2022-FO-0005 (June 27, 2022)

HUD's Fraud Risk Management Program

In October 2022, we issued an audit of HUD's fraud risk management program at the enterprise and program-office levels and assessed its overall maturity. Our objective was to determine HUD's progress in implementing a fraud risk management framework at the enterprise and program-office levels that encompasses control activities to prevent, detect, and respond to fraud. We found that all four phases of HUD's fraud risk management program were in the early stages of development, or at an "ad hoc" maturity level. We made seven recommendations to help HUD address our findings, including that the Chief Risk Officer perform a complete agencywide fraud risk assessment and develop a plan to improve the maturity of HUD's fraud risk management program. Given the shared responsibility that the Office of the Chief Financial Officer (OCFO) and program offices have, we also recommended that the Chief Risk Officer provide assistance to program offices to better understand the differences in requirements for enterprise risk management, the Payment Integrity and Information Act, and fraud risk management risk assessment processes and that they develop a framework for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools.

Joint Outreach

In November 2022, the Inspector General and HUD's Chief Financial Officer partnered on a joint video to raise awareness about fraud and how to effectively prevent, detect, and respond to internal and external threats of fraud against HUD's programs.

HUD has reinvigorated its quarterly Risk Management Council (RMC) meetings to communicate and mitigate top risks, including fraud, across the Department. [Annual Performance Report p. 204] The RMC had OIG, the U.S. Office of Management and Budget, and GAO talk about successes with fraud risk management at its September 2023 meeting.

HUD recently took some steps toward maturing its program, including issuing a fraud risk assessment program departmental policy, compiling program-level oversight reports, establishing a fraud risk work group to strengthen HUD's fraud risk culture, and supporting program offices in establishing risk programs within their offices to draw more direct attention to their risk management activities. Further, congressional budget appropriators approved HUD to establish the Office of the Chief Risk Officer, allowing HUD to dedicate full-time employees to focus on enterprise and fraud risk management. However, all seven recommendations from our October 2022 report remain open. It is incumbent on both OCFO and HUD's program offices to understand their respective roles and responsibilities in managing fraud risk and to address this challenge together.

HUD OIG Reports and Other Resources

Fraud Risk Inventory for the Tenant- and Project-Based Rental Assistance, HOME, and Operating Fund Programs' CARES and ARP Act Funds, HUD OIG Report 2022-FO-0007 (September 29, 2022)

COVID-19 Additional Risk Assessment Actions Could Improve HUD Oversight of CARES Act Funds, GAO-21-104542 (September 2021)

Fraud Risk Inventory for the CDBG and ESG CARES Act Funds, HUD OIG Memorandum 2022-FO-0801 (October 12, 2021)

Fraud Risk Management: Key Areas for Federal Agency and Congressional Action, GAO-23-106567 (April 13, 2023)

In our FY 2024 priority open recommendations, we have identified recommendation 1A of Improvements Are Needed in HUD's Fraud Risk Management Program as a priority open recommendation. It recommends that HUD perform a complete agencywide fraud risk assessment, which incorporates program-level fraud risk assessments, and use the results to develop and implement an agencywide plan to move HUD's fraud risk management program out of the ad hoc phase. To increase its maturity level, HUD needs to commit resources to enhancing antifraud controls and promoting a culture of fraud risk management. Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk.

Ensuring That Whistleblowers Are Protected From Retaliation

HUD employees, as well as the employees of contractors, grantees, and other program participants, are often in the best position to identify and report wrongdoing. They are closest to the daily activities and expenditure of funds and are a critical source of information for HUD OIG. Federal employees are protected if they disclose information that they reasonably believe to be a violation of any law, rule, or regulation; mismanagement; a gross waste of funds; an abuse of authority; or a substantial and specific danger to public health or safety. The statute at 5 U.S.C. (United States Code) 2302 and the Office of Special Counsel's (OSC) 2302 certification program require HUD to train its employees on whistleblower rights and protections. HUD is certified under OSC's 2302 program.

Congress has also set forth whistleblower protections for employees of government contractors, subcontractors, grantees, and subgrantees under 41 U.S.C. 4712 (Section 4712). These individuals are protected from retaliation when they disclose information that they reasonably believe is covered under whistleblower protections related to a Federal grant or contract. Agencies are required to verify that contractors, subcontractors, grantees, and subgrantees have informed their employees of these rights and protections. Ensuring that all potential whistleblowers know they are protected from retaliation is a key step that HUD can take to mitigate fraud risk.

HUD Should Take Additional Steps To Protect Contractor Employees Who Disclose Wrongdoing

We learned that employees of thousands of contractors who receive funds from HUD are not protected against retaliation for blowing the whistle on wrongdoing. The gap in protections exists because (1) the contracts predate July 1, 2013, the date on which the antiretaliation law codified at 41 U.S.C. 4712 (Section 4712) became effective and (2) HUD has not modified the contracts to include Section 4712 antiretaliation provisions that would protect the employees. We identified this problem following investigations of allegations of whistleblower retaliation against several employees of contractors. Although the investigations revealed this problem with respect to housing assistance payments contracts, we believe that the same risk is present in many other HUD contracts.

We issued a management alert recommending that HUD address this serious risk by undertaking a comprehensive review of all contracts to determine whether they include Section 4712 antiretaliation provisions. We also recommended that HUD be proactive in seeking to modify any of its contracts that do not include Section 4712 antiretaliation language to confer whistleblower protections on contractor employees.

HUD has faced challenges in ensuring that employees of government contractors, subcontractors, grantees, and subgrantees are protected from retaliation for blowing the whistle on fraud or other wrongdoing in accordance with Section 4712. In May 2023, we issued a management alert after learning that employees of thousands of contractors who receive funds from HUD are not protected against retaliation because the HUD contract predates the effective date of Section 4712 and HUD has not taken steps to remedy the issue and offering. The management alert advised HUD of our significant concern that many employees of contractors that receive HUD funds are not protected under Section 4712 because a significant portion of HUD's contracts do not contain sufficient whistleblower protections and offered five recommendations to HUD to resolve this critical issue.

We have yet to reach an agreement with HUD leadership about its proposed action to address our recommendations. All of the recommendations remain open, and three have been designated as priority open recommendations this year. Ensuring that all potential whistleblowers know they are protected from retaliation is a key step that HUD can take to mitigate fraud risk.

Mitigating and Addressing Public Fraud and Corruption

Each year, HUD distributes tens of billions of dollars in funds to PHAs, States, local governments, and other public entities to support HUD's mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. Fraud involving HUD programs has negative impacts on those in need of HUD's program assistance, and there are often community victims beyond the taxpayer. It is especially troubling when public officials violate the public's trust by committing fraud. HUD is challenged in its ability to effectively oversee its vast portfolio to mitigate and address public fraud and corruption.

HUD OIG persistently investigates fraud by PHA employees who embezzle HUD funds for personal use or accept bribes. HUD OIG has also pursued investigations regarding fraud and corruption by public officials related to HUD's CARES Act funds. Below are examples of recent convictions and sentencing involving public officials entrusted with HUD funds to meet critical housing needs.

In November 2022, a former PHA chair was sentenced to 78 months in prison for defrauding a

Fraud Bulletins Published

OIG has produced several fraud bulletins and public service announcements to promote awareness and protect HUD beneficiaries from health and safety hazards, as well as fraud, waste, and abuse.

Cash or Gift Card Phone Scams: Providing red flags, ways to report suspicious activity, and how to act if readers have fallen victim to a scam.

Landlord Overcharging Section 8 Tenant Fraud Scheme: Outlining what landlords can and cannot charge their tenants.

Public Corruption: Describing instances in which public officials have used their public positions for personal gain and providing red flags and case summaries.

Identity Theft: Informing the public about identity theft and associated fraud schemes.

Reverse Mortgage Fraud: Informing the public about commonly related schemes, red flags, and how individuals can protect themselves from this type of fraud.

Impostor Landlords: Highlighting schemes by individuals falsely purporting to be landlords, who list properties that they do not own for rent on various rental websites.

Deed Fraud: Informing the public about deed fraud schemes that intentionally target vulnerable populations, red flags, and how to protect themselves from these schemes.

HUD program by stealing PHA funds earmarked for the community. The former chair diverted funds for his personal use, including purchasing a vehicle, timeshare, and multiple vacations.

In February 2023, two PHA superintendents were sentenced to 33 and 15 months in prison, respectively, and ordered to pay fines and restitution for accepting bribes in exchange for no-bid contracts at the PHAs where they worked.

In May 2023, a former city employee and State representative was sentenced to 27 months in prison and ordered to pay restitution for stealing more than $1.2 million in HUD COVID relief funds and other city funds. The public official formed a company that fraudulently billed the city for services that were not performed and participated in additional schemes involving the submission of fraudulent invoices.

These types of public integrity convictions affect the reputation and impact of HUD's programs, waste taxpayer funds, and most importantly, deprive communities of critical housing resources.

Related Ongoing Oversight

Hawaii-Based Grantee ESG-CV Program Fraud Risk Management Assessment

New York-Based Grantee ESG-CV Program Fraud Risk Management Assessment

California-Based Grantee ESG-CV Program Fraud Risk Management Assessment

ESG CARES Act Subrecipient and Contractor Monitoring

Six Non-State Grantees' Use of CDBG-DR Grant Funds

Improper Payments

For the tenth consecutive year, HUD continues to be noncompliant with improper payment requirements. Our most recent Payment Integrity Information Act (PIIA) compliance audit, issued in May 2023, found that HUD continued to experience challenges that prevented it from testing the full payment cycle and developing accurate improper payment estimates for its programs that were deemed susceptible to significant improper and unknown payments. Specifically, HUD did not report improper and unknown payment estimates for PIH's Tenant-Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program, which spent $41 billion in fiscal year 2022 and represented 61.6 percent of HUD's total expenditures. HUD did not report improper and unknown payment estimates for the PIH-TBRA and PBRA programs because it was not successful in planning and developing a platform to collect and secure supporting documentation that contained personally identifiable information (PII). This noncompliance is significant because this was the sixth consecutive year in which HUD was unable to produce PIH-TBRA and PBRA improper and unknown payment estimates.

These continued challenges prevent HUD from being able to identify and mitigate the causes of improper payments in its programs. Given the critical nature of HUD's noncompliance, we have designated three recommendations from the last three PIIA reports as priority open recommendations for HUD.

Improving IT Modernization and Cybersecurity

Related HUD Strategic Goal 5: Strengthening HUD's Internal Capacity

HUD and its stakeholders rely on HUD's information technology (IT) systems, which maintain at least a billion records containing PII and facilitate thousands of transactions daily. HUD must continue its efforts to strengthen its IT, cybersecurity, and data management systems and continue toward adapting and implementing a secure and modernized IT environment.

HUD faces several longstanding challenges in modernizing its IT systems and achieving an effective information security (IS) program. HUD OIG has identified several root causes of these challenges, including insufficient staffing retention and knowledge management in the Office of the Chief Information Officer (OCIO) and IT acquisition personnel and weaknesses in planning IT capital investments and budget management. In both the Federal Information Security Modernization Act (FISMA) reports and other OIG work we have highlighted HUD's challenges with budget constraints and budget management as well as IT project planning and management. All of these issues hamstring HUD's progress in modernizing its IT portfolio, including cybersecurity.

HUD has taken some steps to improve its cybersecurity program, including closing 13 IT evaluation recommendations since the start of FY 2023. In addition, OCIO closed a HUD OIG priority recommendation when HUD's Chief Information Officer developed and released a Web Applications Directive to all HUD program offices, prescribing the implementation and operations of approved and secure web applications run by HUD and preventing unauthorized web applications.

HUD had made minimal improvements across all FISMA metrics, and it remained below a level considered effective. In FY 2023, HUD had declined in maturity in five metrics, four of which were core metrics. HUD should continue to focus on prioritizing maturity in the core metrics and key cyber executive orders and requirements.

IT Project Management and Modernization

Project management lapses have had a significant impact on HUD's ability to ensure that IT projects align with the enterprise-level modernization roadmap and Federal guidance. GAO and HUD 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. 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 has historically struggled to fully execute multiple modernization plans and implement projects. Hundreds of millions of dollars in potential savings from modernization have not been realized, and security risks have remained. HUD developed an enterprise-level modernization roadmap in April 2020, which established IT projects for modernizing HUD's program office systems and improving enterprise capabilities. Enterprise capability initiatives included developing an enterprise analytics platform, maturing its cybersecurity program, and implementing robotics process automation. (HUD Information Technology Modernization Roadmap Evaluation) The roadmap established timelines based on an agile approach to allow HUD 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.

This approach resulted in initial success, such as 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. OCIO and FHA quickly released several FHA Catalyst modules. Although HUD had success during the first several years of FHA Catalyst development, HUD OIG issued a report finding that poor contract management and communication led to a stop work order that significantly delayed the initiative, and GAO identified significant weaknesses in HUD's practices for cost and schedule estimation and gaps in its oversight of FHA Catalyst's implementation. GAO further found that individuals responsible for implementing the program lacked fully defined roles and responsibilities and lacked measures to assess performance. FHA anticipates finalizing its comprehensive IT Strategic Plan and Roadmap for ongoing IT modernization and has awarded a new contract for additional IT development and modernization support through May 2028. All of the recommendations from the GAO report remain open.

HUD is leveraging the technology and processes for the FHA Catalyst platform technology and processes for

HUD OIG Reports and Other Resources

HUD's Robotic Process Automation Program Was Not Efficient or Effective, HUD OIG Report 2021-OE-0007 (February 17, 2023)

Assessment of HUD's IT Infrastructure To Support Extensive Telework, HUD OIG Report 2023-FO-0008 (January 24, 2023)

Fiscal Year 2022 Federal Information Security Modernization Act of 2014 Penetration Test and Vulnerability Assessment, HUD OIG Report 2022-OE-0001a (December 14, 2022)

Delays in Federal Housing Administration Catalyst's Development, OIG report 2021-OE-0003a (November 17, 2021)

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, HUD OIG Report 2018-OE-0001 (September 13, 2018)

IT System Management and Oversight of the Section 184 Program, HUD OIG Report 2018-OE-0004 (August 13, 2018)

PIH's Native Advantage modernization, which will replace the Office of Native American Programs' Loan Origination System. The latter 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. (HUD Information Technology Modernization Roadmap Evaluation) PIH has received funding to update Native Advantage and is developing additional modules using HUD's agile approach to modernization. Fully transitioning from the Computerized Homes Underwriting Management System and utilizing the cloud in Native Advantages development, as appropriate, will help HUD address previously identified deficiencies. (HUD OIG Report, IT System Management and Oversight of the Section 184 Program)

IT project management is often a shared responsibility between OCIO and program offices, whereby OCIO provides IT expertise and support in modernizing systems that conform with program office business needs. When OCIO and program offices do not effectively coordinate, it can impede their efforts to modernize HUD's IT systems. For example, HUD attempted to update the PIH Information Center Inventory Management System, which contains documents supporting more than 50 percent of HUD's budget through implementing the PIH Information Center - Next Generation. OCIO terminated this $8 million effort in January 2021 because it did not align with OCIO's long-term system architecture strategy and had significant security deficiencies. We have recently found several instances in which HUD's attempts to innovate have been stymied by a lack of communication. HUD's efforts to innovate in robotic processing automation and its Disaster Recovery Data Portal would be enhanced through better communication throughout the project management life cycle.

A primary example of HUD's IT project management challenge is the frequency with which important contracts for IT services lapse. Although since fixed, a prior lapse in a critical security contract that supported the Security Operations Center (SOC) reduced important continuous monitoring capabilities and halted HUD's ability to improve an important part of its cybersecurity program. Our FY 2020 FISMA evaluation reported on project management issues with five of eight sample systems experiencing contract lapses and multiple expired authorizations to operate. We have found that program office staff members have 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. IT project managers often have

HUD OIG Reports and Other Resources

2021 Persistent IT Challenges and Issues Facing HUD, HUD OIG Topic Brief (August 9, 2021) (nonpublic)

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

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106349 (May 16, 2023)

Privacy: Dedicated Leadership Can Improve Programs and Address Challenges, GAO-22-105065 (September 22, 2022) insufficient expertise or resources for managing the technical aspects, schedules, coordination, and funding for HUD's IT investments. (HUD Inventory of Automated Systems)

Cybersecurity

Although HUD, notably OCIO, is addressing weaknesses and closing unresolved recommendations, HUD must continue to mature its cybersecurity posture. In October 2023, we found HUD's IS program to be at an ineffective maturity level of "defined," or not effective, primarily based on HUD's struggles to address the "core" governmentwide cybersecurity metrics. HUD must continue its efforts to address these most critical areas of priority for the Administration and other highly valuable controls for agencies' information security programs.

Based on the FY 2023 IG FISMA metrics issued by the U.S. Office of Management and Budget, HUD's IS program was evaluated as level 2, "defined," which is considered ineffective. HUD's overall IS program scored 2.60 for the core metrics and 2.86 for the FY 2023 supplemental metrics. Although HUD had made improvements in metrics across all domains, it had declined in maturity in five metrics, four of which were core metrics. HUD should continue to focus on prioritizing maturity in the 20 core metrics and key cyber executive orders and requirements. These efforts will require proper resourcing, planning, and support from leadership across HUD offices.

HUD faces several headwinds in its efforts to mature key cybersecurity programs and processes, including managing a limited budget in comparison to the large number of legacy systems supporting key HUD functions that continue to present elevated risks to HUD's IT environment. Managing cybersecurity risks for legacy systems is resource intensive and limits OCIO's capacity to acquire and deploy the technology necessary to implement or improve critical security controls.

HUD still faces hurdles in addressing the significant increase in the complexity of its hardware, software, and information systems. Managing this risk requires that HUD have a full understanding of its infrastructure and network interconnections and integrate its risk activities across the organization. Importantly, HUD was able to close a HUD OIG priority open recommendation by requiring OCIO

Closure of Priority Recommendation

Federal Government publicly accessible web applications are a key capability to communicate with the public and implement mission requirements. HUD maintains many web applications in support of its mission, and the management and security of these web applications is critical and a challenge due to external and regular IT security threats. We are pleased to share that during the past 6-month period, HUD took important steps to address this challenge.

In January 2023, HUD addressed and was able to close recommendation 3 from the June 2017 report, HUD Web Application Security Evaluation, recommending that HUD enforce the requirement for all HUD web applications and services to be approved and authorized by the Chief Information Officer, which we had identified as a priority open recommendation. To address the implementation and operations of approved and secure web applications run by HUD and prevent unauthorized web applications, HUD OCIO developed and released a Web Applications Directive to all HUD program offices. This directive described how web applications are defined, approved, inventoried, and maintained, including processes for tracking and monitoring of such applications.

approval to implement web applications. However, a lack of accurate and complete inventories of hardware or software systems limits HUD's ability to understand, prioritize, and address its most critical IT risks and prevents it from ensuring that only authorized software is executed on its network. Making progress in this area will help HUD ensure that it is allocated limited resources in a risk-based manner.

As an example of HUD's progress, in FY 2023, HUD implemented new incident response technologies that were interoperable, covered all components of HUD's network, and collected and retained meaningful data. HUD's SOC increased visibility to cover both cloud and on-premise sources. The technologies provided HUD visibility in the form of alerts, reports, and response actions to handle potential incidents in a timely manner. However, HUD did not evaluate the effectiveness of its incident response technologies and adjust configurations and toolsets to improve its incident response detection and handling. This investment allowed HUD to achieve its first level 4, "managed and measurable" maturity level because it allowed HUD to detect and proactively block cyberattacks and prevent potential compromises. HUD had not previously achieved a managed and measurable level for any metric.

In addition, although HUD developed a dashboard as the primary interface for day-to-day monitoring of information systems' security controls, the dashboard was not operational for half of FY 2022 due to budget constraints and the loss of contractor support. HUD struggled to provide clear visibility, awareness of vulnerabilities, and up-to-date threat information. This condition impacted not only planned progress to further continuous monitoring, but also impacted systems already part of the program.

HUD continued to show limitations in the identify and protect functions; specifically, with defining its supply chain risk management program; implementing its configuration management program; and defining and resourcing its identity, credential, and access management (ICAM) program. Recognizing the need to modernize Federal Government cybersecurity and to keep pace with increasingly sophisticated cyber threats, Executive Order 14028 mandated that Federal agencies strengthen ICAM controls and advance toward a zero-trust architecture (ZTA) model. Under ZTA, both users and devices are continually verified using strong authentication mechanisms. With respect to ICAM in particular, HUD had made limited progress with its ICAM functions, primarily through using the Federal Technology Modernization Fund award to initiate work on rolling out multifactor authentication (MFA) to a system supporting several programs. However, HUD is far from implementing strong authentication mechanisms across the board. Further, HUD does not have a detailed roadmap in place with plans to achieve compliance with Federal ICAM requirements, including those for MFA. HUD does not have timelines, budget estimates, or other details to support appropriate planning for an enterprisewide ICAM solution and implementation and needs to better review user access and activities.

HUD showed continued progress by reorganizing key IT and cybersecurity positions within OCIO. HUD conducted an enterprise workforce needs assessment in 2022 and gained approval for the reorganization. Since then, OCIO has filled key management positions in its business, operations, and cybersecurity offices, to include the Chief Information Security Officer. This has allowed HUD to focus on IT and cyber compliance and the ability to prioritize and elevate the cyber portfolio to begin addressing the persistent challenges previously described. These efforts will require a shared responsibility across HUD in proper resourcing, planning, and support from all levels of leadership.

Data Protection and Privacy

HUD is responsible for managing and safeguarding the PII of individuals that it collects, uses, stores, and disseminates. OIG has identified several longstanding challenges that HUD faces 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. (HUD Privacy Program) HUD continues to mature its privacy program but still requires significant progress in allocating adequate resources to the Privacy Office, improving its removable media and sanitization processes, and implementing tools and solutions to strengthen its data exfiltration prevention and network defense maturity.

HUD's progress in privacy and data protection depends on its ability to issue timely program requirements and establish accountability. HUD made progress by defining and communicating its privacy program plan and related policies and procedures for the protection of PII that was processed by its information systems. HUD increased its awareness and visibility of privacy issues through various forums, and they were better integrated with cybersecurity processes. However, HUD should continue to deploy tools and solutions in coordination with OCIO and program offices to strengthen its ability to maintain and minimize the use and collection of PII and to prevent data exfiltration.

We have found that HUD continues to be challenged with locating and inventorying all collections and uses of PII data or properly tracking and securing its PII inventories. This issue directly affects HUD's ability to improve its implementation of its PII minimization plan, which maintains and manages the inventory of HUD's PII. The consistent implementation of this plan is critical because it assists in managing the security risks for the PII in the system. HUD should collect only PII that is directly relevant and necessary to accomplish the specified purposes and retain PII only for as long as is necessary to fulfill the specified purposes. HUD had implemented baseline security controls and tools to protect data but should make significant progress to strengthen data protection through the implementation of application-level data encryption during system development. Further, although HUD deployed a data loss prevention tool, limited to Microsoft 365, to prevent users from sending unencrypted information, such as PII, through email, it did not prevent the unauthorized transfer of data to removable media. This issue could lead to successful data exfiltration by a user to external, non-HUD networks. (Privacy: Dedicated Leadership Can Improve Programs and Address Challenges)

Managing Human Capital

Related HUD Strategic Goal 5: Strengthen HUD's Internal Capacity

It is critical that HUD be able to recruit and retain a diverse, skilled, and accountable workforce that effectively meets HUD's business needs.

Recruitment, retention, and hiring of qualified employees has been a challenge across the Federal Government, including within HUD. In a recent report, Top Management and Performance Challenges Facing Multiple Federal Agencies, CIGIE included human capital management as a top management challenge, identifying the following key areas of concern: recruiting and retaining a diverse and highly skilled staff; succession planning and knowledge management in a competitive labor market; training and growth opportunities; and strengthening diversity, equity, inclusion, and accessibility (DEIA) efforts in the workforce.

In each of our prior HUD Top Management Challenges reports, we identified human capital management as a challenge focused on the activities of the Office of the Chief Human Capital Officer (OCHCO). Historically, the main challenges involved (1) improving time to hire, (2) recruitment, (3) retention, (4) attrition, (5) assessing human capital needs and allocation of staff, (6) weaknesses in human capital policies and practices, (7) agency cultures that negatively impact the agency's mission, (8) lack of succession planning, and (9) staff capacity.

HUD recognized these challenges in its strategic plan and included several strategies to address them, including allocating resources to ensure that human capital planning and operations enable HUD to hire and retain a highly skilled workforce; providing opportunities for continuous development and professional growth to meet HUD's mission needs; proactively preventing discrimination; integrating principles of DEIA into all HUD programs, policies, and practices; and creating a safe, engaged, and high-performing work culture.

According to HUD, OCHCO has helped HUD (1) reduce the time to hire; (2) reverse its declining workforce and bring staffing levels back up to 2014 levels; (3) modernize HUD's human capital policies; and (4) develop workforce planning systems to assess human capital needs and track human capital activity, such as recruitment, retention, attrition, and employee feedback. These are significant efforts and have led to progress in this challenge.

Below we focus our discussion on retention, recruitment, and hiring.

Enhancement of HUD's Employee Retention Efforts

Office culture, work environment, opportunities for impactful work and advancement, and an employee's first-line supervisor are the main determinants in an employee's decision to voluntarily separate from an agency. Based on HUD exit survey data, OCHCO reports that the top two reasons a HUD employee was motivated to resign from a position were "work-life balance" at 41.69 percent and "organizational culture" at 38.98 percent. Every office must play a role for HUD to successfully manage human capital. Management in each program office must address culture and focus on retention, establish an ambitious employee engagement plan, and deliver improvement to reduce attrition. Management must ensure that it consistently uses retention best practices strategically in every program office. Management should improve succession planning activities for each office and focus on employee and leadership development.

The following are a few noteworthy actions that OCHCO has taken to address concerns with employee retention.

In January 2023, OCHCO's Strategic Workforce Planning Division piloted a Stay Survey, a survey designed to help HUD better understand what is driving attrition for employees who have worked for HUD for less than 3 years. OCHCO plans to implement the survey HUD-wide in 2024.

HUD OIG Reports and Other Resources

HUD Could Improve Its Field Service Management Quality Assurance Surveillance Plans, HUD OIG Report 2023-BO-0002 (March 30, 2023)

Opportunities Exist To Improve the U.S. Department of Housing and Urban Development's Hiring Process, HUD OIG Report 2020-OE-0002 (August 2, 2021)

Office of Personnel Management 2022 Federal Workforce Priorities Report, OPM Memorandum (May 10, 2022)

HUD 2023 Budget in Brief, HUD Issuance (March 28, 2022)

Top Management and Performance Challenges Facing Multiple Federal Agencies, CIGIE (September 2023)

OCHCO has also continued to develop and improve its human capital dashboard, according to feedback we heard in a number of stakeholder listening sessions. This dashboard is visible to select personnel in each program office and provides useful human capital data analytics. According to a U.S. Office of Personnel Management memorandum addressed to the Chief Human Capital Officer to which the Inspector General was carbon copied, "This Dashboard has had an immediate impact on HUD's human capital programs and can further enhance HUD's operations in all areas of human capital management in the coming years as it continues to be fully integrated and applied."

In July 2022, OCHCO implemented an anti-harassment program, which has been recognized by the U.S. Equal Employment Opportunity Commission as a best practice. Before the establishment of this program, when employees complained about harassment, it was left up to each program office to investigate. Now, HUD has on staff investigators for these complaints, which will help HUD uncover systemic problems to address and provide consistency in HUD's response to harassment.

In addition, OCHCO has reported other plans to address retention that have not yet been finalized.

For example, OCHCO's Strategic Workforce Planning Division is in the process of developing HUD's FY 2023-2026 Workforce Plan as well as establishing new processes designed to ensure that moving forward, HUD's Strategic Workforce Plan is regularly reviewed and revised. Further, in January 2023, OCHCO expressed plans to conduct an employee engagement tour, in which the Chief Human Capital Officer would meet with various employee groups to discuss Federal Employee Viewpoint Survey results and identify possible solutions.

Based on stakeholder feedback, we learned that OCHCO had achieved significant advances in HUD's human capital policies and operations but only management can implement the improvements necessary to effectively realize the benefits of OCHCO's enhancements. However, program office leadership is jointly accountable for effective human capital management. While HUD has made some progress in this area, continued improvement is needed.

We have initiated two projects to help HUD address this challenge. We are conducting an evaluation of HUD's employee retention to determine (1) whether HUD has a high voluntary separation rate relative to similar agencies and which program offices or demographic groups, if any, have high rates relative to HUD's overall rate or equivalent groups in similar agencies, (2) what retention-relevant programs HUD employs and the extent to which program offices are using those programs, and (3) the extent to which HUD's retention-related strategies are aligned with best practices.

In addition, we are conducting an evaluation of HUD's recruitment efforts to address the underrepresentation of employees who identify as Hispanic or Latino to determine the status of HUD's recruitment plans to address the underrepresentation of employees who identify as Hispanic or Latino and identify how HUD tracks the effectiveness of its recruitment actions to increase representation of employees who identify as Hispanic or Latino.

HUD Efforts Related to Recruitment and Hiring

We are pleased to share that in October 2022 and March 2023, HUD resolved the last two remaining recommendations from the August 2021 HUD OIG Report, Opportunities Exist To Improve the U.S. Department of Housing and Urban Development's Hiring Process:

- Recommendation 4: Develop and document comprehensive reference documents on the hiring processes, procedures, roles, and responsibilities.
- Recommendation 6: Create and implement a knowledge management strategy, such as developing standard operating procedures, reference sheets, and program office fact sheets.

Recommendation 6 had been designated by HUD OIG as a priority open recommendation, which HUD resolved by creating a knowledge management strategy to address knowledge loss that required HUD program offices to explain their missions and hiring needs to OCHCO and HUD's hiring service provider. Specifically, OCHCO developed and implemented client profiles for each HUD program office to address knowledge loss and the need for offices to explain or reexplain their mission and functions. The profiles will serve as a central repository to learn about the various programs and missions of HUD and will allow OCHCO staff, other key HUD program office staff, and HUD's service provider staff to view critical information for each HUD program office. By closing this recommendation, OCHCO has created a long-term knowledge management solution that will strengthen the efficiency of its hiring process and improve HUD's effectiveness in achieving its mission.

Further, to resolve recommendation 4, HUD's OCHCO developed and released a hiring efficiencies memorandum to all HUD hiring managers and hosted recurring training sessions. The memorandum described hiring process changes and improvements, included information on hiring process roles and responsibilities, and outlined the steps of the recruitment process and timeframes in which to perform each step. The training sessions are held on a variety of human capital-related topics, such as how to initiate a recruitment request and best practices for meeting the hiring process step timeframes. This action will serve to address inconsistent hiring process roles and responsibilities and the lack of hiring managers' knowledge and understanding of their role in the hiring process.

In addition, HUD's data reflect additional improvements in this area, related to time to hire, net hires, and full-time-equivalent (FTE) numbers. HUD indicates that since FY 2017, it has decreased its time to hire and since FY 2021, it has increased its net hires. Based on HUD's historical Congressional Justification data for actual FTE numbers, HUD has increased its FTE count each year since FY 2020 (2023: 8,622; 2022: 8,083; 2021: 7,932; and 2020: 7,670). In FY 2013 and FY 2014, HUD had 8,683 and 8,398 FTEs, respectively.

It is important that HUD sustain progress in these critical areas.

Increasing Effectiveness in Procurement

Related HUD Strategic Goal 5: Strengthen HUD's Internal Capacity

It is critical that HUD meet the procurement needs of its program offices in a timely manner and effectively use quality assurance surveillance plans.

HUD's program offices require contracting and procurement services to sustain and effectively achieve their mission. While the Office of the Chief Procurement Officer (OCPO) has primary responsibility for HUD's contracting and procurement activities, program offices are responsible for timely coordination with OCPO on their procurement needs, to include promptly providing OCPO with complete and accurate information at each stage of the procurement process.

HUD has longstanding challenges related to procurement and acquisition management and has acknowledged a need to streamline and improve business function processes. Federal agencies must maintain robust oversight of their contract portfolios and contract execution and performance to ensure efficiency and effectiveness. In its Top Management and Performance Challenges Facing Multiple Federal Agencies, CIGIE reported that other OIGs are finding the same challenges in their agencies.

Identified acquisition management risks include untimely procurements, inefficient acquisition processing, insufficient staff training and excessive workloads, and inadequate contract oversight. Additionally, program and support offices reported difficulty in finding staff with programmatic expertise as well as the contracting experience necessary to navigate and support the acquisitions process and supervise contractor performance.

OCPO's procurement activities are governed by the Federal Acquisition Regulation. HUD's FY 2022-2026 Strategic Plan outlines the Department's commitment to improving acquisition management through the development of a governance structure that promotes collaboration. Specifically, HUD identified six strategies to accomplish this objective:

1. Improve the HUD-wide governance structure for acquisition planning by increasing transparency, collaboration, and efficiency.
2. Increase visibility across the Department in the HUD contract management process.
3. Leverage the Program Management Improvement Accountability Act to strengthen the knowledge base of HUD's acquisition workforce.
4. Increase the inclusion of small and disadvantaged businesses by helping them navigate Federal contracting opportunities.
5. Improve policies, processes, and procedures for assisted acquisitions.

6. Ensure that new eligible contracts meet sustainable acquisition requirements.

Following through on these strategies is of utmost importance given HUD's current reliance on contractors to meet its business needs. The largest contract users at HUD are significant HUD operational and programmatic offices, such as the Office of Housing, the Office of Administration, OCIO, Ginnie Mae, and the Office of Policy Development and Research. Ginnie Mae has focused substantial efforts to address its acquisition needs to achieve its mission.

While HUD has taken steps to improve the policies and practices addressing known procurement and acquisition management challenges, the Department could significantly improve the operational support that procurements provide and reduce the strain that procurement places on the HUD staff members we have spoken with. Such improvements could, in turn, have a substantial positive impact on HUD's efficiency and effectiveness in serving its program beneficiaries.

As discussed below, there are two primary areas on which HUD must focus to increase its effectiveness in procurement: IT acquisitions and improving OCPO's use of its quality assurance surveillance plans.

Acquisition Challenges

Program offices have described to us how procurement efficiency and processes remain a challenge. Senior HUD officials acknowledged the challenges they have had with the acquisition process, including limited insight into when the acquisition process should begin, requirements that must be provided to OCPO as a part of the acquisition processes, an understanding of when procurements should be initiated or recompeted, and other communications that result in inefficiencies. Client offices have acknowledged their joint responsibility to promptly identify when contracting needs change or arise, and OCPO

Progress Reported

In May 2023, HUD closed a longstanding recommendation from HUD's Processes for Managing IT Acquisitions by developing a plan for clearly defining, communicating, and enforcing IT acquisition process standards, including acquisition process roles and responsibilities.

Further, in its latest Priority Open Recommendations: Department of Housing and Urban Development, GAO reported that Ginnie Mae had made progress related to contract management by (1) completing an analysis of the optimal mix of contractors and in-house staff and determining that it would shift some staff from contractor to in-house status for its operations in FY 2023, (2) completing its review of the benefits and costs of its contract administration options, (3) assessing the value of alternative arrangements, and (4) making determinations on hiring positions to oversee contracting needs. GAO reported that these actions resulted in the implementation of three GAO priority recommendations from its April 2019 report.

In July 2023, HUD received an annual procurement scorecard rating of an "A+" from the Small Business Administration (SBA), recognizing significant accomplishments made by HUD in meeting its overall small business contracting goals. For FY 2022, HUD exceeded its small business annual prime and socioeconomic goals—small disadvantaged, women-owned, service-disabled veteran-owned, and Historically Under-utilized Business Zones. The Department awarded 39.39 percent of total contracting dollars to small businesses, exceeding the 23 percent goal for the Federal Government. (Acquisition Excellence: HUD Receives an "A+" Grade on SBA's Annual Small Business Procurement Scorecard | HUD.gov / U.S. Department of Housing and Urban Development (HUD)) necessarily relies on the subject-matter expertise of the client offices to raise their staffing needs in a timely manner. That, in turn, places a strain on some program offices, like Ginnie Mae, that rely heavily on contractors to find staff that are proficient in both programmatic issues and Federal procurement processes.

A key example of this challenge is HUD's reliance on IT acquisition and procurement, which continue to pose significant risks within HUD's IT environment. Many programs and their related administrative operations rely on systems that 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. Unaddressed procurement challenges in IT acquisition could impede HUD's IT modernization progress and significantly disrupt IT services for 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 2021 review of contracts for the period July 2018 through June 2020, we found that 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. In our report, HUD's Processes for Managing IT Acquisitions, we found that HUD did not have sufficient processes in place to conduct IT acquisitions effectively and efficiently. We made five recommendations to HUD to help it address this challenge, four of which remain open. This year, we have designated one of these as a priority open recommendation - that HUD evaluate IT acquisition process workflows and identify ways to simplify processes, facilitate more effective stakeholder coordination across offices, and create efficiencies when possible.

With respect to its ability to ensure that contracts are in place before they expire or require a bridge contract, HUD noted in its FY 2022 performance report, that it will develop an acquisition dashboard to track each acquisition through its life cycle from planning and requirement development to contract closeout. This measure will benefit HUD by increasing transparency in the acquisition process to enhance accountability for all participants in the process.

Program offices reported challenges related to the ability to move quickly, to make modifications to address emerging issues, and to ensure that they have enough contracting officer representatives (COR) to assist with their procurement needs. They also reported that subject-matter experts are being asked to serve as CORs, above and beyond their regular responsibilities, which has resulted in some staff burnout and turnover.

Our audits have found several instances in which challenges with acquisitions negatively affect core programmatic responsibilities. In a 2023 audit of HUD's REAC inspection process timeliness, we found that procurement delays contributed to delays in the national inspection contracts' being awarded. Program officials involved in the awarding of the bridge contract and subsequent acquisition provided differing viewpoints about which office or process caused the delays. In that same audit, we also identified PIH's ability to collect inspection data from properties approved to participate under the NSPIRE demonstration was delayed because of a delay in procuring the IT solution for collecting the data.

HUD's procurement challenges expand beyond acquisitions executed by OCPO. In an evaluation of delays in the development of FHA Catalyst, offices funding and managing the contract were unable to make agile contract modifications, including those to add funds, because the General Services Administration's procurement action lead time was 45 days. The lead time, coupled with a lack of detailed contract management, limited HUD's flexibility to add funding to an IT development contract and contributed to a stop-work order that significantly delayed the continued development of one of HUD's most important IT modernization efforts.

Office of the Chief Procurement Officer's Use of Its Quality Assurance Surveillance Plan

On March 30, 2023, we issued an audit related to whether HUD effectively administered quality assurance surveillance plans (QASP) for management and marketing contracts in accomplishing HUD's mission. These surveillance plans provide information about what HUD will inspect, describe the inspection process, and identify who will conduct the inspections and are intended to be used by HUD to assess contractor performance.

Our audit found that HUD's Atlanta Homeownership Center did not effectively develop and implement a QASP for six field service manager (FSM) contracts. As a result, HUD lacked the structure necessary to ensure that contractors were held accountable for their performance in accordance with contractual requirements.

To address our findings, we recommended that HUD's Chief Procurement Officer (1) direct the contracting officers to update the QASP to include all minimum performance requirements and oversee the implementation of the QASP with HUD's FSM contracts, (2) require the contracting officers to complete Contractor Performance Assessment Reporting System (CPARS) reports and submissions to the governmentwide system in a timely manner for use by all Federal agencies, (3) require all staff involved in FSM contracts' oversight to maintain required documentation to support the contracts, and (4) require the contracting officers to designate CORs in a timely manner. We also recommended that the Acting Deputy Assistant Secretary for Single Family Housing ensure that CORs (1) are involved with the development, implementation, and documentation of the FSM QASP to monitor contractor

HUD OIG Reports and Other Resources

HUD Could Improve Its Field Service Management Quality Assurance Surveillance Plans, HUD OIG Report No. 2023-BO-0002 (March 30, 2023)

HUD Fiscal Year 2022 Forecast of Contracting Opportunities, Products, and Services, HUD Issuance (August 10, 2022)

HUD's Processes for Managing IT Acquisitions Evaluation Report, HUD OIG Report 2020-OE-0004 (November 17, 2021)

Limited Review of HUD's Office of Chief Procurement Officer Pandemic-Related Procurement Accommodations and Challenges, HUD OIG Memorandum 2021-FW-0801 (July 14, 2021)

Ginnie Mae: Risk Management and Staffing-Related Challenges Need To Be Addressed, GAO-19-191 (May 3, 2019)

Priority Open Recommendations: Department of Housing and Urban Development, GAO-23-106 performance; (2) ensure that ratings are aligned with the contract; and (3) complete CPARS in a timely manner.

In sum, we concluded that HUD should better use QASPS to help it avoid fraud and waste in government contracts and effectively maintain proper oversight of its contractors. Its failure to do so could result in underperforming contractors and, potentially, overpayment and misuse of Federal funds.

Appendix – Department Response

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities, and quality affordable homes for all. The Department continues to focus its efforts on helping Americans retain their homes by expanding access to homeownership, building inclusive and sustainable communities, promoting climate resilience and environmental justice, and providing housing for those experiencing homelessness. This has all been done while navigating and supporting localities through challenging times. While HUD has made great progress, there is more work to be done. External factors including funding constraints and inadequate IT infrastructure and authority to reallocate funds as noted by the OIG, along with an increase in those at risk for housing insecurity and a decline in affordable housing, have only increased demands on our programs. These challenges serve as motivation to our team to continue transforming and enhancing our internal processes, reducing burden to make programs easier to access and use, refining our business operations, and mitigating program risks.

The recognition of accomplishments and recommendations of areas that need improvement offered by the OIG in the Top Management Challenges will continue to assist our team as we assess our achievements, shape our priorities going forward, and identify areas for improvement, all in service of delivering on HUD's mission. Specifically, HUD appreciates the removal of financial management as a stand-alone top management challenge, and the recognition of HUD's efforts in achieving an unmodified audit opinion with no material weaknesses. HUD reached the lowest number open OIG recommendations in 25-years and decreased the GAO open recommendations by 24%. HUD also values the recommendations offered by the OIG and appreciates their recognition of HUD's strides in several areas to include increasing access to affordable housing and hazard elimination in HUD-assisted housing; increasing staffing levels which has been essential to addressing critical needs, including monitoring, compliance, and technical assistance for the Department's programs, as well as tackling the systemic issues inside the Department that occurred over the previous two decades of staff reductions. We look to build on the recent staffing gains that have begun to make a significant impact on HUD's operations.

Continued staff growth and investment in Information Technology (IT), as proposed in the President's Budget request, is essential to address not only the Department's increasing workload but also build on these successes. In the area of IT, HUD successfully deployed and fully operationalized Zscaler across the entire HUD enterprise, an upgrade to HUD's legacy Virtual Private Network solution, improving HUD's cyber defenses and establishing the foundation for advancing our deployment of network segmentation, zero-trust, and TIC 3.0 solutions, ensuring compliance with Executive Orders, Binding Operational Directives, and regulatory requirements. Lastly, our Office of the Chief Procurement Officer was able to complete an assessment that identified how to improve efficiencies in the procurement process moving forward.

HUD appreciates the OIG's continued dedication to excellence. HUD is committed to effectively addressing each challenge, especially where OIG is able to make its observations with empirical data and an evidence-based framework. We are vested in working collaboratively with OIG to foster a problem-solving environment that instills audit rigor, improves mission delivery, cultivates the ideal workplace for our employees and better services America's taxpayers.