 Testimony before the U.S. House of Representatives
Committee on Appropriations
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies

“HUD Management Issues”

Testimony of
The Honorable David A. Montoya
Inspector General
Office of Inspector General
U.S. Department of Housing and Urban Development

March 29, 2012
10:00 a.m. Rayburn House Office Building, Room 2358A
Chairman Latham and Ranking Member Olver, and Members of the Subcommittee, I am David Montoya, Inspector General at the U.S. Department of Housing and Urban Development’s (HUD) Office of Inspector General (OIG). I thank you for the opportunity to discuss oversight of HUD’s programs.

I want to acknowledge that since becoming the Inspector General on December 1, 2011, I have met with Secretary Donovan on a regular basis. I have had open and honest dialogues with him on the management challenges the Department faces and the work my office has done to bring these matters to the Secretary’s attention. He has demonstrated a genuine interest and concern in addressing the issues I am about to speak of, and has shown through action the value he places on my office’s work products. I have also met with each of his Assistant Secretaries and the Acting Deputy Secretary on their program’s areas of concern. There appears to me to be a concerted effort on all of their part to review with vigor our recommendations and to engage my office on these management challenges.

There could be no better example of a Department and an Office of Inspector General working collaboratively for the overall health of an organization than the historical result we achieved in the recent national mortgage settlement of more than $25 billion - the largest consumer financial protection settlement in U.S. history. This settlement showcases the accomplishments that we have jointly undertaken.

**HUD-OIG Internal Restructuring**

As Inspector General, I take my oversight, independence, and accountability roles seriously. One of the first initiatives I have taken during the four months I have had this position, is to carefully assess my own organization to ensure that my offices and staff are operating as efficiently and effectively as possible. Some of the steps I have taken include carefully reviewing Committee report language expressing concerns about our field office locations. In conducting my assessment I have also appreciated the feedback from the Department and our stakeholders. We have focused on ways to make our organization leaner. As a result, we have realigned our Office of Audit and Office of Investigation to more efficiently focus staff where HUD program dollars are disbursed, to address Congressional mandates to reduce offices where possible, and to respond to the Congressional request for my office to issue products that address systemic concerns within the Department. This internal restructuring of my office has resulted in streamlining which includes consolidating six regions in the Office of Investigation and two in the Office of Audit, and closing or canceling the opening of seven offices. Additionally, since I
have been on board, we have reduced our staffing level by 57 through attrition and buyouts and reduced the number of managers. I will continue to reassess and realign the limited resources entrusted to me to ensure that my organization is prepared to meet the challenges of the 21st century, and have a meaningful impact on the Department’s ability to accomplish its mission.

Financial Health of the FHA Insurance Fund

The Mutual Mortgage Insurance (MMI) Fund is the largest of the Federal Housing Administration’s (FHA) four mortgage insurance funds. The Fund consists of a system of accounts used to manage FHA’s single-family mortgage insurance programs. The Cranston-Gonzalez National Affordable Housing Act of 1990 mandated that the MMI Fund maintain a capital ratio of two-percent from October 1, 2000 forward. The capital ratio is defined as the ratio of the Fund’s economic value to its insurance-in-force. The economic value essentially represents capital that is in excess of the amount needed to cover anticipated losses. The capital ratio has been below this required two percent level for the past three years, and each year has seen a further decline in the ratio to the point where, based on the latest actuarial study in November of last year, the ratio was barely positive. FHA has increased premiums and taken other steps to restore the financial health of the Fund.

The Department is committed to holding lenders accountable for actions that violate FHA requirements which subject the Fund to increased risk. In that regard, my office was proud to play a role in the recently announced settlements with five of the nation’s largest lenders for their reported violations of foreclosure requirements. Working closely with HUD and the Department of Justice, we reviewed the foreclosure and servicing practices at five participating FHA servicers and found that the lenders were engaged in widespread questionable foreclosure practices involving the use of foreclosure "mills" and a practice known as "robo-signing" of sworn documents in thousands of foreclosures throughout the United States. The Department of Justice used our review and analysis in negotiating a settlement agreement with the lenders. On February 9, 2012, the Department of Justice and 49 state Attorneys General announced the $25 billion settlement. As part of the proposed settlement agreement, the MMI fund will be bolstered by $900 million being paid by the banks to the Fund. I note that if not for the foundational work of my staff, this infusion may never have occurred.

While I commend the Department for taking action to address the Fund’s finances, we remain concerned about whether the actions are enough to make up for the losses FHA has sustained and to reach the required two-percent level in a timely manner. For example, FHA is now using

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credit scores as part of the eligibility requirements for FHA loans. As of October 2010, borrowers with credit scores below 500 are no longer eligible for FHA insurance, and the maximum loan-to-value ratio for borrowers with credit scores between 500 and 579 is 90 percent. At the time these changes were being proposed, we expressed our overall support, but also took the position that the changes did not go far enough and would likely have minimal impact on the MMI Fund in terms of bringing in additional premiums. Loans for borrowers with credit scores below 580 were less than one percent of new activity. Moreover, the 580 credit score threshold is well into what is traditionally considered subprime territory in the conventional marketplace with 620 being the usual demarcation for subprime. A higher down payment requirement at the 620 level would force borrowers to have more “skin in the game” and would have a more meaningful impact due to the larger volume of loans at this level. Our suggestion, however, has not been endorsed by the Department.

The foreclosure problems at the major lenders have led to a backlog in claims because the loans are still in foreclosure pipelines. In many cases, foreclosure actions have already taken place but insurance claims have not been filed because of challenges to the legal sufficiency of the foreclosure actions. With the conclusion of the $25 billion mortgage settlement involving the five lenders, FHA expects that lenders will file these backlogged claims.

While FHA generally is legally obligated to pay these claims, our concern is that many of these claims are from loans that were improperly underwritten. We have a long standing open audit recommendation for FHA to implement a process to routinely review paid claims and recoup losses on such loans. An additional option could be for FHA to follow some of the practices of the private sector mortgage insurers who routinely review loans in the foreclosure process and thus prevent paying claims for loans that failed to follow mortgage underwriting requirements. While we recognize the differences in the insurance programs and FHA’s inherent legal constraints, there is something to be learned from mitigating one’s losses before they go to claim status.

FHA’s current losses are primarily from loans made prior to 2009, and FHA continues to project that the current and future years’ books of business will be profitable and make up for these past years’ losses. However, what we have seen in the past three years is a troubling trend whereby the point at which the Fund is expected to reach its mandated capital level is pushed farther into the future. In the fiscal year 2009 independent actuarial study, it was predicted that by the end of fiscal year 2011, the MMI Fund’s capital ratio would be 1.74 percent, and that the Fund would meet the two-percent mandate sometime during fiscal year 2012. In the following two years, that forecast has changed dramatically as the capital ratio has moved in the wrong direction, and

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is now barely positive. The President’s fiscal year 2013 budget now projects that the Fund’s reserves will not start growing until 2013, and that the capital ratio will not reach the two-percent level until 2015. Moreover, these estimates are heavily influenced by the pace at which housing prices will recover. Any additional slowdown in our nation’s housing market will increase FHA losses and further delay FHA’s ability to meet its statutorily-mandated two-percent requirement. We continue to work with FHA to ensure that they are instituting sound risk management and lender oversight practices.

In the wake of the many foreclosures, and other concerns about our nation’s housing market, we have joined forces with three other Inspectors General who oversee federal Departments that play significant roles in supporting housing in the United States: the Federal Housing Finance Agency, the Department of Agriculture, and the Department of Veterans Affairs. We are working collaboratively to address fraud, waste, and abuse in federal single-family mortgage programs. For example, we developed a compendium of single-family mortgage programs to serve as a guide to federal housing programs and to activities of each of the Inspectors General involved. We are also combining forces to map the location of foreclosed real-estate-owned properties under the jurisdiction of the four OIGs to better identify suspicious transactions and to target our resources in addressing any fraud that may occur.

**Financial Management Systems**

Since fiscal year 1991, the OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA’s management controls over its portfolio of insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and the Government National Mortgage Association (Ginnie Mae) and addressing most of the previous weaknesses that the OIG identified. These improvements enabled us to reclassify our audit findings relative to financial management system requirements from a “material weakness” to a less severe “significant deficiency.”

The latest contract to modernize HUD’s financial management systems, HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD’s financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions was put on hold as a result of review by OMB. HIFMIP was originally launched in fiscal year 2003 and was to have begun implementation of HUD’s core financial system in fiscal year

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2006. With the award of the latest contract, HUD anticipated implementation of phase one of the project in time to have all of fiscal year 2012 financial data within the new system. However, we remain concerned about the successful execution and completion of HIFMIP. The “go live” date for the integrated core financial system was revised from March to May 15, 2012. Disagreements between HUD and the HIFMIP contractor with regard to interpretation of key contract provisions could further delay the project. HUD convened an independent assessment team, composed of subject matter experts from multiple government agencies, to rapidly evaluate the status of HIFMIP.

We are also concerned that completion of the first phase of HIFMIP will still not result in a truly integrated core financial system. We have reported the lack of an integrated core financial system as a significant deficiency in our financial statement audits for the past several years. HUD uses five separate financial management systems to accomplish the core financial system functions. However, the first phase of HIFMIP will only replace two of these systems, resulting in the creation of the new integrated core financial system. It is not clear how this new system will lessen the dependency on, and integrate with, the other three core financial systems nor is it clear how completion of this first phase will reduce or eliminate the manual processing necessary to generate HUD’s consolidated financial statements. In the meantime, we continue to note the following weaknesses with HUD’s financial management systems:

- HUD requires extensive compensating procedures to prepare financial statements and other financial information.
- HUD has limited availability of information to assist management in effectively managing operations on a day-to-day basis.

FHA’s business has increased dramatically over the past few years as a result of the mortgage crisis. FHA’s insured portfolio of more than 7.4 million traditional and one-half million reverse single-family mortgages is worth well over $1 trillion. The shortcomings of the current Information Technology (IT) systems and the lack of systems capabilities and automation in critical areas of the business are challenging FHA’s ability to proficiently respond to changes in the market and to evaluate its business processes. In August 2009, FHA completed the IT Strategy and Improvement Plan, which identifies FHA’s priorities for IT transformation. The plan identifies 25 initiatives to address specific FHA lines of business needs. Initiatives are prioritized, with the top five being single-family related. The plan also calls for FHA to create a program management office to facilitate coordination and communication, track and report progress, provide support to managers, and support organizational change management activities. FHA currently has eight active transformation projects underway with key
deliverables planned throughout the remainder of the 2012 calendar year. The Lender Electronic Application Portal is scheduled to go live in April 2012. However, budget constraints continue to limit progress with these initiatives.

Another information technology concern is the ability to replace the antiquated infrastructure on which HUD and FHA applications reside in a timely manner. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old and have exceeded their reasonable service life and cannot effectively support the current market conditions and volume of workloads. The use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized, it will become increasingly difficult to maintain operations, make legislative system modifications, and develop or maintain required interfaces to other IT systems, leaving the systems environment at risk. For example, the technology acquired by FHA 15-30 years ago includes COBOL applications still in use today. This limits FHA’s ability to integrate newer technologies that are widely used in the financial industry, or even to develop modern data interfaces to lender and other Departmental IT systems. Software and hardware technology of that era now constrains FHA’s ability to implement system modifications in response to legislative changes.

We continue to report weaknesses in internal controls and security regarding HUD’s general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. Of particular concern is the Integrated Disbursement and Information System (IDIS), which supports HUD’s Office of Community Planning and Development’s formula grant programs, including the Community Development Block Grant and HOME programs. HUD’s design and implementation of IDIS, we believe, is not in compliance with Federal financial management system requirements. The system arbitrarily liquidates obligations on a “first-in-first-out” basis, irrespective of the budget fiscal year funding source and intentionally decreases the amounts that HUD would be required to return to the U.S. Treasury after the programs’ fixed-year appropriations expire. The Department did not agree, and the Government Accountability Office is now reviewing that matter given the potential wide impact to other agencies. In addition, incompatible functions such as system administration and security administration are not adequately separated, and there is no formal user recertification process to ensure that all users are properly recertified. Moreover, grantees and subgrantees are able to update, change, cancel, reopen, and increase or decrease project funding without review by HUD and self-report on their accomplishments. We have found data integrity issues with the information within IDIS.
as reported by the grantees and subgrantees, including unsupported contracts, inflated contract amounts, and underreporting of program income. The Department, through its Transformation Initiative is planning enhancements to better manage data quality.

As part of our annual IT security review mandated by the Federal Information Security Management Act (FISMA), we found that the Department continued to make progress on developing an entity-wide information systems security program by developing (1) an incident response and reporting program that was consistent with Federal guidelines, (2) policies and procedures for information security oversight of systems operated on the Department’s behalf by contractors, and (3) a system that effectively tracks and monitors the planned actions and milestones for correcting known information security weaknesses. We also found areas that need improvement. Specifically, the Office of Chief Information Officer did not ensure that (1) its remote access procedures were enhanced and its authentication methods strengthened, (2) security training was provided to employees to make them aware of their responsibilities, (3) the disaster recovery portion of HUD’s contingency planning program properly tested suitable systems, (4) the continuous monitoring program was established, (5) risk management was completed on an organization level, and (6) the capital planning and investment control process involved all necessary parties throughout the fiscal year.

**Human Capital**

For many years, one of the Department’s major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG’s September 2008 audit pertaining to HUD’s management of human resources. More recently, we reported in January 2011 that HUD was making progress in addressing its hiring process and reduced the average cycle time for hiring employees by about 37 percent between 2008 and 2010. The Department was able to meet the staffing needs of its four Homeownership Centers within the confines of authorized staffing levels. Nevertheless, more needs to be done.

To address its human capital challenge, HUD began a “Human Capital Transformation” initiative in 2010 which noted that the 2009 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the “Best Places to Work in the Federal Government” report. HUD has since slipped to next to last place in the 2010 rankings (31 of 32). The Department contracted with the National Academy of Public Administration (NAPA) in 2012 to consult on this problem. NAPA noted HUD did not engage in any short- or long-term planning to
determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department’s efforts to address its workforce needs in a strategic and systematic manner.

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

In response, HUD included a strategic goal in its Fiscal Year 2010 – 2015 Strategic Plan to transform the way HUD does business. This goal addresses HUD’s past history of being viewed by both its employees and external partners as lacking in its ability to provide the support needed to fully deliver on its mission. HUD has developed specific sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture. I know the Secretary has committed much time and effort to address some of these areas as evidenced by his Town Hall meetings with staff to announce his Changemakers Campaign and Feedback Focus Days to look at ways to improve performance and culture. HUD will measure its progress on its sub-goals by its success in increasing satisfaction ratings from internal and external parties, increased delegation to field offices, reduced number of burdensome regulations and reports, and reduced end-to-end hiring time. We plan to work closely with the Department to help them achieve these goals.

HUD has also begun a workforce needs and allocation study to update its resource estimation and allocation process. The goal is to more effectively support the budget process and assess staffing needs. The Director of Office of Field Policy and Management, personally met with me on this project on February 10th, and I am encouraged that the Department is giving this effort the appropriate high priority and funding. My office will periodically monitor progress as this project moves toward completion.

**Procurement and Contract Management**

In prior years, we have reported on various concerns relating to HUD’s procurement and contract management including HUD’s information technology infrastructure contracts and HUD’s
transition to the third generation of its management and marketing contracts that are used to manage and dispose of HUD’s extensive inventory of foreclosed single-family properties. HUD continues to be challenged by its over-reliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor work force. My office will be taking a closer look at procurement and contract management to ensure that waste, fraud or mismanagement can be identified at its earliest occasion.

Perhaps the greatest area of concern with respect to HUD’s procurement and contract management is with the management and marketing of foreclosed FHA single-family properties. HUD’s inventory of real estate owned (REO) properties had increased dramatically from about 45,700 properties in March 2010 to nearly 69,000 at the end of March 2011. Since that time, the inventory has been steadily declining and, as of January 2012, stood at about 31,000. While the decline from the historically high levels of last year is a positive trend, the percentage loss on the sale of these properties has been steadily increasing since the nation’s housing market collapsed in 2008. This trend has continued for the past year, and for the current fiscal year, losses are averaging about two-thirds of HUD’s acquisition cost. In contrast, HUD’s average loss during 2007 was about 40 percent. HUD’s oversight of these management and marketing contractors will be critical to ensure that returns on property sales are maximized thereby reducing further losses to the FHA insurance fund.

Another area of concern relates to performance-based contracts that have been in place for several years to administer HUD’s project-based rental assistance contracts with project owners. We previously reported that HUD did not obtain the best value for the nearly $300 million spent in 2008 on the Project-Based Contract Administrators (PBCA) contracts. In particular, HUD spent $107 million of this amount on incentive fees. While we could not quantify how much of this amount was excessive, HUD continued to pay incentives for tasks that were included in the contractors’ basic fees. The current contracts are not cost effective and do not allow HUD to stop paying for services that it no longer requires. HUD has been slow in restructuring these contracts and last year was forced to re-compete most of the contracts after many of the bidders protested the manner in which HUD evaluated the proposals. The competition is ongoing and HUD now anticipates that new agreements will be in place by the end of the fiscal year.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and to public housing agencies
(PHAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 rental assistance program, Section 202 program for elderly housing, and Section 811 program for housing for persons with disabilities. The subsidies provided through these programs are called “project-based” subsidies because they are tied to particular properties. Therefore, tenants who move from such properties may lose their rental assistance. The administration’s budget request for fiscal year 2013 includes $8.7 billion for project-based rental assistance contracts with project owners. This represents a $640 million decrease from the fiscal year 2012 enacted level. This reduction was achieved by providing less than 12 months of funding upfront on some contracts that straddled fiscal years. While this has caused some concern, we recognize that this decision was a difficult one prompted by the current fiscal challenges.

Nevertheless, this situation will force HUD to maintain continued oversight of this funding stream to ensure that the actual payments to landlords are not reduced or delayed to prevent adverse impact on the families served by the programs. HUD’s methodology for reviewing remaining funding on these contracts has steadily improved over the past several years in response to our recommendations from the annual audits of HUD’s financial statements. In fiscal year 2011, HUD began reviewing active renewal contracts, in addition to expiring original term and inactive contracts, so that unnecessary funds can be deobligated and used to reduce current year funding requirements. Prior to fiscal year 2010, HUD only reviewed housing assistance payments contracts on an annual basis. In fiscal year 2010, they began quarterly reviews of expiring contracts, and starting in fiscal year 2011, HUD performs monthly reviews for expiring contracts and bi-annual reviews for unexpired but inactive contracts. HUD’s improvements should better enable HUD to monitor funding utilization and act more quickly to resolve any anticipated shortfalls.

The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by more than 4,100 PHAs and provide affordable housing for 1.1 million households through the low-rent public housing program and 2.1 million households through the Housing Choice Voucher program.

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

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protocol to provide for improved oversight of the physical condition of the rental units that are participating on the program.

In another area, earlier this month, we issued our latest audit of HUD’s compliance with the reporting requirements of the Improper Payments Information Act of 2002 (IPIA), as amended. In general, HUD’s fiscal year 2011 agency financial report and Accountable Official report complied with IPIA, Executive Order 13520, and the Office of Management and Budget (OMB) Circular A-123 implementing guidance. Moreover, HUD’s improper payment reduction strategies were progressing in a positive direction. The Accountable Official report provided the plans for 10 supplemental measures developed for reducing and eliminating improper payments in rental housing assistance programs. The most significant supplemental measures included the detection of tenants’ underreported income, the verification of tenants’ eligibility, and the detection of deceased tenants. We evaluated each supplemental measure (including supporting documents and reports) and concluded that HUD had internal controls in place to detect and reduce improper payments in its rental assistance programs.

However, the report noted areas where further improvements are needed. HUD’s outdated risk assessment process did not fully support its basis for identifying which programs should be included in its erroneous payment study since it did not include a methodology for determining dollar amounts of potential improper payments. We will continue to work with the Department in this critical area.

**HOME Program**

The HOME program is the largest federal block grant to state and local governments, designed to create affordable housing for low-income households. Because HOME is a formula based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty level, and population in accordance with Census data.

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

Last year, my office testified twice on oversight and fraud issues relating to the HOME program. Our external audit work, which focuses on problem grantees, commonly found the lack of

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

Another concern we have, as noted earlier, is with IDIS, the system used by HUD to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. HUD also uses the system to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-to-date information system, HUD would be able to better monitor the HOME program in a more transparent way.

Our work in this program continues and we have been working with the Senate Appropriations Committee staff to help the Department strengthen controls. To its credit, HUD has proposed new rules which, if implemented, should strengthen HUD’s future enforcement authority. In response to a Senate request, we examined revisions to these rules. As a result of our review, the Senate Committee included several new requirements in the HOME program that we identified as a priority for mitigating program risk. These include discontinuing or recapturing funds for projects not completed within four years of commitment, instituting new requirements before program funds can be committed to a project to ensure that it is viable and has been properly underwritten, requiring adequate development capacity of community housing development organizations, and requiring that homeownership units that cannot be sold will be available to rent to eligible tenants. The Department has taken steps to improve HOME program management, and my office continues with its oversight work in this area.

**Antideficiency Act Violations**

For several years, our annual audits of HUD’s financial statements have reported issues with HUD’s lack of compliance with the Antideficiency Act, which imposes restrictions on the amounts of obligations or expenditures that agencies may make. Our most recent fiscal year 2011 audit found that HUD had not improved its process for conducting, completing, reporting, and closing the investigation of potential violations. None of the six cases identified as a
potential deficiency in fiscal year 2009 were reported to the President through OMB, Congress, or GAO as required or were determined not to be a violation. All of these cases were opened in 2008 or earlier, two as far back as 2003. In all six cases, the Department had not completed its review as required.

HUD’s Chief Financial Officer is responsible for conducting investigations and reporting on violations of the Antideficiency Act. HUD’s continued delay in completing investigations and reporting known violations delays timely correction of violations and imposition of appropriate disciplinary action. Further, our ongoing financial audit for 2012 identified a seventh potential violation with respect to payment of salaries and expenses in excess of authorizations for fiscal year 2011. This issue is a function of HUD having to account separately for budget allocations provided to each of its program areas. Six of the program areas exceeded their allocations. However, overall, HUD did not exceed its total appropriation. The matter is still under review by HUD’s CFO staff. The Department has stated to us their recognition that some staff did not have the requisite skill level to manage a pay projection process and that they are implementing new controls for managing the salaries and detailees process along with providing more training for employees.

**Conclusion**

The Department’s role has greatly increased over the last decade as it has had to deal with disasters and economic crises that have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively for the benefit of the American taxpayers now and into the future.