

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

Oversight Hearing – Inspectors General of the Department of  
Housing and Urban Development and Department of  
Transportation



Testimony of the Honorable Rae Oliver Davis,  
Inspector General,  
U.S. Department of Housing and Urban Development

**March 28, 2023**



## **Written Testimony of Inspector General Rae Oliver Davis, U.S. Department of Housing and Urban Development**

Before:

U.S. House of Representatives, Committee on Appropriations, Subcommittee on  
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Hearing Titled:

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Development and Department of Transportation”

### **Introduction**

It is my honor to have this opportunity to discuss the Office of Inspector General’s (OIG) oversight of the U.S. Department of Housing and Urban Development (HUD). My teams of auditors, evaluators, investigators, attorneys, data scientists, and professional staff are dedicated to producing quality oversight that influences meaningful improvements in HUD’s programs and operations.

My testimony will first discuss important initiatives my office has launched to expand our investigations, audits, and reviews that protect the health and safety of low-income and vulnerable populations living in HUD-assisted housing. We are dedicating more of our resources to oversight of living conditions that present dangerous threats to tenants’ health and safety, as well as to oversight of public housing agencies’ and landlords’ compliance with environmental safety laws and regulations.

Additionally, my testimony will address the Top Management Challenges that HUD faces in effectively delivering housing and community development services to the communities and individuals that rely on HUD programs. My testimony will also highlight OIG’s strategy for providing robust oversight over HUD’s major business functions and its pandemic programs, discuss some of our most significant recent work, and outline priority areas where HUD action is needed.

### **Initiatives to Reduce Environmental and Public Health Hazards**

HUD OIG is prioritizing oversight work that promotes safe, affordable HUD-assisted housing by reducing environmental and public health hazards. We are committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households

and vulnerable populations. We will use every tool available to combat environmental crime and injustice in housing.

To that end, HUD OIG is prioritizing the following oversight objectives:

1. Ensuring public housing agencies (PHAs), landlords, contractors, and inspectors properly identify lead hazards and use safe work practices to reduce and prevent lead exposure and poisoning in HUD-assisted housing.
2. Ensuring landlords fulfill their obligations to provide housing units that are decent, safe, and sanitary, and make necessary repairs to units in a timely and safe manner.
3. Combatting financial fraud schemes that exploit vulnerable populations relying on HUD-assisted housing assistance, such as landlords who overcharge rent or housing fees.<sup>1</sup>

Additionally, my office is expanding our efforts to ensure HUD tenants are protected from sexual misconduct in housing. Working with HUD and the Department of Justice, we will continue seeking justice for victims through criminal and civil prosecution and penalties for those who sexually assault or harass HUD tenants. No one should choose between having a roof over their head and the threat of being sexually harassed or sexually assaulted by their housing provider.

### HUD's Top Management Challenges and Corresponding OIG Oversight

Over the past several years, OIG has repositioned our staff to provide more comprehensive oversight over HUD's critical programs and operations. OIG has reorganized our audit teams from being primarily regionally based to a model that aligns teams with HUD program functions to develop deeper subject matter expertise. We have aligned our investigative staff to regions of the country using a data-driven approach that focuses on risk presented to HUD funds and beneficiaries.

This approach has led to significant results. Last fiscal year (FY), OIG audits found over \$7 billion in funds that could be put to better use and almost \$12 million in questioned costs and recovered over \$18 million in collections. Similarly, our investigations resulted in over \$40 million in restitution and judgments, with over \$10 million total recoveries and receivables ordered to HUD programs. Beyond monetary impact, our office's oversight has identified ways HUD and its partners can improve outcomes for HUD-assisted individuals and communities and has held bad actors accountable through impactful investigations and resulting convictions, penalties, and exclusion from Federal programs.

To ensure comprehensive oversight of HUD's key functions, OIG work addresses what we have independently determined to be the top management and performance challenges facing the Department. Each challenge is tied to HUD's strategic plan and is informed by past OIG oversight findings, the views of Department leadership, the work of our oversight partners such as the U.S. Government Accountability Office (GAO), and input from key external stakeholders.

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<sup>1</sup> See HUD OIG Fraud Bulletin, "Landlord Overcharging Section 8 Tenant Fraud Scheme." <https://www.hudoig.gov/sites/default/files/2022-10/Landlord%20Overcharging%20Section%208%20Tenant%20Fraud%20Scheme.pdf>

For FY 2023, we determined HUD's Top Management Challenges to be

- Ensuring access to and availability of affordable housing
- Mitigating counterparty risks in mortgage programs
- Eliminating hazards in HUD-assisted housing
- Managing human capital
- Increasing efficiency in procurement
- Improving information technology (IT) modernization and cybersecurity
- Sustaining progress in financial management
- Administering disaster recovery
- Grants management
- Fraud risk management

Additionally, OIG recently issued its first Priority Recommendations resource<sup>2</sup> that aims to focus the attention of the Department, Congress, and the public on OIG recommendations that would have the largest positive impact on HUD's programs and the individuals and communities it serves if addressed by the Department.

Our auditors, evaluators, and investigators orient their work toward addressing the top management challenges of HUD. OIG provides deliberate, targeted oversight over critical HUD programs, which results in actionable recommendations that provide a roadmap for HUD and its stakeholders to achieve program improvements. We have also ensured that our investigative work provides accountability where the greatest risk is to HUD and the taxpayer and maximizes deterrence.

Additionally, throughout this testimony, there are descriptions of how the pandemic affected each of HUD's major programs and the oversight we performed to help HUD improve its pandemic response. At the outset of the pandemic, OIG provided timely and targeted oversight to help the Department effectively stand up its program, including the use of agile work products, lessons learned reports, audits of grantee challenges, and fraud risk inventories and risk assessments. As the pandemic response funding and programs got underway, OIG shifted our oversight to determining how well HUD's programs delivered the critical services. We anticipate the Department will continue to face challenges in administering and monitoring the use of funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the American Rescue Plan (ARP) Act, and other dedicated pandemic-related programs, and will position our oversight to help those programs be efficient and effective.

A common theme in our oversight findings has been HUD's struggle to have the capacity to address the challenges it faces. HUD employees, program partners, and external stakeholders consistently describe HUD as underfunded and understaffed, with inadequate IT and support structures to address its ever-growing mission, program responsibilities, and expectations. Challenges, such as HUD's technical ability to securely collect, use, and analyze data, which is often maintained at the recipient or subrecipient level, continue to be impediments to HUD's success.

Below is a brief description of how OIG will provide oversight over HUD's major business functions, recent impactful OIG work, and priority focus areas where action by HUD is most needed to address significant challenges or priority open recommendations.

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<sup>2</sup> Available at: <https://www.hudoig.gov/priority-open-recommendations>

## *Ensuring Access to and Availability of Affordable Housing*

The United States still struggles with creating and maintaining an affordable housing stock, a situation that worsened during the COVID-19 pandemic. HUD's FY 2023 Annual Performance Plan<sup>3</sup> states that finding an affordable home in America is worse now than it has been at any point since the 2008 financial crisis.

HUD continues to experience challenges in efficiently and effectively overseeing its rental assistance programs. HUD acknowledged that it faces challenges in providing oversight to a program that is based on local program partner performance and is funded with limited resources. In addition, HUD has difficulty attracting new business partners, such as landlords and property owners, to participate in its tenant-based rental assistance programs. A lack of interested property owners negatively impacts beneficiaries' access to and availability of affordable rental housing. HUD is also challenged with preserving its aging housing stock to provide quality affordable housing for individuals and families, the steady deterioration of which exacerbates the shortage of affordable housing. The physical condition of HUD-assisted properties has been an ongoing concern of Congress and the American public.

OIG has dedicated considerable resources toward assisting HUD and its partners in improving the delivery of these critical programs. With respect to HUD's rental assistance programs, we targeted our oversight work to address risk reduction and operational improvements that help preserve affordable housing and improve the efficiency and effectiveness of the programs. We are also focused on targeted oversight of grantee and subrecipient performance and outcomes, coordination of services to maximize customer experience, and assessments of HUD and partner strategies for identifying best practices and impediments. Finally, OIG has been focused on foundational aspects of how HUD carries out its Fair Housing mission through the Office of Fair Housing and Equal Opportunity (FHEO) and its implementing partners, including the effectiveness of FHEO's complaint intake, case management, and compliance reviews.

Below is a snapshot of OIG's recent, impactful oversight work related to ensuring access to and availability of affordable housing.

### [HUD Could Improve Its Process for Evaluating the Performance of Public Housing Agencies' Housing Choice Voucher Programs](#)

Our audit found that HUD has an opportunity to improve its process for evaluating the performance of public housing agencies' (PHA) Housing Choice Voucher (HCV) Programs. HUD uses the Section Eight Management Assessment Program (SEMAP) to remotely evaluate the performance of PHAs' HCV Programs. However, our audit found that (1) the information reported by PHAs in SEMAP may not have accurately represented the performance of their HCV Programs, and (2) HUD's process for verifying the information PHAs use for SEMAP reporting did not effectively assist HUD in evaluating and identifying PHAs' HCV Programs that may have needed improvement. These conditions occurred because (1) SEMAP uses performance indicators that are based on PHAs' self-certifications and self-reported data and (2) HUD's verification process did not capture the performance of all PHAs' HCV Programs. Without an effective performance measurement process, HUD lacked assurance that PHAs' HCV Programs met

<sup>3</sup> Available at <https://www.hud.gov/sites/dfiles/CFO/documents/FY2023HUDAnnualPerformancePlan.pdf>

their intended objectives, which include assisting the maximum number of eligible families with obtaining affordable and decent rental units at the correct subsidy cost. In addition, HUD may have missed opportunities to identify PHAs experiencing difficulties in managing their HCV Programs. HUD would benefit from enhancing SEMAP or developing a new performance measurement process that would identify PHAs with underperforming HCV Programs and providing additional training and guidance to HUD staff to enable more effective use of the measurement processes.

#### [HUD Remains Challenged To Serve the Maximum Number of Eligible Families Due to Decreasing Utilization in the Housing Choice Voucher Program](#)

Our audit found that HUD remains challenged to ensure that its HCV Program benefits the maximum number of eligible families. While HUD's voucher utilization rate had decreased, HUD estimated that as of November 2020, more than 62 percent of PHAs in the Program had leasing potential and that leasing potential could increase in coming years. In addition, our audit showed that HUD had not exercised its regulatory authority to reallocate HCVs and associated funding when PHAs were underutilizing their vouchers. HUD remains challenged with voucher utilization because some PHAs continue to encounter difficulties that are not within their control to overcome and which negatively impact their ability to increase leasing in their service areas. In addition, HUD believed that it could not implement its reallocation regulation because of legislative changes dating back to 2003. As a result, nearly 81,000 available HCVs could potentially be used to provide additional subsidized housing for eligible families. Further, more than 191,000 authorized vouchers were unused and unfunded, meaning that more than 191,000 additional low- to moderate-income families could possibly benefit from subsidized housing by using these vouchers. However, HUD would need an additional appropriation of nearly \$1.8 billion to fund these vouchers.

Priority Open Recommendation: HUD's Office of Field Operation should establish and implement a plan for the unused and unfunded vouchers to mitigate or prevent additional vouchers from becoming unused and unfunded. [...]

#### [HUD and Fair Housing Assistant Program Agencies Can Better Document Decisions Not To Investigate Fair Housing Complaints](#)

Our audit found that although HUD and Fair Housing Assistance Program (FHAP) agencies adequately documented decisions to convert inquiries to complaints in the HUD Enforcement Management System (HEMS), the closed inquiries needed to be documented more adequately and consistently. Specifically, our audit found that HEMS did not always include (1) adequate documentation supporting the recorded closure reason, (2) sufficient information supporting jurisdictional determinations, and (3) letters properly notifying claimants when HUD lacked jurisdiction to pursue their allegations. These conditions occurred due to inconsistent and outdated HUD policies and procedures. Further, HUD officials stated that HUD staff's ability to enter all information into HEMS was negatively impacted by the large volume of inquiries received. Additionally, FHAP agencies did not enter complaint inquiries into HEMS when they decided not to investigate the allegations. HUD does not require them to enter these inquiries into HEMS and does not provide grant funding for entering this information. Our audit found that this practice hinders HUD's process for overseeing allegations closed during the inquiry stage. HUD's

management needs more complete information in HEMS to oversee jurisdictional determinations and ensure that HUD and FHAP agencies staff are properly assessing allegations of housing discrimination.

### [FHEO's Oversight of State and Local Fair Housing Enforcement Agencies](#)

Our evaluation reviewed whether FHEO is providing necessary oversight to ensure that FHAP agencies meet performance standards to maintain certification from FHEO. We determined that FHEO could provide more guidance related to its performance assessment process to improve oversight of state and local fair housing enforcement agencies participating in FHAP. The FHAP Division has provided guidance that FHEO regional staff responsible for monitoring and overseeing FHAP agency performance does not consistently follow. HUD reviewers expressed a desire for more definitive guidance as to what level of compliance was acceptable and concrete examples of what constituted compliance and noncompliance. Additionally, the evaluation found that regional offices often did not place FHAP agencies with repeat deficiencies on Performance Improvement Plans (PIP) and that FHEO regional directors used different criteria when deciding to issue a PIP.

#### Ongoing Oversight:

- **Assessment of FHEO's Fair Housing and Civil Rights Compliance Reviews:** FHEO has authority to conduct compliance reviews to determine whether a recipient of HUD funds was following applicable civil rights laws and implementing regulations. Our audit will assess how the Department, through FHEO and its partners, performed compliance reviews.
- **Timeliness of FHEO's Investigations for Title VIII Complaints:** Federal law requires that HUD complete investigations of each Fair Housing complaint within 100 days of the date it was filed unless it is impracticable to do so. Our objective is to assess challenges faced by FHEO in meeting the 100-day investigation requirement.
- **Assessment of Fair Housing Complaint Intake Process at a FHAP Agency:** Our audit will focus on a FHAP agency in Kentucky to (1) determine the extent to which the FHAP agency processed fair housing complaints in a timely manner, (2) evaluate the reasons for closing complaints, and (3) evaluate how the FHAP agency provided customer service to complainants on closed fair housing complaints.
- **FHEO's Implementation of Executive Order 13988:** Executive Order 13988 required agencies to ensure that their programs and guidance combat sex discrimination on the basis of gender identity or sexual orientation. The audit objective is to determine whether HUD (1) established and implemented a plan to prevent and combat such discrimination; (2) ensured its FHEO Regional Offices, FHAP agencies, and Fair Housing Initiatives Program grantees identified covered allegations of discrimination; and (3) ensured that these entities notified people that their discrimination claims related to gender identity or sexual orientation may be timely and jurisdictional for filing.

#### Impactful Investigations:

- [Justice Department Obtains \\$4.5 Million Settlement from a New Jersey Landlord to Resolve Claims of Sexual Harassment of Tenants:](#) A landlord who owned hundreds of rental units in and around Elizabeth, New Jersey, agreed to pay \$4.5 million in monetary damages and a civil penalty to resolve a Fair Housing Act lawsuit concerning his sexual harassment of tenants and housing applicants for more than 15 years. This settlement is the largest monetary settlement the Justice Department has ever obtained in a case alleging sexual harassment in housing. The

monetary damages awarded have been used to compensate numerous women and men who were sexually harassed by the landlord.

- [Former Rochester Housing Authority Chair Going to Prison for Fraud, Money Laundering, and Lying to the FBI](#): The former housing authority chair who was convicted by a Federal jury for his role in defrauding three nonprofit organizations providing supportive services for the elderly, disabled, low-income residents, and after-school and extended-day learning programs. The former chair was sentenced to serve 78 months in prison in U.S. District Court.
- [Three Family Members of the Former Director of the St. Clair Housing Commission Plead Guilty to Conspiracy and to Defrauding HUD](#): Three family members of the former executive director of the St. Clair Housing Commission pleaded guilty to various Federal offenses due to their involvement in the former executive director's fraudulent scheme to steal money from HUD. The former executive director (now deceased) had previously pleaded guilty and been sentenced to prison for conspiring with several family members to steal Federal funds provided to the St. Clair Housing Commission by HUD to administer low-income housing programs within St. Clair County. As part of her scheme, the former executive director stole approximately \$336,000 in Federal funds, including money earmarked for HUD's HCV program. In total, \$336,340.22 in restitution has been repaid to HUD as a result of the prosecutions of the family.

### *Ensuring Assisted Housing Is Habitable and Hazard-Free*

HUD is required to ensure that its assisted properties are decent, safe, sanitary, and in good repair. Properties participating in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances, when such a hazard could affect the health and safety of occupants or conflict with HUD's intended utilization of the property.<sup>4</sup> In particular, our Top Management Challenges report discusses HUD's difficulty in addressing risks associated with lead hazards, radon hazards, physical conditions of HUD-assisted properties, and the role of inspections in identifying and remedying poor living conditions. While HUD has made progress in its efforts toward eliminating hazards in its assisted properties, several safety and health issues remain to be addressed.

OIG is prioritizing oversight work that promotes safe, affordable housing by reducing environmental and public health hazards in HUD-assisted housing. We are committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households and vulnerable populations and will use every tool available to combat environmental crime and injustice in housing.

In addition to the Inspector General's initiatives discussed above, our recent and ongoing oversight has been focused on health and safety issues found during inspections of public and multifamily housing, evaluating the state of unit conditions in all rental assistance programs and high-risk housing authorities, and determining whether conditions improve for properties that undergo the Rental Assistance Demonstration (RAD) Program.

<sup>4</sup> 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)



### [Management Alert: Action Needed to Ensure That Assisted Property Owners Comply with the Lead Safe Housing Rule](#)

While conducting an ongoing audit of the Philadelphia Housing Authority's (Authority) management of lead-based paint hazards in its public housing units, we identified a significant gap in HUD's program requirements related to safe work practices. The Authority had determined a substantial percentage of maintenance and hazard reduction work performed on surfaces with lead-based paint in its public housing units was "de minimis," which exempted the work from HUD's rules requiring safe work practices. However, HUD does not require assisted property owners like the Authority and other PHAs to maintain evidence supporting that the work was minor. This lack of documentation impedes HUD's ability to conduct meaningful oversight of property owners' compliance with HUD's requirements for safe work practices. Moreover, the practice limits HUD's and OIG's ability to verify that the *de minimis* exemption is being properly applied. OIG found that HUD should take immediate steps to mitigate the risk of applying the exemption too broadly and increasing the potential for residents and maintenance staff to be exposed to lead-based paint hazards.

### [HUD Did Not Sufficiently Flag Unacceptable Physical Condition Scores to Assess Its Controlling Partners](#)

Our audit examined the physical conditions of multifamily housing projects and HUD's use of accompanying REAC scores in identifying potential risks associated with controlling participants. During our initial review, we were unable to identify a universe of controlling participants with a history of poor physical inspection scores that were later approved for additional participation in multifamily business. Instead, we reviewed whether HUD properly flagged properties that received poor physical inspection scores.

HUD uses flags in the Active Partners Performance System (APPS) to assess risk associated with participants in Office of Multifamily Housing program projects. A flag does not automatically exclude an applicant from participation in HUD's programs; however, flags are considered risk factors that require appropriate mitigation, where possible. We found 13 properties with consecutive REAC scores below 60 that were missing the required flags in APPS for unacceptable physical condition. HUD did not have a quality control program to ensure that the account executives manually entered the flags into APPS, and there was no automated process for flagging a property once it received the second consecutive below-60 REAC score. As a result, HUD relied on incomplete previous participation information to make decisions about future participation. Not having sufficient information to assess its controlling participants could potentially impact the health and safety of residents at multifamily properties. We recommended that HUD implement a quality control review to ensure that successive below-60 physical inspection score flags are entered into APPS and update APPS to automatically flag a property that receives successive below-60 physical inspection scores.

### [HUD Lacked Adequate Oversight of Lead-Based Paint Hazard Remediation in Public Housing](#)

OIG audited HUD to assess HUD's oversight of lead-based paint hazard remediation in public housing. The audit found HUD established procedures in the Lead Safe Housing Rule (LSHR) in 1999 to eliminate lead-based paint hazards, as far as practicable, in public housing. However, it did not have a plan to manage lead-based paint and lead-based paint hazards in public housing. Additionally, HUD generally did not monitor whether PHAs had implemented lead-based paint hazard reduction and documented the activities at their public housing developments. We found HUD relied on PHAs to implement their own methods to achieve lead-safe housing, which should have included implementing lead-based paint hazard reduction. Further, instead of monitoring PHAs for compliance with the lead-based paint hazard

reduction procedures in the LSHR, HUD relied on PHAs' annual certifications of compliance. Without a plan to manage lead-based paint and lead-based paint hazards in public housing and ensure that PHAs implemented lead-based paint hazard reduction, HUD lacked assurance that (1) families with children under 6 years of age residing in public housing were not exposed to lead-based paint hazards and, thus, protected from lead exposure and (2) its procedures for eliminating lead-based paint hazards in public housing were effective.

We recommended that the Real Estate Assessment Center (REAC) in coordination with the Office of Field Operations (1) develop a plan to manage lead-based paint and lead-based paint hazards in public housing, (2) determine whether PHAs identified as having lead-based paint in their housing developments maintain and implement a plan for controlling lead-based paint, and (3) assess the lead-based paint hazard reduction activities performed at the 19 developments associated with 18 PHAs reviewed that did not implement interim controls or adequately document that lead-based paint had been abated or treated with interim controls. If those reduction activities did not fully abate the lead-based paint, HUD should ensure that the PHAs implement interim controls and ongoing maintenance and reevaluation programs.

#### [Improvements Are Needed to HUD's Processes for Monitoring Elevated Blood Lead Levels and Lead-Based Paint Hazards in Public Housing](#)

Our evaluation found that HUD did not align its EBLL value to the Center for Disease Control and Prevention's (CDC) blood lead reference value (BLRV) for children under the age of 6. As of August 2022, HUD was using the EBLL value of 5 micrograms of lead per deciliter of blood ( $\mu\text{g}/\text{dL}$ ), despite CDC lowering the BLRV to 3.5  $\mu\text{g}/\text{dL}$  in October 2021. By aligning EBLL processes with CDC's BLRV, HUD can help to ensure that cases of children with EBLs between 3.5  $\mu\text{g}/\text{dL}$  and 4.9  $\mu\text{g}/\text{dL}$  are reported and monitored. The evaluation also found ways HUD could improve the data fields of HUD's EBLL tracker to monitor cases of children with identified EBLs residing in public housing, including facilitating access to historical EBLL cases, and the number of children living in a housing unit, or whether a specific unit, building, or development previously had an EBLL case. Additionally, when we compared the percentage of public housing development buildings constructed before 1978 to a snapshot of the EBLL tracker we found that New York and Pennsylvania together accounted for virtually all (94.1 percent) of EBLL tracker cases of children living in public housing with an EBLL resulting from a confirmed lead-based paint hazard. This result was despite other states' having the same amount or more public housing development buildings built before 1978, when lead-based paint was banned. Additionally, HUD can improve timeliness standards for addressing cases on HUD's lead-based paint response (LBPR) tracker.

#### Ongoing Oversight:

- **Audit Series – PHA Management of Lead Based Paint in Public Housing:** OIG is currently auditing three large PHAs in Pennsylvania, Ohio, and California to determine whether the PHAs adequately managed lead-based paint and lead-based paint hazards in their public housing. The audits will focus on whether PHAs are properly disclosing lead hazards to tenants, properly conducting annual assessments, acting appropriately following confirmed cases of elevated blood lead levels in children, and documenting the PHAs lead hazard mitigation and other work.
- **Carbon-Monoxide in HUD-Assisted Housing:** OIG is evaluating HUD's plan to ensure all PHAs and owners of certain HUD-assisted housing comply with the requirements for carbon monoxide detector installation in accordance with the Consolidated Appropriations Act of 2021. The evaluation will also determine HUD's progress in implementing its plans and developing

guidance for PHAs to educate residents; and determine what barriers PHAs' experience in implementing the requirements.

- HUD's Oversight of Multifamily Housing Properties with Failing REAC Scores or exigent health and safety deficiencies (EH&S) Deficiencies: We are auditing HUD's oversight of multifamily housing properties with failing REAC scores or EH&S. We will assess whether HUD has adequate oversight for (1) multifamily properties that failed the most recent REAC inspection and (2) multifamily properties with EH&S deficiencies.
- Audit Series - HUD's Oversight of the Physical Conditions of Project Based Rental Assistance (PBRA) and Federal Housing Administration (FHA)-insured Project Based Voucher (PBV) Units Under RAD & non-FHA Insured PBV Units Under RAD: OIG is conducting two audits of HUD's oversight of the physical conditions of units converted under the RAD program. The first will focus on PBRA and FHA-insured PBV units converted under the RAD program. The second will focus on non-FHA insured PBV units converted under the RAD program. The audits will assess whether HUD and PHAs have adequate oversight of the physical conditions of the units converted under RAD. They will also determine if the physical conditions of the RAD units improved, remained the same, or declined.
- Audit Series – Unit Conditions of PHAs: HUD OIG is conducting audits of two PHAs, one in Massachusetts and one in Ohio- to determine whether the physical conditions of the public housing agency's HCV and Public Housing Program units comply with HUD's and the PHAs' requirements.

#### Impactful Investigations:

- [Apex Waukegan LLC and Integra Affordable Management LLC Fined for Breach of Contract](#): Apex Waukegan LLC (Apex), a multifamily housing landlord receiving rental assistance subsidies from the HUD, and Integra Affordable Management LLC (Integra), Apex's affiliated management agent, were ordered to pay \$1,258,671 in civil money penalties for breaching their Housing Assistance Payment Contract by knowingly failing to maintain housing units in a decent, safe, sanitary manner.
- [NYCHA Superintendents Sentenced to Prison for Accepting Bribes](#): Two superintendents were sentenced in U.S. District Court to 33 months in prison and 15 months in prison, respectively, for accepting bribes in exchange for awarding no-bid contracts at the New York City Housing Authority (NYCHA) facilities where they worked. One superintendent also obstructed justice in the weeks before his sentencing. Each superintendent previously pled guilty to one count of solicitation and receipt of a bribe.

#### *Addressing Counterparty Risk/ Protecting HUD's Insurance Funds*

HUD expands homeownership opportunities for first time homebuyers and other borrowers who would not otherwise qualify for conventional mortgages on affordable terms, as well as for those who live in underserved areas where mortgages may be harder to obtain. FHA is one of the largest mortgage insurers in the world, insuring mortgages for single family homes, multifamily rental properties, and healthcare facilities. More than 1 million individuals and families benefit from FHA's single-family mortgage insurance programs each year. As of July 2022, FHA had an active single family forward mortgage portfolio of nearly \$1.2 trillion, and there were 11,088 insured multifamily properties. Ginnie Mae supported more than 2.3 million households in our nation's urban, rural, and tribal communities,

including underserved segments of the population, and veterans. Ginnie Mae mortgage-backed security (MBS) issuance exceeded \$653 billion, and the Ginnie Mae MBS outstanding reached a historic high of \$2.284 trillion. This growth represents \$158 billion and a year-over-year increase of 7 percent.

FHA and Ginnie Mae must work with outside entities, including property owners, banks, nonbank lenders, appraisers, and issuers, to complete their missions. Each one of these outside entities has responsibilities and obligations they must meet in responsibly doing business with the government. HUD-approved lenders who originate FHA-insured single-family loans perform the necessary eligibility screenings and decisions on HUD's behalf. While partnering with outside entities allows HUD's programs to operate quicker, HUD, FHA, and Ginnie Mae must identify, mitigate, and manage risks related to each "counterparty" it works with to protect the Mortgage Insurance Fund and the Guaranty Fund.

To address counterparty risk in FHA programs and protect HUD's Insurance Funds, OIG's oversight involves (1) preventing risk through early detection, (2) strengthening controls around origination, and (3) ensuring lenders service loans correctly to mitigate losses to HUD's insurance fund. With respect to Ginnie Mae, our audits are targeting areas of risk to Ginnie Mae and the platform, focusing on governance, and ways in which Ginnie Mae can mitigate risks and increase the efficiency of its operations.

Select completed and ongoing oversight includes:

[Approximately 31,500 FHA-Insured Loans Did Not Maintain the Required Flood Insurance Coverage in 2020](#)

Our audit found FHA insured at least 31,500 loans serviced during calendar year 2020 for properties in Special Flood Hazard Area, or SFHA, flood zones that did not maintain the required flood insurance coverage. We found loans that had private flood insurance instead of the required National Flood Insurance Program (NFIP) coverage, NFIP coverage that did not meet the minimum required amount, or no coverage during calendar year 2020. As a result, the FHA insurance fund was potentially exposed to greater risk from at least \$4.5 billion in loans that did not maintain adequate NFIP coverage. We recommend that FHA develop a control to detect loans that did not maintain the required flood insurance to avoid potential future costs to the FHA insurance fund from inadequately insured properties, and make any necessary adjustments to the forward mortgage and Home Equity Conversion Mortgage, or HECM, handbooks.

**Priority Open Recommendation:**

Develop a control to detect loans that did not maintain the required flood insurance to put \$1.5 billion to better use by avoiding potential future costs to the FHA insurance fund from inadequately insured properties.

[FHA Borrowers Did Not Always Properly Receive COVID-19 Forbearances From Their Loan Servicers](#)

Our audit found borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. Based on a statistical sample, at least one-third of the nearly 335,000 borrowers who were delinquent on their FHA-insured loans and not on forbearance in November 2020, were either not informed or misinformed about the COVID-19 forbearance. As a result, any of these borrowers experiencing a hardship due to COVID-19 did not benefit from the COVID-19 forbearance. Additionally,

servicers did not always properly administer the COVID-19 forbearance. Based on a statistical sample, they improperly administered the forbearance for at least one-sixth of the nearly 815,000 borrowers on forbearance plans in November 2020, with the most common errors being unnecessary document requirements, improper periods for forbearance, and credit reporting. Servicers also performed excessive communication and collection efforts for borrowers who were already in forbearance. As a result, these borrowers experienced additional burdens from improperly administered forbearance.

#### [Ginnie Mae Did Not Ensure That All Pooled Loans Had Agency Insurance](#)

OIG performed a corrective action verification examining whether Ginnie Mae had successfully resolved 2016 audit findings that it had improperly allowed uninsured loans to remain in MBS pools. We found that Ginnie Mae established a maximum time single-family loans could remain pooled without insurance and established a process for requiring removal of pooled loans that remained uninsured after that time. However, the loan-matching process did not ensure that pooled loans would be insured by an agency of the Federal Government as required by the MBS Guide. As a result, at least 3,206 pooled loans with a principal balance of at least \$903 million were not matched to agency insurance data files before the certification date. Because Ginnie Mae relied on the Federal guarantee of insured loans to prevent or limit losses when loans defaulted, not knowing whether a loan was insured increased the risk of financial loss. Also, loans that were not matched to Federal insurance increased the risk of prepayment. OIG recommended that Ginnie Mae update and synchronize its procedures to include notifications that provide issuers with unmatched loans adequate time to take corrective action to comply with the requirements of the MBS Guide.

#### Ongoing Oversight:

- COVID-19 Loss Mitigation: Our audit will determine whether delinquent borrowers of FHA-insured loans received all available options to stay in their homes after COVID-19 forbearance ended. We will review a statistical sample of FHA servicers' actions taken during the COVID-19 pandemic for delinquent borrowers.
- COVID-19 Loss Mitigation: Our audit is reviewing a nationwide mortgage servicing company that provides servicing and origination for FHA loans to determine if the servicer provided all available options to borrowers with FHA insured loans to help them stay in their homes after the COVID-19 forbearance ended.
- FHA Appraiser Roster: Our audit will review whether Single Family's FHA appraiser roster, which is the list of individuals approved to conduct valuations for FHA-insured properties, is accurate and contains only eligible appraisers. HUD's appraiser roster is the foundation for these valuations and consists of approximately 40,000 different appraiser IDs.
- Audit Series - Quality Control Programs for Originating and Underwriting FHA Loans: We are auditing four large and mid-sized mortgage originators' quality control programs for originating and underwriting loans, including the companies' reviews of rejected mortgage applications. The lenders were selected following a risk assessment using origination, default, monitoring, and complaint data from HUD, HUD OIG, and the Consumer Finance Protection Bureau.
- Ginnie Mae Process and Guidance for Troubled Issuers: We are auditing Ginnie Mae's guidance and processes for troubled issuers, including to assess whether Ginnie Mae's guidance and processes provide reasonable assurance that the risks and challenges identified by Ginnie Mae and HUD OIG of its use of rapid relocation extinguishments have been addressed.
- Ginnie Mae Financial Crisis Readiness: To ensure its mission, Ginnie Mae must be prepared for a broad range of crises, including financial crises, that could impact itself or its issuers. Our audit

will determine whether Ginnie Mae implemented a financial crisis readiness program that meets industry best practices.<sup>5</sup>

### Impactful Investigations

- [\*Real Estate Agent and Her Husband Sentenced for Fraud Using Stolen Personal Identifying Information\*](#): A Merrifield, Virginia couple was sentenced for stealing at least nine people's identities and using the stolen personal identifying information to fraudulently buy a luxury vehicle, lease high-end residences, and obtain loans and credit. The couple even impersonated victims in state court eviction proceedings to prolong their stay in residences they fraudulently leased.
- [\*California Mortgage Lender Agrees to Pay More Than \\$1 Million to Resolve Fraud Allegations\*](#): A mortgage lender based in Brea, California agreed to pay \$1,037,145 to resolve allegations that it improperly and fraudulently originated government-backed mortgage loans insured by FHA. The settlement resolves allegations that between December 2011 and March 2019, the mortgage lender knowingly underwrote certain FHA mortgages and approved for insurance certain mortgages that did not meet FHA requirements or qualify for insurance, resulting in losses to the United States when the borrowers defaulted on those mortgages. The settlement further resolves allegations that the mortgage lender knowingly failed to perform quality control reviews that it was required to perform.

### *Grants Management*

HUD's grant programs are vast and varied, and are often the largest source of flexible grant funding available to communities for broad economic and development activities. HUD must effectively oversee and manage over \$100 billion dollars in grant programs, thousands of grantees, and even more subrecipients. Our Top Management Challenges report has identified concerns with key aspects of how HUD manages this portfolio. Several recent HUD OIG audit reports identified grants management challenges and offered recommendations for improvements. Below we discuss the challenges faced by HUD in (1) ensuring that grantee expenditures are eligible and supported; (2) meeting the need for reliable and complete financial and performance information; (3) the timely spending of grant funds and execution of grant programs; (4) navigating efficient and effective solutions to complex societal challenges when there are multiple sources of funding; (5) HUD's, grantees', and subrecipients' capacity to oversee grant programs; and (6) subrecipient monitoring.

At the outset of the pandemic, OIG was focused on identifying the challenges that HUD and grantees might face in implementing the pandemic programs. As more of the pandemic funding has been spent, OIG is tailoring its oversight to ensure HUD pandemic and other grant funding is spent as intended, that timely assistance is being provided, and assessing the program outcomes. OIG is assessing how well

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<sup>5</sup> According to GAO, best management practices refer to the processes, practices, and systems identified in public and private organizations that performed exceptionally well and are widely recognized as improving an organization's performance and efficiency in specific areas. Successfully identifying and applying best practices can reduce business expenses and improve organizational efficiency.

HUD, its grantees, and subrecipients are performing monitoring activities, the strength of their internal controls, and the fraud prevention measures they have in place.

#### [HUD Could Improve Its Tracking and Monitoring of Continuum of Care Grantee Spending Levels](#)

We audited HUD's monitoring and tracking of Continuum of Care (CoC) grantees that have been slow to spend their grant funds to determine whether HUD was effectively tracking and monitoring CoC grant spending and to determine the impact of COVID-19 on CoC grantee spending. HUD generally tracked and monitored its grantees; however, it did not prioritize grantees that encountered challenges in spending their CoC grant funds before the grants expired. HUD did not have written guidance that detailed how field offices should review grantees for spending issues. Between 2017 and 2020 HUD recaptured nearly \$257 million from CoC grantees that had not fully spent their funds. While several factors outside of HUD's control contributed to the spending challenges, improved tracking and monitoring could help ensure that the grantees timely address those factors and mitigate their impact. Our recommendation that HUD implement written procedures to ensure consistency among field offices in reviewing spending could prevent up to an estimated \$47 million in annual CoC recaptures.

#### [Emergency Solutions Grants CARES Act Implementation Challenges](#)

We audited HUD's Emergency Solutions CARES Act (ESG-CV) program to determine what challenges ESG-CV grant recipients faced in implementing the program and using grant funds. We surveyed grantees to gather feedback and insight directly from the 362 recipients of ESG-CV grants. We found that ESG-CV grant recipients faced challenges in implementing the program and using grant funds. The grant recipients needed an extension beyond the spending deadline of September 30, 2022, to use a majority or all of their ESG-CV funds, which HUD subsequently provided. The top challenges identified included staff capacity and coordinating with other sources of pandemic related funding. In addition, a majority of the grant recipients that provided ESG-CV funds to subrecipients stated that the pandemic impacted their ability to effectively monitor their ESG-CV subrecipients. HUD can use the results of our survey to potentially improve the continued implementation of the ESG-CV program and to inform its risk assessment of ESG-CV grantees.

#### [The Los Angeles Homeless Services Authority, Los Angeles, CA, Did Not Always Administer Its Continuum of Care Program in Accordance With HUD Requirements](#)

We audited the Los Angeles Homeless Services Authority's CoC program to determine whether the Authority met the goals and objectives of housing and helping the homeless become self-sufficient through its CoC program and administered the program in accordance with HUD requirements. We found that the Authority did not fully meet the goals and objectives of the program and did not always follow program requirements. The Authority (1) did not use \$3.5 million in CoC grant awards and left the funds to expire, (2) did not support Homeless Management Information System and planning grant costs, and (3) did not submit timely annual performance reports (APR). As a result, the unused CoC funds represent a missed opportunity to meet the program's goals of assisting the homeless, and HUD does not have assurance that \$879,847 in salary and rent costs were for the CoC grants. We recommended that HUD require the Authority to ensure that grant agreements are executed in a timely manner and effective monitoring is performed to prevent similar occurrences of grant funds going unused, (2) support payroll and rent costs or repay its CoC grants \$879,847 from non-Federal funds, and (3) ensure APRs are submitted in a timely manner and personnel are routinely trained on the grant closeout process.

## Ongoing Work:

- **ESG CARES Act Subrecipient and Contractor Monitoring:** We are auditing HUD's ESG-CV program, which is a grant program that funds rapid re-housing, homelessness prevention programs, and emergency shelters for people experiencing homelessness. Our objective is to assess HUD's monitoring of the \$4 billion supplemental ESG-CV grantees to ensure grantee monitoring of subrecipients and contractors that carry out the program meets program requirements.
- **Effectiveness of the Foster Youth to Independence Initiative (FYI) Program in Preventing and Ending Youth Homelessness:** The Foster Youth Initiative is a special purpose voucher program administered by HUD to expand the availability of housing assistance to youths with a history of foster care. We are auditing the program to determine the effectiveness of the FYI program in preventing and ending youth homelessness.

## Impactful Investigations:

- **Conspirators Sentenced for Scheme To Defraud Local Housing Programs**  
A housing specialist and three associates were collectively sentenced in U.S. District Court to 51 months and 1 day incarceration, 8 years supervised release, and 3 years probation. For more than 2 years, the housing specialist defrauded his employer, a nonprofit corporation funded in part through HUD's HOME Investment Partnerships and ESG programs, by falsely representing that the three associates were landlords eligible to receive funds dedicated to the nonprofit's programs. The housing specialist used fake rental agreements with stolen applicant identities and other documentation to cause the nonprofit to write 34 checks payable to the three associates, who then cashed the checks and split the proceeds with him. The housing specialist was sentenced in connection with his earlier guilty plea to conspiracy to commit wire fraud and aggravated identity theft and was ordered to pay jointly and severally with the three associates \$101,053 in restitution to the nonprofit and an insurance company.
- **La Joya Residents Sentenced for Fraud Schemes:** The former mayor of La Joya and two others have been ordered to Federal prison for wire fraud. The Former mayor pleaded guilty July 19, 2021, while his daughter and another individual both admitted to their guilt June 17, 2021. The former mayor was sentenced to 33 months in prison, while his daughter was ordered to serve a 39-month-term of imprisonment and the other individual received nine months. All must also serve three years of supervised release following their sentences. The former mayor entered his plea in relation to a public relations contract his daughter had drafted and brokered with the city on behalf of another individual. She was, in turn, to receive some of the proceeds resulting from that deal. The daughter was not a city employee, but used her relationship with the mayor to get the contract approved so she could receive a significant amount of the contract's proceeds. The mayor used his authority to approve and city funds to pay for the contract. Additionally, the daughter admitted to wire fraud in connection with loans received for a children's day care project. During 2017, the La Joya Economic Development Corporation, which the mayor headed, provided approximately \$341,000 in loans to his daughter and other individuals to pay for the construction of the project. The daughter stole some of the funds and also received kickbacks from some of the subcontractors. The other individual was hired by the daughter as a general contractor. He also received kickbacks from the project.



## *Disaster Recovery and Mitigation*

OIG is focusing its oversight on ways in which HUD and its grantees' programs can be improved and deliver better and quicker disaster relief, while minimizing fraud, waste, and abuse. Our office has placed a recent emphasis on assessing core program functions, including the timeliness of funding reaching disaster-affected communities, how HUD oversees requirements that grantees meet low- and moderate-income requirements, and ways HUD can monitor and assist slow spending grantees. OIG is also assessing outcomes of the program by reviewing grantees and subrecipients before they have expended a significant portion of their funding to assess what they have been able to accomplish and where improvements can be made for the duration of the grant, with the goal being to help HUD and the grantee or subrecipient early on to produce better disaster recovery outcomes. Finally, OIG is assessing how well HUD, its disaster grantees, and subrecipients are performing monitoring activities, as well as the strength of fraud prevention measures and other internal controls.

OIG has issued oversight reports recommending that HUD codify, or seek permanent authorization for, its disaster recovery program. HUD has taken consistent, meaningful steps to address OIG's recommendations. Successive administrations have expressed support for permanent authorization in testimony before Committees of Congress, and HUD is again seeking permanent authorization in its Congressional Budget Justification for FY 2024. We believe legislation permanently authorizing HUD's disaster recovery program would streamline, reform, and inject greater fiscal responsibility into the program, while also mitigating funding lags and duplicative requirements.

Examples of recent and ongoing oversight can be found below:

### [Opportunities Exist To Improve CPD's Oversight of and Monitoring Tools for Slow-Spending Grantees](#)

We assessed the Office of Community Planning and Development's (CPD) monitoring, and oversight tools related to the progress of grant expenditures and determined the status of grants and impacts of COVID-19 grantee spending. We found opportunities for CPD to improve its oversight and monitoring for slow-spending Community Development Block Grant Disaster Recovery (CDBG-DR) grantees. CPD can enhance its (1) monthly CDBG-DR grant financial report, (2) use of DRGR system flags, (3) use of grantee expenditure projections, (4) documentation of quality performance report reviews, and (5) documentation for monitoring reviews. We made nine recommendations for CPD to (1) identify, define, and track slow spenders, (2) update policies and procedures to address variances between actual and projected expenditures, and (3) resolve the red flags identified in the report.

**Priority Open Recommendation:** 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.

### Ongoing Oversight:

- **Audit Series: Key Steps in HUD's implementation of its CDBG-DR and CDBG-MIT Programs:** OIG is conducting four audits of key aspects HUD's CDBG-DR and CDBG-MIT programs, including HUD's

oversight of Low- and Moderate-Income Requirement, Grantee Use of Program Income, Program Timing, and Preventing Duplication of Benefits.

- Assessment of Puerto Rico CDBG-DR Grantee’s Fraud Risk Management Practices: We are auditing the Puerto Rico Department of Housing’s control activities to prevent, detect, and respond to fraud when administering the over \$20 billion in grants it received after the 2017 disasters.
- U.S. Virgin Islands (USVI) Monitoring of 2017 CDBG-DR: We are auditing the USVI’s Housing Finance Authority’s monitoring of its 2017 CDBG Disaster Recovery funds following HUD awarding USVI \$1.14 billion in CDBG-DR funds to address unmet needs following hurricanes Irma and Maria. We will determine whether the Authority effectively monitored its CDBG-DR funded activities administered by itself and by subrecipients to ensure the national objectives and performance measures were met.
- State of GA Monitoring of CDBG-DR Harvey, Irma, and Maria (HIM) Grants Activities and Subrecipients: We are auditing the State of Georgia’s monitoring of its CDBG-DR hurricane HIM grants’ activities and subrecipients. We will determine whether the State was effectively monitoring its CDBG-DR HIM grants’ activities and subrecipients to ensure that the activities address the unmet long-term recovery needs.

#### Impactful Investigation:

[Former West Haven Employee and State Representative Admits Stealing COVID Relief and Other City Funds](#): A State Representative who was also employed by the City of West Haven, most recently serving as the Administrative Assistant to the City Council, pled guilty to conspiracy charges stemming from involvement in schemes that resulted in the theft of more than \$1.2 million dollars in COVID relief funds and other funds from the City of West Haven. The individual conspired with others to steal the funds through the submission of fraudulent invoices, and subsequent payment, for COVID relief goods and services that were never provided.

### *Financial Management & Fraud Risk*

For the past 2 years, OIG has highlighted that HUD’s overall financial maturity continues to progress. This result is largely due to HUD’s financial statements for the FYs 2021 and FY 2022 cycles being presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. However, HUD needs to remediate ongoing material weakness in financial reporting. Specifically, the identification of new instances of financial reporting material weaknesses and noncompliance with significant laws and regulations occurred during the FY that were not prevented by HUD’s existing internal controls. This condition, coupled with continued weaknesses in HUD’s internal control framework and financial management systems, is keeping HUD from achieving a fully “capable” level of financial maturity under the U.S. Treasury’s Financial Management Maturity Model. HUD must continue sustaining the improvements it has made in financial management to produce reliable and timely financial reports consistently and to ensure compliance with significant laws and regulations.

HUD has long struggled to come into compliance with the Payment Integrity Information Act of 2019 (PIIA), and is unable to fully and accurately estimate improper payments in its largest grant programs and a key disaster recovery program. HUD OIG will continue to focus audit resources to improving

HUD's financial programs through statutorily required oversight of the Department's financial programs. We will also continue to test HUD's programs for systemic weaknesses in fraud risk controls and other gaps that could negatively impact HUD's programs.

#### HUD Compliance with PIIA

We audited HUD's FY 2021 compliance with PIIA and implementation of OMB guidance on preventing and reducing improper payments. Our objectives were to assess (1) whether HUD had met all requirements of PIIA and OMB Circular A-123, Appendix C-Requirements for Payment Integrity Improvement and (2) HUD's efforts to prevent and reduce improper and unknown payments. OIG found that, while making some progress, HUD was noncompliant with PIIA in FY 2021. Significant efforts are needed to bring the Office of Public and Indian Housing's Tenant-Based Rental Assistance (PIH-TBRA) and Office of Multifamily Housing Programs' Rental Subsidy programs into compliance. For HUD's noncompliant programs, OIG recommended that HUD (1) develop and implement a sampling methodology that allows for the timely testing of the full payment cycle and (2) consult with OMB on the appropriate reporting for untested portions of the payment cycle.

OIG recommended that HUD develop and implement a plan that ensures adequate internal controls over the PIH-TBRA program to detect and prevent improper payments, which can be implemented in a virtual environment. OIG also recommended that HUD work with grantees to better identify the risks of improper and unknown payments throughout the payment cycle in CPD programs and ensure that its risk assessments and improper and unknown payment estimates fully consider these risks.

Priority Open Recommendation<sup>6</sup>: For the MF-RAP, PIH-TBRA, and CPD-HIM programs, ensure that the program improper payments rate estimates adequately test for and include improper payments of Federal funding that are made by State, local, and other organizations administering these programs and adequately disclose any limitations imposed or encountered when reporting on improper payments, to a degree that fairly informs users of the respective reported information.

Priority Open Recommendation: In collaboration with all involved program offices, develop and implement a sampling methodology that allows for a sample size that reasonably allows for the testing of the complete payment cycle within the PIIA reporting timeframe.

#### Improvements are Needed in HUD's Fraud Risk Management Program

We audited the maturity of HUD's fraud risk management program at the enterprise and program-office levels, including control activities to prevent, detect, and respond to fraud. We found that in all four phases of HUD's fraud risk management program was in the early stages of development, or at an "ad hoc" maturity level.<sup>7</sup> HUD's program is still in its infancy because HUD had not previously dedicated sufficient resources to lead and implement fraud risk management activities. Although HUD has

<sup>6</sup> This priority recommendation was made as a part of HUD OIG's 2021 audit reviewing HUD's reporting and improper payment reduction requirements for FY 2020. That report is available at: <https://www.hudoig.gov/reports-publications/report/hud-did-not-fully-comply-payment-integrity-information-act-2019>

<sup>7</sup> The Antifraud Playbook established by the Chief Financial Officers Council and the U.S. Department of the Treasury assess maturity of an agency's fraud risk management program in four phases: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action.

recently taken steps to mature its program, 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. OIG recommended HUD take several actions to assess and improve the maturity of HUD's fraud risk management program, as well develop policies, procedures, and strategies for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools. We also recommend that the Chief Financial Officer determine and seek to fulfill an appropriate level of dedicated staff resources to administer HUD's enterprise and fraud risk management programs effectively and increase fraud risk awareness and strengthen antifraud controls in HUD's program offices.

#### [Audit of HUD's Fiscal Years 2022 and 2021 Financial Statements](#)<sup>8</sup>

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of HUD as of and for the FYs ended September 30, 2022 and 2021, and to provide reports on HUD's 1) internal control over financial reporting; and 2) compliance with laws, regulations, contracts, and grant agreements and other matters, including whether financial management systems complied substantially with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). In its audit of HUD, CLA reported that the financial statements as of and for the FYs ended September 30, 2022 and 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

CLA identified one material weakness for FY 2022 in internal control over financial reporting, based on the limited procedures performed. The material weakness was related to (a) FHA's financial accounting and reporting controls over borrowing authority and loan receivables and (b) HUD's financial reporting controls over grant accruals and Public and Indian Housing's cash management process.

CLA also identified two reportable matters for FY2022 of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

- Noncompliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.
- Noncompliance with the Single Audit Act.

#### Ongoing Oversight:

- CDBG Grantee Federal Financial Reporting: Our audit will review HUD CDBG-Non-State Grantee Federal Financial Reporting to determine (1) whether the financial information collected from CDBG entitlement grantees is sufficient to monitor grantee financial reporting and performance as required by Federal rules; (2) whether HUD is properly reporting this information; and (3) whether HUD's monitoring of grantee's excess cash on hand is sufficient to ensure compliance with cash management requirements and to safeguard funds against fraud, waste, and abuse.
- HUD's Compliance with PIIA for FY 2022: Our audit will assess (1) whether HUD has met all requirements of PIIA and OMB Circular A-123, Appendix C-Requirements for Payment Integrity improvement and (2) HUD's efforts to prevent and reduce improper payments. We will also review and collect evidence of the internal controls HUD has in place to identify, prevent,

<sup>8</sup> HUD OIG contracted with CLA to audit the financial statements of Ginnie Mae and FHA, as well.

detect, and recapture improper payments, including, but not limited to, controls in place related to Single Audit Act requirements.

- FY 2023 HUD Financial Statement Audit: OIG has contracted with CLA to conduct the annual HUD financial statement audit. The objectives of CLA's audit are to (1) express an opinion on whether HUD's fiscal years 2023 and 2022 financial statements are fairly presented and adequately disclosed, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) report any significant deficiencies and material weaknesses in internal control over financial reporting that come to its attention during the audit; and (3) report on the results of its tests of HUD's compliance with selected provisions of laws, regulations, and contracts.

### *Enterprise wide Support Functions: Human Capital Management, Information Technology, Cybersecurity, and Procurement*

A common thread woven through HUD's Top Management Challenges has been HUD's challenges with managing human capital, Information Technology (IT) modernization and cybersecurity, as well as efficiencies in procurement. These are not unique to HUD, as the IG community has found these issues to be Top Management Challenges throughout the Federal government. HUD has also taken recent steps to address some of the challenges, notably through improved communications between offices responsible for these services and the program offices that rely on them. We encourage HUD to continue to address these challenges to more successfully achieve its mission.

Employees and program participants have consistently described HUD as being underfunded and understaffed, with inadequate infrastructure to address the growing mission, program responsibilities, and mandates of the agency. HUD has 30 percent fewer employees than it did 10 years ago, while its budget and programmatic funding has steadily increased, making human capital management more critical.

In turn, the efficiency and effectiveness of HUD's programs relies on its ability to effectively modernize its IT systems and to protect them from cybersecurity vulnerabilities. HUD's legacy systems are major impediments to effectively addressing necessary operational enhancements, and HUD's legacy systems take an inordinate amount of scarce resources and hinder HUD's ability to provide IT support for emerging and changing program office needs. Further, HUD must address concerns about its technical ability to securely collect, retain, process, analyze, and effectively share and compare data, concerns often connected to outdated IT systems. HUD has made great progress over the last several years with consistently addressing and closing longstanding cybersecurity recommendations.

Almost all of HUD's program areas rely on contracting and procurement services, whether to provide services to support HUD personnel or to take a major role in executing key operations. OIG has long reported on the challenges HUD faces related to procurement and acquisition management. Notably, in our Top Management Challenges Report, we identified acquisition management risks as including untimely procurements, inefficient acquisition processing, insufficient staff training and excessive workloads, and inadequate contract oversight as overarching risks.

Additionally, OIG reoriented our Office of Evaluation (OE) to focus its expertise on enterprise-wide management support challenges the Department faces. OE will continue its robust oversight over all

aspects of HUD's information technology programs and operations. That will include not only HUD's cybersecurity posture but also how HUD and its components manage information technology investments and initiatives. First and foremost, OE will continue to perform the statutorily mandated FISMA evaluation, as well as conduct critical penetration testing and threat analyses of HUD's IT systems. The Office of Evaluations will also focus on other critical HUD operations that support the success of the program offices, including procurement and human capital management. HUD's most recent Strategic Plan shows how the Department has dedicated considerable effort to strengthening its internal capacity. OIG's oversight has and will provide actionable recommendations that HUD can act upon to further those efforts.

### **HUD FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation**<sup>9</sup>

In this year's FISMA evaluation, we found that although HUD is addressing weaknesses and closing unresolved recommendations, HUD must take additional actions to overcome the significant challenges the Department still faces. Notably, through the annual FISMA evaluation, HUD OIG found HUD's information security program to be at an ineffective maturity level of "defined." The FY 2022 FISMA evaluation focused on OMB-identified "core" cybersecurity metrics that address the most critical areas of priority for the Administration and other highly valuable controls for agencies' information security programs. HUD dropped from the consistently implemented to the defined maturity level. Within those core metrics, HUD was able to increase maturity in 3 of the 20 core metrics, remaining at the same maturity level for 16 of the 20 core metrics, and dropping in maturity for 1 core metric. HUD also continues to make significant progress in addressing our prior years' recommendations, closing 21 recommendations in FY 2022 alone. HUD must continue to focus its efforts on addressing known cybersecurity issues to make progress in addressing this management challenge.

### **HUD's Robotic Process Automation Program Was Not Efficient or Effective**

We assessed the maturity of HUD's Robotic process automation (RPA) activities and determine whether HUD had implemented related controls to address technology and program management risks.<sup>10</sup> We found that HUD lacked adequate controls and capacity to operate its RPA program efficiently and effectively. After more than 3 years since its inception, HUD's program had achieved minimal progress and results, and did not effectively oversee and manage the program. The program lacked a clear vision or set measurable metrics to define program success. HUD also did not maintain adequate oversight of bot development and operations to ensure that limited RPA program funds were used efficiently. As a result of these weaknesses, HUD missed opportunities to capitalize on the potential benefits of RPA and expended IT resources inefficiently on projects that provided minimal value. We recommended HUD implement new internal controls and further develop its internal capacity to manage and oversee the RPA program.

#### Ongoing Oversight:

- HUD's Employee Retention: Our evaluation will determine whether HUD has a high voluntary separation rate relative to similar agencies, and which program offices or demographic groups, if

<sup>9</sup> The FISMA report is not publicly available. Additional information from the report can be found in the recent Top Management Challenges report.

<sup>10</sup> RPA is a software technology used to emulate human actions on a computer. RPA software programs, referred to as "bots," can complete repetitive tasks quickly and consistently, freeing up employees to work on other, higher value activities.

any, have high rates of attrition. The evaluation will also determine what retention-relevant programs HUD employs, the extent to which program offices use them, and where HUD's retention strategies align with best practices.

- HUD's Recruitment Efforts To Address Underrepresentation of Employees Who Identify as Hispanic or Latino: Our evaluation will assess HUD's recruitment efforts to address underrepresentation of employees who identify as Hispanic or Latino to (1) determine the status of HUD's recruitment plans and (2) identify how HUD tracks the effectiveness of associated recruitment actions.
- HUD FY 2023 FISMA Evaluation: HUD is conducting the FY 2023 evaluation of HUD's information security program and practices to assess the maturity of the program and practices based on the annual IG FISMA reporting metrics.

## Conclusion

There are millions of families across the United States who rely on HUD's programs to provide decent, safe, and affordable housing. HUD, and its tens of thousands of partners across the country, face serious, multifaceted obstacles that they must overcome. For our part, HUD OIG will continue to strive to be a force of positive change for the Department, its stakeholders, and beneficiaries through impactful oversight that helps HUD operate more efficiently and effectively, and helps protect HUD's programs from fraud, waste and abuse so that our communities receive the critical housing assistance they need.