

Testimony Before the U.S. House of Representatives, Committee on Financial Services, Subcommittee on Housing and Insurance

HUD Oversight: Testimony of the HUD Inspector General



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

June 21, 2023



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

Before:

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Services, U.S. House of Representatives, June 21, 2023

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Introduction

The Office of Inspector General (OIG) for the U.S. Department of Housing and Urban Development (HUD) strives to provide timely and relevant oversight that influences positive outcomes for HUD’s programs and operations. HUD OIG leverages a staff of nearly 525 auditors, evaluators, Special Agents, attorneys, data scientists, and professional staff to produce independent, objective oversight and to protect the integrity of HUD’s expansive programs. This testimony will discuss some of our most significant recent work, ongoing audits and evaluations, and outline priority areas where HUD action is needed.

This testimony will first discuss HUD OIG’s important initiatives to protect the health and safety of low-income and vulnerable populations living in HUD-assisted housing. Notably, we are dedicating more of our investigations and reviews to improving living conditions that present dangerous threats to tenants’ health and safety. We are also increasing oversight of public housing agencies’ and landlords’ compliance with environmental safety laws and regulations.

Additionally, this testimony will address the Top Management Challenges that HUD faces in delivering housing and community development services to the communities and individuals that rely on HUD programs. These Top Management Challenges are the areas on which HUD OIG focuses our oversight and investigations.

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 (PHA), 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; and
3. combatting financial fraud schemes that exploit vulnerable populations who rely on HUD housing assistance, such as landlords who overcharge rent or housing fees.¹

Additionally, my office is expanding our efforts to ensure HUD tenants are protected from sexual misconduct in housing.² 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 have to face the threat of being sexually harassed or sexually assaulted by their housing provider in order to have a roof over their head.

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, aligning teams with HUD program functions to apply deeper subject matter expertise and analysis towards areas of greatest risk to HUD's success. 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. By doing so, OIG provides strategic, targeted oversight over critical HUD programs, which results in actionable recommendations that identify a roadmap for HUD and its stakeholders to achieve program improvements. We have also ensured that our investigative work provides accountability and deterrence in those areas of greatest risk to HUD and the taxpayer.

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. Our audits also 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 that resulted in 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 the Department faces. Each challenge is tied to HUD's strategic plan and is informed by past OIG oversight findings, the

¹ 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>

² See HUD OIG Press Release, "Sexual Harassment in Housing is ILLEGAL. Fair Housing is your RIGHT."

<https://www.hudoig.gov/newsroom/video-library/sexual-harassment-housing-illegal-fair-housing-your-right>

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.

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, last year OIG issued its first Priority Recommendations resource³ to focus the Department's, Congress', and the public's attention on high-impact OIG recommendations. We issued this report to highlight for action the recommendations that we have determined can have the largest positive impact on HUD's programs and the individuals and communities HUD serves.

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 programs, 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. Because many of HUD's programs are designed to allow grantees, contractors, and subrecipients to expend funding years after it becomes available, 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. OIG will continue to position our oversight to help those programs be optimally efficient and effective.

A common theme in our oversight findings has been that HUD does not have the capacity necessary 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 impede to HUD's success.

³ Available at: <https://www.hudoig.gov/priority-open-recommendations>. Current recommendation statuses can be found on the HUD OIG Recommendation Dashboard (Beta): <https://www.hudoig.gov/open-recommendation/search>.

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.

Ensuring Access to and Availability of Affordable Housing

The United States struggles with creating and maintaining an affordable housing stock, a situation that worsened during the COVID-19 pandemic. HUD's FY 2023 Annual Performance Plan⁴ 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, including in providing oversight of local program partner performance and doing so with limited funding and resources. In addition, HUD and its local partners have 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 reduces the 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 deterioration of which exacerbates the shortage of affordable housing.

To help HUD address this challenge, 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 target our oversight of rental assistance programs to address risk reduction and operational improvements to help HUD preserve affordable housing. We also focus on oversight of grantee and subrecipient performance and customer experience to help HUD enhance outcomes in these programs. Finally, OIG has focused on the Office of Fair Housing and Equal Opportunity (FHEO) and its implementing partners enforcement of civil rights laws, 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 of the Section Eight Management Assessment Program (SEMAP), which HUD uses to remotely evaluate the performance of PHAs' Housing Choice Voucher (HCV) Programs, identified that the program needed enhancements in order to accurately measure PHA performance. We found that (1) SEMAP uses performance indicators that are based on PHAs' self-certifications and self-reported data, which may not have accurately represented the performance of their HCV Programs. We also noted that HUD's process for verifying the information PHAs use for SEMAP reporting did not capture the performance of all PHAs' HCV Programs, creating a gap in HUD's ability to identify PHAs' HCV Programs that may have needed improvement. We recommended HUD (1) enhance SEMAP or develop a new performance measurement process that would identify PHAs with underperforming HCV Programs and

⁴ Available at <https://www.hud.gov/sites/dfiles/CFO/documents/FY2023HUDAnnualPerformancePlan.pdf>

(2) provide 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’s voucher utilization rate had decreased, and 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 and which negatively impact their ability to increase leasing in their service areas, such as insufficient landlord interest or participation, lack of available affordable housing, and housing cost increases that outpace the PHA rents. 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.⁵

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

Our audit found that HUD and Fair Housing Assistance Program (FHAP) agencies adequately documented decisions to convert inquiries to complaints in the HUD Enforcement Management System (HEMS), but that closed inquiries needed to be documented more adequately and consistently. We found that HUD had inconsistent and outdated HUD policies and procedures on how to document and support decisions to close inquiries. HUD officials also told us that the large volume of inquiries received create capacity challenges for staff. Additionally, HUD does not require FHAP agencies to enter complaint inquiries into HEMS when they decided not to investigate the allegations, which we determined hinders HUD’s oversight of allegations closed during the inquiry stage. HUD’s management needs more complete information in HEMS to oversee jurisdictional determinations and to ensure that HUD and FHAP agencies staff are properly assessing allegations of housing discrimination.

⁵ In April 2023, HUD’s Office of Public and Indian Housing (PIH) successfully closed a priority open recommendation from this report by establishing and implementing a plan for unused and unfunded vouchers, which:

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

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. FHEO regional staff responsible for monitoring and overseeing FHAP agency performance do not consistently follow the guidance the FHAP Division has provided. 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:

- **Occupancy of Public Housing Units:** OIG is auditing PIH's public housing program to assess the occupancy of public housing units, including examining the accuracy and completeness of the data PHAs provide and PIH relies on to determine related funding and to target technical assistance.
- **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 audit will 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.

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, including 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.
- [Justice Department Secures \\$400,000 in Sexual Harassment Lawsuit Against Connecticut Landlord](#): A former Section 8 Housing Assistance Payment landlord, agreed to pay \$400,000 to settle a lawsuit that he and two companies that owned properties with him, violated the Fair Housing Act. As part of the agreement, the landlord is also permanently enjoined from owning and managing residential rental properties in the future. The lawsuit alleged that the landlord

sexually harassed female tenants and applicants of rental properties owned or co-owned by him and his two companies. Defendants are required to pay \$350,000 to compensate individuals harmed by the harassment as well as a \$50,000 civil penalty to the United States. The landlord has been incarcerated since 2017, following a [guilty plea to federal charges](#) of producing child pornography in one of the properties owned by one company with one of the minors who resided in one of the properties owned by the second company.

- [Three Family Members of the Former Director of the St. Clair Housing Commission Sentenced to Prison for Defrauding HUD](#): Three family members of the former executive director of the St. Clair Housing Commission were sentenced having previously pled 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 their scheme, the former executive director and her family 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.⁶ 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 helps reduce 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 identifying ways that HUD and its partners can improve the physical conditions of HUD-assisted properties.

[Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner](#)

Our audit found HUD's Real Estate Assessment Center (REAC) did not consistently ensure that public housing properties were inspected within required timeframes. The Center developed its Big Inspection Plan to inspect all NSPIRE demonstration and non-NSPIRE public housing and multifamily properties by March 31, 2023, and we found HUD was challenged in prioritizing and completing inspections under the plan. The Center also experienced delays in inspecting public housing properties approved to participate under the NSPIRE demonstration.

⁶ 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)

Our audit found that HUD can improve its procedures and controls, including the coordination of the procurement for inspection services, to ensure that public housing properties are inspected in a timely manner. Making such improvements will better position PIH to know whether the physical conditions in public housing properties are decent, safe, and sanitary. These improvements could also result in Public Housing Assessment System scores better reflecting the current conditions of the properties.

We recommend that the Center prioritize the inspection of public housing properties that were (1) not included in the NSPIRE demonstration but were identified as high priority under the Center's Big Inspection Plan and (2) approved to participate under the NSPIRE demonstration that the Center was unable to inspect by March 31, 2023. We also recommend that the Center implement adequate policies, procedures, and controls to ensure that public housing properties will be inspected within required timeframes.

[HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments](#)

We audited HUD's oversight of the physical condition of public housing developments, including whether HUD had adequate oversight of PHAs' (1) corrective actions in response to periodic REAC inspections and (2) annual self-inspections to ensure that units were maintained in decent, safe, and sanitary condition.

HUD field offices were inconsistent in overseeing whether PHAs corrected life-threatening deficiencies identified during REAC inspections, and HUD did not track PHAs' corrections of non-life-threatening health and safety deficiencies identified during REAC inspections. We found that HUD did not have a standardized policy or a nationwide protocol to guide its field offices' oversight of PHAs to ensure that all health and safety deficiencies identified during a REAC inspection were corrected. Further, HUD was inconsistent in how it held PHAs accountable for correcting deficiencies, and lacked assurance that PHAs correctly identified and rectified life-threatening and non-life-threatening deficiencies. If HUD implements a nationwide protocol for monitoring and tracking PHAs' efforts to address inspection results, it could have greater assurance that tenants who reside in public housing are living in units that are decent, safe, and sanitary.

In addition to the REAC inspection, HUD requires PHAs to perform routine self-inspections of public housing properties, including a visual assessment of the property to look for all deficiencies, and to determine the maintenance and modernization needs of the properties. HUD staff had varying interpretations of its requirements regarding the number of public housing units PHAs should self-inspect annually. Further, HUD's field office staff generally did not monitor PHAs for compliance with HUD's requirements for self-inspections. These conditions occurred because HUD's guidance was not clear regarding (1) the number of units PHAs should inspect annually and (2) how its field office staff should monitor PHAs.

We recommend that HUD develop and implement a nationwide inspection review protocol and associated training for its field office staff; determine whether PHAs are required to perform inspections on 100 percent of their public housing units annually; and if so, develop clear, specific guidance on the number and frequency of the self-inspections. If 100 percent annual self-inspections are not required, we recommend that HUD determine whether the rationale for REAC to inspect a sample of public housing units, rather than 100 percent, remains appropriate.

[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.

[The Philadelphia Housing Authority Needs To Improve Oversight Of Lead-Based Paint In Its Public Housing](#)

In the first of a series of audits examining PHAs across the country, we assessed the Philadelphia Housing Authority's (Authority) management of lead-based paint in its public housing program. We found the Authority did not always perform lead-based paint visual assessments within the required timeframe and mitigate lead-based paint hazards in a timely manner. The Authority needs to improve its processes for maintaining lead-based paint documentation and providing accurate lead-based paint disclosures to tenants. It also did not ensure that its contractors provided lead-based paint inspection and risk assessment reports that met HUD's requirements. These weaknesses occurred because the Authority lacked adequate procedures and controls and, as a result, households that participated in the Authority's program were at an increased risk of being exposed to lead-based paint hazards, particularly families with children under 6 years of age.

We recommend that HUD require the Authority to establish procedures and controls to ensure that lead-based paint visual assessments and hazard reduction work are performed within the required timeframes, and that all identified hazards are abated or treated with interim controls. We also recommend that HUD require the authority to maintain lead-based paint documentation in a manner that it is readily available for review; perform a search for historical lead-based paint documentation; and implement adequate procedures and controls to ensure that accurate lead disclosures are provided to current and prospective tenants and that contracted inspectors' deliverables comply with applicable requirements. We also recommend that HUD provide training to the Authority's staff involved with managing lead-based paint, technical assistance to the Authority in developing and implementing new procedures and controls, and assess the quality of lead-based paint inspections and risk assessments performed by the Authority's contractors.

[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 recommend 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 recommend that 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 Centers 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 tracker.

Ongoing Oversight:

- **Audit Series –PHA Management of Lead Based Paint in Public Housing:** Like the audit of the Philadelphia Housing Authority above, OIG is currently auditing two large PHAs in Ohio and California to determine whether the PHAs adequately managed lead-based paint and lead-based paint hazards in their public housing.
- **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 to 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 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, and sanitary manner.

- [Richmond Contractor Sentenced to over 1 Year for Violating Federal Lead Paint Laws and Obstructing Justice](#): A contractor was sentenced in U.S. District Court to 16 months in federal prison. The contractor operated a company, Aluminum Brothers Home Improvements, which received HUD grant money to mitigate lead paint hazards in older low-to-middle income homes. Delucio admitted that he and other workers he supervised failed to follow lead safety laws while conducting multiple HUD-funded renovations in Indiana. As a result, lead-based paint chips were scattered throughout the properties and were not cleaned up timely or properly as work was being conducted. One of the residences was inhabited by a child with elevated blood lead levels, which had prompted the renovation work at that property to begin with.

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. The Government National Mortgage Association (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 in fiscal year 2022, and the Ginnie Mae MBS outstanding reached a historic high of \$2.284 trillion.

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 make insurance 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 securitization 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:

[Servicers Generally Did Not Meet HUD Requirements When Providing Loss Mitigation Assistance to Borrowers With Delinquent FHA-Insured Loans⁷](#)

We audited loan servicers' compliance with FHA requirements for providing loss mitigation assistance to borrowers after their COVID-19 forbearance ended. We initiated the audit based on the large number of borrowers exiting forbearance, because the loss mitigation programs available to these borrowers were new and created a risk for both borrowers and the FHA insurance fund when servicers do not properly provide loss mitigation.

We found that servicers did not provide proper loss mitigation assistance to approximately two-thirds of delinquent borrowers after their COVID-19 forbearance ended. Based on a statistical sample drawn from 231,362 FHA-insured forward loans totaling \$41 billion, servicers did not meet HUD requirements for providing loss mitigation assistance to borrowers of 155,297 FHA-insured loans. Nearly half of the borrowers did not receive the correct loss mitigation assistance. These borrowers did not receive the loss mitigation option for which they were eligible, had their loss mitigation option not calculated properly, or received a loss mitigation option that did not reinstate arrearages, which refers to any amount needed to bring the borrower current. Approximately one-quarter of the borrowers received the correct loss mitigation option, but servicers did not follow COVID-19 loss mitigation guidance to help borrowers with payments that were missed during forbearance.

Among other actions, we recommend that HUD (1) review the sampled loans for which borrowers did not receive appropriate loss mitigation options to ensure that the borrowers are remedied by the servicers, (2) engage with the servicers in our sample to determine reasons for noncompliance and develop a plan to mitigate it going forward, and (3) design and implement a data-driven methodology to determine the appropriate mix of origination and servicing lender monitoring and desk reviews.

[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.

[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

⁷ HUD OIG concurrently performed an audit of a single servicer provided loss mitigation for borrowers coming out of COVID-19 forbearance. See HUD OIG audit report: "[Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation to Borrowers of Delinquent FHA-Insured Loans](#)".

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. We recommend 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.

[Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers](#)

We audited Ginnie Mae's guidance and process for managing troubled issuers, including for rapid relocation extinguishments, as Ginnie Mae's greatest loss risk comes from the seizure of a defaulted issuer's portfolio. We identified gaps in Ginnie Mae's guidance and process for troubled issuers. Ginnie Mae made progress in developing an issuer default governance framework, but has not (1) defined its authorities for marketing troubled portfolios; (2) formalized guidance for how to identify potential buyers before extinguishment; (3) established expectations for determining portfolio value, price before sale, and evaluation against other options; or (4) included a step to evaluate prospective purchasers' ability to absorb an extinguished portfolio. Additionally, we found Ginnie Mae had implemented our previous recommendation to develop and implement controls to determine the total impact of a large- or multiple-issuer default, the maximum-size default Ginnie Mae could adequately execute, and individual issuers' ability to adapt to changing market conditions, but there was a gap related to the semiannual capacity reports submitted by master servicers (MSS).

We recommend that Ginnie Mae update its guidance to define its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation. We also recommend that Ginnie Mae address (1) how and what type of information it may disclose before extinguishment, (2) how it will determine the portfolio value and price before sale, and (3) how it intends to evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing a purchase and sale agreement. Lastly, we recommend that Ginnie Mae develop and implement guidance before the preplanning phase of an extinguishment that (1) assesses what information it needs from the MSS to ensure that they have the capacity for a large- or multiple-issuer

extinguishment and (2) prescribes how the contracting officer representative will review submitted reports and provide actionable feedback to ensure MSS readiness.

Ongoing Oversight:

- **COVID-19 Moratorium Foreclosures:** OIG is conducting an audit of Office of Single Family Housing's oversight of the COVID-19 foreclosure moratorium (March 18, 2020 through July 31, 2021) to determine if servicers followed the requirements of the pandemic foreclosure moratorium.
- **Audit Series – Servicer Post-Moratorium Foreclosures:** OIG is auditing two mortgage lenders that service FHA single-family loans to determine whether the servicers (1) established that borrowers were ineligible for loss mitigation assistance before commencing foreclosure, and (2) reviewed requests received during foreclosure before continuing.
- **HUD-Held Vacant Loan Sales Controls for Mission Driven Entities:** OIG is auditing the Office of Asset Sales' HUD-Held Vacant Loan Sale (HVLS) program, which is another disposition option for defaulted FHA notes HUD uses to reduce losses and improve recoveries for FHA's Mutual Mortgage Insurance Fund, to assess the extent to which HUD has ensured the achievement of its mission objectives for the HVLS 2022-2 part 1 loan sale.
- **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.

Impactful Investigations:

- [Salem Man Sentenced to Four Years in Prison for Decade-Long Mortgage Fraud Scheme](#): A Massachusetts real estate developer was sentenced to four years in prison for his involvement with a decade-long mortgage fraud scheme. He and his co-defendants caused false information about borrowers' employment, income, assets, and intent to occupy the property to be submitted to banks and other financial institutions on behalf of borrowers recruited to purchase local properties. Since the borrowers did not have the financial ability to repay the loans, they defaulted on loan payments involving 19 of 21 properties involved in the scheme, resulting in foreclosures and losses to the lenders. Additionally, the defendant sought to obstruct the investigation by encouraging his co-defendants to make false statements and create false documents to make the transactions appear legitimate.
- [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. 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) ensuring HUD's, grantees', and subrecipients' capacity to oversee grant programs; and (6) subrecipient monitoring.

Several HUD grant programs received large influxes of funding during the pandemic, and OIG oversight adapted to match areas of risk. At the outset of the pandemic, OIG 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 now focusing on ensuring HUD pandemic and other grant funding is spent as intended, that timely assistance is being provided, and assessing the program outcomes. This includes assessing how well HUD, its grantees, and subrecipients are performing monitoring activities, the strength of their internal controls, and the fraud prevention measures they have in place.

[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 recommend that HUD require the Authority to (1) 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) develop and implement strategies to address capacity and organizational problems or obtain technical assistance.

Ongoing Work:

- **ESG-CV 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.
- **Audit series – ESG-CV Program Fraud Risk Management:** HUD OIG is auditing a New York-based and a California-based grantees' CARES Act, ESG-CV program to assess the grantees' fraud risk framework, that encompasses control activities to prevent, detect, and respond to fraud.

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.
- **Former Rochester Housing Authority Chair Going to Prison for Fraud, Money Laundering, and Lying to the FBI:** The former housing authority chair was sentenced to 78 months in prison following his conviction by a Federal jury for his role in defrauding the housing authority and three nonprofit organizations. He converted funds for his personal use that were intended to go to these organizations to provide supportive services for the elderly, disabled, low-income residents, and after-school and extended-day learning programs.

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 2024.⁸ 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 disaster recovery 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 Disaster Recovery Grant Reporting 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.

[The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients](#)

We audited the State of Georgia's monitoring of its \$50.9 million in disaster recovery grants' activities and subrecipients to determine whether the State effectively monitored them to ensure that the activities addressed unmet long-term recovery needs. We determined that the State (1) lacked an understanding of the differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State's controls for program administration were effective for addressing unmet long-term recovery needs. There was also a risk that the planned activities would not serve the State's beneficiaries in a timely manner or meet its goals for the number of beneficiaries it planned to serve. We recommend that HUD require the State to ensure that it has an adequate approach for monitoring by (1) providing training to staff that includes an

⁸ https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ_-_CDBG-DR_Crosscut.pdf

understanding of monitoring reviews, (2) updating its policies and procedures, and (3) developing policies and procedures to ensure that monitoring is conducted remotely if needed. We also recommend that HUD monitor the State's CDBG-DR program to ensure that performance expectations are achieved.

[Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities](#)

We audited the Virgin Islands Housing Finance Authority's monitoring of its CDBG-DR-funded activities to determine whether the Authority effectively monitored its CDBG-DR-funded activities administered by itself and its subrecipients to ensure that the national objectives and performance measures were met. We found that the Authority did not (1) assess the activities' performance during its monitoring, (2) consistently track the status of corrective actions, (3) verify that the activities' national objectives were or are being met, and (4) consistently monitor the activities. The Authority lacked policies and detailed procedures to guide its staff on effectively monitoring and tracking corrective actions and ensure performance metrics included in subrecipient agreements were assessed. Therefore, HUD could not be assured that activities were progressing, identified deficiencies were corrected, and funds were used for authorized purposes. We recommend that HUD require the Authority to develop and implement monitoring policies and detailed procedures to ensure that an activity's performance is assessed, corrective actions in monitoring reports are tracked, and documentation supporting the national objectives is verified. In addition, we recommend that the Authority revise subrecipient agreements to include performance metrics and milestones that are tailored to the activity.

Ongoing Oversight:

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

Impactful Investigation:

- [Former West Haven Employee and State Representative Sentenced to Prison for 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, was sentenced to 27 months in prison following a previous guilty plea 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. Two co-conspirators were sentenced to 13 months and 6 months in prison after pleading guilty to conspiracy to commit wire fraud. A third co-conspirator was sentenced to 8 years in prison, after being convicted of wire fraud and conspiracy charges following a jury trial.

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 Did Not Comply with the Payment Integrity Information Act](#)

We audited HUD's FY 2022 compliance with the Payment Integrity Information Act of 2019 (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 still noncompliant with PIIA in FY 2022.

HUD did not comply with PIIA because it did not report improper and unknown payment estimates for PIH's Tenant Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing's PBRA program, which together spent \$41 billion in fiscal year 2022 and represented 61.6 percent of HUD's total expenditures. While HUD submitted sampling and estimation methodology plans to OMB for these programs, it did not use the plans in fiscal year 2022. HUD instead reported no estimates for these programs because it was again not successful in planning and developing a method to obtain the supporting documentation needed for testing in a timely manner for FY 2022 reporting. Although HUD has systems that maintain PIH-TBRA and PBRA program PII data, the systems do not collect or maintain the supporting documentation from tenants and third parties that is needed to verify tenant income and eligibility. As a result, HUD could not determine whether its improper and unknown payment estimate was below or above the statutory threshold or implement corrective actions to improve payment accuracy for these. This noncompliance is significant because this was the sixth consecutive year in which HUD was unable to produce PIH-TBRA and PBRA improper and unknown payment estimates and that has contributed to HUD's not complying with improper payment laws for 10 consecutive years.

We also found that PIH did not conduct monitoring reviews to detect, prevent, and recover improper payments in the PIH-TBRA program. HUD suspended these reviews in FY 2021 in response to the

pandemic and related waivers. However, those waivers expired on December 31, 2021, and the Office of Field Operations (OFO) did not resume its monitoring because it was working on updating its monitoring procedures. If HUD resumes OFO monitoring, it could better detect and prevent improper housing assistance payments from public housing agencies to landlords under the PIH-TBRA program, which spent \$27.1 billion and accounted for 41 percent of HUD's total expenditures. In prior years, 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. This recommendation remains open.

We also identified opportunities to improve the effectiveness of HUD's improper payment risk assessments. OIG recommended that HUD make changes to its risk assessment to ensure that it adequately addresses the risk of non-Federal program administrators and fraud risk.

This year, we recommended that HUD establish an improper payment council within HUD that consists of senior accountable officials from across the Department with a role in the effort that would work to identify risks and challenges to compliance and identify solutions as a collaborative group. We also recommend that HUD (1) develop a timeline, detailed plan, and secure storage information technology solution for completing compliant PIH-TBRA and PBRA program estimates and (2) make changes to its risk assessment to ensure that it adequately addresses the risk of non-Federal program administrators and fraud risk.

[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.⁹ 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 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](#)¹⁰

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. In its audit of

⁹ 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.

¹⁰ HUD OIG contracted with CLA to audit the financial statements of Ginnie Mae and FHA, as well.

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.
- 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.

[Management Alert: HUD Should Take Additional Steps to Protect Contractor Employees Who Disclose Wrongdoing](#)

The OIG has learned that employees of thousands of contractors who receive funds from HUD are not protected against retaliation for blowing the whistle on wrongdoing. The gap in protections exists because (1) the contracts pre-date July 1, 2013, the date on which the anti-retaliation law codified at 41 U.S.C. § 4712 (Section 4712) became effective; and (2) HUD has not modified the contracts to include Section 4712 anti-retaliation provisions that would protect the employees. The OIG identified this problem following recent investigations of allegations of whistleblower retaliation against several employees of contractors. Although the investigations revealed this problem with respect to Housing Assistance Payments contracts, we believe that the same risk is present in many other HUD contracts. The OIG recommends that HUD address this serious risk by undertaking a comprehensive review of all contracts to determine whether they include Section 4712 anti-retaliation provisions. We also recommend that HUD be proactive in seeking to modify any HUD contracts that do not include Section 4712 anti-retaliation language to confer whistleblower protections on contractor employees, and to seek legislative authority to expeditiously include Section 4712 protections within contracts for which HUD believes it must otherwise wait until there is a major modification.

Impactful Investigations:

- [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, undermining the integrity of the procurement process. 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
- [Baltimore Business Owner Sentenced to Federal Prison for Fraudulently Obtaining Federally Insured Loans to Sell Two Baltimore Properties He Owned](#): A business owner was sentenced in U.S. District Court for the District of Maryland to one year incarceration and one day, followed by one year home detention, and three years supervised release. He was ordered to pay more than \$370,000 in restitution and to forfeit over \$490,000. This sentence followed an earlier guilty plea to one count of conspiracy to commit bank fraud in relation to federally insured home loans. The defendant conspired to circumvent the rules governing FHA insured loans, including by falsifying bank account records, and not disclosing familial relationships in the sale of two properties.
- [Former Mortgage Broker Sentenced in \\$8 Million Southern California Mortgage Loan Fraud Scheme](#): A former mortgage broker was sentenced to five years and four months in prison following a no context plea in the Superior Court of the County of Los Angeles to all 91 charges of a felony complaint, including conspiracy, mortgage fraud, grand theft, and identity theft. The broker, along with an accountant and unknown co-conspirators, carried out a scheme involving falsified verification of employment documents, W-2s, Earning Statements, 1099s, gift letters, and school transcripts to assist borrowers in qualifying for loans that they were not otherwise qualified to receive. Their actions resulted in a potential loss to the government of \$5,736,840 for 17 loans. Seven FHA loans, totaling \$3,462,891 in value were referred to the Homeownership Center for indemnification.

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

A common thread woven through our Top Management Challenges report was HUD's challenges with managing human capital, 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. 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 continue to provide actionable recommendations that HUD can act upon to further those efforts.

As noted above, 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 roughly 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 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. Notably, 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 will continue its robust oversight over all aspects of HUD's information technology programs and operations, including HUD's cybersecurity posture but also how HUD and its components manage information technology investments and initiatives. In addition to our comprehensive review of HUD's information security program under FISMA, we will conduct critical penetration testing and threat analyses of HUD's IT systems.

HUD FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation¹¹

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 to determine whether HUD had implemented related controls to address technology and program management risks.¹² We found that HUD lacked adequate controls and capacity to operate its RPA program efficiently and

¹¹ The FISMA report is not publicly available. Additional information from the report can be found in the recent Top Management Challenges report.

¹² 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.

effectively. Approximately 3 years since its inception, HUD's program had achieved minimal progress and results, and maintained a low program maturity. The program lacked a clear vision or measurable metrics to define program success. HUD also did not maintain adequate oversight of both development and operations to ensure that limited RPA program funds were used efficiently. Finally, HUD lacked important IT controls related to the security and auditability of its RPA system infrastructure. 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 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. Employees who identify as Hispanic or Latino is the only Race and National Origin group for which HUD is underrepresented.
- **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.